Anatomy of

UNITED FEDERAL CREDIT UNION

By Aaron Pugh

Cast A Wide Net And A Long Shadow

United Federal Credit Union walks the line between local appeal and national opportunity.

If you don't swim, you sink; if you don't grow, you stagnate. Trying times require adaptation and bold decisions, but the pendulum of consequence swings both ways. Grow too fast or move too quickly and you risk leaving your identity, and the people most critical to it, behind.

United Federal Credit Union ($1.3B, St. Joseph, MI) has considered all of these factors and more during its development. The cooperative has changed dramatically since its inception as an institution serving a group of Michigan-based Whirlpool employees in the 1950s. Although it now maintains a physical presence in five states and membership in all 50, one thing has stayed consistent. United's executive leaders, Board, staff, and membership have stayed true to a vision that has carried the credit union through economic trials and introduced products, services, and cooperative values to new markets.

Operating out of a headquarters alongside the shores of Lake Michigan, the credit union knows well its hometown market and the mindsets and priorities of the communities it neighbors.

"They call St. Joseph the 'extra West Coast of the United States' because we have wonderful sunsets," says CEO Gary Easterling, who joined the institution after moving from a cooperative in Ohio. "In the summertime, the sun won't set until nearly 10 p.m., and the view over the water is a beautiful sight."

From its lakeside attractions to its brimming agricultural communities, the region is as vibrant as it is diverse. "It's kind of a little secret," Easterling says. "People are very friendly here, and it's amazing to see how the community has grown even in the midst of the recession."

United has no doubt benefited from the stability of its home base, but maintaining a capital level of nearly 11% while posting impressive performance figures across multiple markets requires more than mere economic good fortune. It requires vision.

In 2007, Easterling arrived at the helm of United to pick up the reigns of a merger arranged by the institution's previous CEO, who passed away unexpectedly. The merger combined two Berrien County credit unions: $215 million United Federal Credit Union (originally formed as Buchanan Clark Employees) and $480 million First Resource Federal Credit Union (formerly known as Whirlpool Community) from St. Joseph, MI. From the rapidly integrating institutions emerged a new cooperative.

"They kept the name United, even though it was the smaller institution, and incorporated the four diamonds in the logo from First Resource," says Easterling.

The merger was the credit union's first success in what would become an institutional goal of growth and market expansion through both organic (expanded relationships with members) and inorganic (mergers, acquisition, etc.) means.

The strategy guides the credit union and is evident in its 2009 acquisition of struggling Clearstar Financial Credit Union ($150M) in Reno, NV, as well as this year's announcement of its intent to purchase and assume Griffith Savings Bank in Indiana.

"We felt consolidation of the industry was probably something we should get serious about," says chief operating officer Duane Nelson.

"It's amazing to see how the community has grown even in the midst of the recession."

Gary Easterling, CEO, United Federal Credit Union

MARKET QUICK FACTS FOR UNITED FEDERAL CREDIT UNION

ST	PRIMARY INDUSTRIES	MEDIAN AGE	% POP. IN LABOR FORCE (AGE 16+)
MI	Agriculture, Tourism, Manufacturing	37.7	63.4
NV	Tourism, Gaming, Mining	35.3	67.9
AK	Light Manufacturing, Retail, Service Industries	36.9	61.1
NC	Agriculture, Small Business	36.6	65.1
OH	Manufacturing, Retail, Service Industries	37.9	65.0

ST	MEDIAN HOUSEHOLD INCOME (IN 2009 INFLATION ADJUSTED DOLLARS)	% OF FAMILIES BELOW POVERTY LEVEL	% OF OWNER OCCUPIED HOUSING UNITS
MI	48,700	10.3	74.6
NV	55,585	8.0	60.7
AK	38,542	13.5	67.5
NC	45,069	11.1	68.1
OH	47,144	10.0	69.5

Source: United Federal Credit Union, U.S Census Bureau, 2005-2009 American Community Survey five-Year Estimates

Sometimes United's capital is best utilized in a merger, as it creates economies of scale rather than duplicating and competing with many other credit unions, he says.

"I'm not sure a single branch is what people are looking for when they look for a credit union," Nelson says, noting the credit union's own humble roots.

Small institutions might have difficulty delivering the same products and services as a larger institution, agrees Mike Hildebrand, vice chairman of the Board, who first joined the institution when it had approximately$200 million in assets.

"You can be friendly and give great service and that might be good enough for a while, but I would challenge folks to take a look at how you can improve member service by collaborating with a larger institution," Hildebrand says. "It takes a gut check."

Yet even small credit unions can achieve big things with a team-centric mentality, says Shawn Birch, director of innovation. Whether your branch is down the street or in another state, your success comes as much from a merger of mindsets and culture as it does from dollars.

"From the Board down to the leadership team, growth is seen as a proxy for viability at United," Easterling says. "We want to make sure it's smart growth and profitable growth. Not growth for growth's sake but something we do when it makes sense."

United views its expanding marketplace as an opportunity, as each market yields unique advantages that make the institution stronger and more stable for members, says Nelson.

Opportunities to evolve and change come and go, but adherence to common sense and the credit union's core values is never on the chopping block. The credit union also holds tightly to its policies on safety and soundness, which has helped it grow while limiting its financial baggage.

For example, when consumers were flocking to home equity loans as an easy source of cash during the pre-recession, United refused to match the offers of area competitors.

"Members would be mad and we would tell them 'You're right, we won't do that because it doesn't make sense for us and it doesn't make sense for you,'" Easterling says.

It's the cooperative nature, he explains. "If you're a member, I am not going to put you into a loan that's going to make your situation worse. You may not like hearing it, but it's a philosophy we believe in."

And after the recession?

"As others retreated from the market, we were there," Easterling says. "We increased market share during the recession because we were able to loan money."

For United, expansion is another way to spread its values throughout the various markets it serves today as well as to those it will serve in the future.

"We want to be a nationally renowned credit union by 2020, and double in size every five years," Easterling says. It's aggressive, he admits, but when you look at the credit union's history, it has consistently hit growth targets. Leadership sees no reason why it cannot continue to do so in the future.

Growth does not come easy, but the credit union is developing new ways to maintain the balance of a local Main Street perspective against the security and resources of a national, multimarket institution.

"We have values that we talk about here, but we want those to be real in Arkansas, or Nevada, or North Carolina, or Ohio, or even up the lakeshore in our Holland offices," he says. "We're always asking how can we make sure those values translate from the board room to the front line."

It's a challenge every growing credit union has faced or will face; United is simply working from a footprint that is a little larger than most.

Read on to learn about United's strategy for growth – organic and otherwise – and how it meets members' needs in a multimarket environment.

By Lydia Cole

Good, Bad, Or Indifferent? A Post-Merger Financial Analysis Of United Federal Credit Union.

In today's market there is no shortage of motivations – diminishing membership, a fragile economy, retiring management, and general financial distress, just to name a few – that might compel a credit union to look for a merger partner. For whatever reason the institution is simply no longer sustainable, and the structure of the National Credit Union Share Insurance Fund (NCUSIF) oftentimes makes it easier for two credit unions to merge rather than for a healthier credit union to conserve a weaker one and slowly wind down its assets.

Mergers can be opportunistic. For example, two institutions decide they would be greater as one. Mergers can be solely for legal purposes. For example, several credit union groups, including Affinity Group and Self-Help Federal Credit Union, operate structurally as a single entity for compliance and reporting processes, yet the individual institutions within these models maintain separate credit union branding.

A credit union undergoes a merger to improve its standing and, more importantly, its members' standing. Without improved member value, there is little that is sustainable or beneficial about a merger. Given this sentiment, is it possible to objectively measure the success of a merger?

United has grown through both organic means and through merging or acquiring other institutions. In 2006, the merger of the nearly equal United Federal Credit Union and First Resource Federal Credit resulted in a larger United Federal Credit Union. In 2010, United acquired a struggling Clearstar Financial Credit Union. Is it possible to quantify the increased value of United Federal Credit Union's membership after two mergers in six years? Are the benefits of belonging to the surviving institution substantially better?

The chart on the right looks at United after both of the growth events and highlights 15* of the 18 key metrics that comprise Callahan & Associates' Return of the Member index. For each of the events, the values of the 15 metrics reflect whether the relative value increased or decreased. An increase in most of these metrics reflects better value for the member; however, increases in yield on loans and fee income per member is a NEGATIVE shift from the member perspective. United Federal and First Resource Federal completed the 2006 merger in the fourth quarter. United completed the 2009 acquisition of Clearstar in the third quarter. To account for seasonality and integration, each of the metrics below is based on June data.

- Dividends/income has decreased sharply since the first merger; however, the current record-low interest rate environment plays a major role here. The value – 15.2% – is only slightly less than the peer average of 17.8%.

- The average share balance decreased after the first merger and increased after the second merger, indicating an overall shift in the portfolio. One institution might have had a concentration of low-balance core deposits, which would drive down the average balance. The second might have had more high-balance accounts, such as share certificates or IRAs.

- The average number of share accounts per member decreased after the first merger, increased suddenly just prior to the second acquisition, and have since fallen again. Note, today's average is in line with peer credit unions.

- The current lending environment is responsible for the drop in the loans + servicing portfolio-to-shares ratio. United's value is still higher than its peers as of June 30, 2011.

- Notably, the yield on average loans fell after each of the mergers. Although this is partially a product of the rate environment, it also indicates members might be getting better rates in the surviving institution.

- United is a strong lender, and originations on a per-member basis have increased each year, except in 2007.

- United's members use the credit union's products and services. A slight, post-merger decline in share draft penetration is expected as the surviving institution removes old or inactive accounts. A large decline, which is not the case here, is a sign that members of the acquired credit union are leaving.

- Changes in United's overall loan portfolio have caused loan penetration figures, including auto and credit card, to fluctuate. These rates should increase over time as the credit union approaches members with the availability of new or improved products.

- Year-to-date fee income is a key area of member value, and it was lower after each of the growth events.

*The three missing metrics – three-year average share growth, three-year average loan growth, and three-year average member growth – do not demonstrate improved member value because any merger automatically increases these metrics.

EVALUATING MEMBER VALUE POST-MERGERS | Data as of June 30

	United/First Resource Merger			Clearstar Financial Acquistion			Peer Credit Union over $1B
	2006	2007	2008	2009	2010	2011	2011
Assets	$480,646,309	$745,094,552	$796,846,485	$940,619,945	$1,187,734,159	$1,285,077,997	$2,596,201,628
RETURN TO SAVERS COMPONENTS							
Dividends/Income	23.33%	24.15%	24.77%	27.25%	19.25%	15.21%	17.75%
Average Dividend Paid	2.51%	2.70%	2.66%	2.46%	1.69%	1.37%	1.10%
Change in Avg. Share Balance	-1.90%	-1.76%	-0.24%	30.82%	5.15%	0.19%	2.65%
Share Accounts per Member	1.94	1.91	1.86	2.04	1.96	1.91	1.99
RETURN TO BORROWERS COMPONENTS							
Loans + Servicing Portfolio / Shares	130.67%	127.53%	134.03%	115.99%	103.75%	106.20%	94.30%
Yield on Average Loans	-6.68%	-6.97%	-6.57%	-6.25%	-6.77%	-6.69%	-5.65%
Loan Accounts per Member	0.67	0.67	0.63	0.66	0.64	0.63	0.55
YTD Loan Originations per Member	$1,665	$1,275	$1,881	$1,980	$2,378	$2,419	$1,824
Change in Avg. Consumer & RE Loan Balances	5.37%	-2.39%	11.68%	5.27%	-2.62%	4.98%	-1.16%
MEMBER SERVICE USAGE COMPONENTS							
Share Drafts/Members	50.82%	50.20%	49.66%	58.13%	58.02%	57.48%	54.69%
Auto Loans/Members	19.61%	19.59%	20.36%	24.01%	25.89%	26.80%	16.46%
Credit Cards/ Members	21.57%	23.88%	18.88%	19.31%	15.92%	16.07%	19.00%
Loan & Savings Accounts per Member	2.62	2.58	2.49	2.70	2.61	2.54	2.54
YTD Fee Income per Member	($64)	($60)	($58)	($66)	($60)	($55)	($37)
Total Inc. per $ Salary & Benefits	$3.77	$3.72	$3.57	$3.54	$3.87	$3.13	$4.11

SOURCE: CALLAHAN & ASSOCIATES' PEER-TO-PEER SOFTWARE

GO BIG OR STAY HOME?

By Aaron Pugh

The advantages of mergers and acquisitions extend beyond balance sheet growth, and United is diligent about identifying opportunities that offer the best fit.

United Federal Credit Union ($1.3B, St. Joseph, MI) makes no apologies for being a big credit union. As a cooperative, though, the motives behind its expansion are not sheer market domination. The driving factor, leadership explains, is to better meet the needs of all members, current and future alike.

United knows it must focus on organic growth to achieve long-term vibrancy, but the credit union also has a history of growth through mergers. Some of the markets United has expanded into have been hit harder economically than most, but its merger strategy is something CEO Gary Easterling expects to see in the credit union for a long time to come, as having a presence in many markets brings value to the credit union.

"We have many different markets but not all our markets are cycling the same pattern," says Easterling. "We're not tied to a single sponsor group and not all our eggs are in the same basket."

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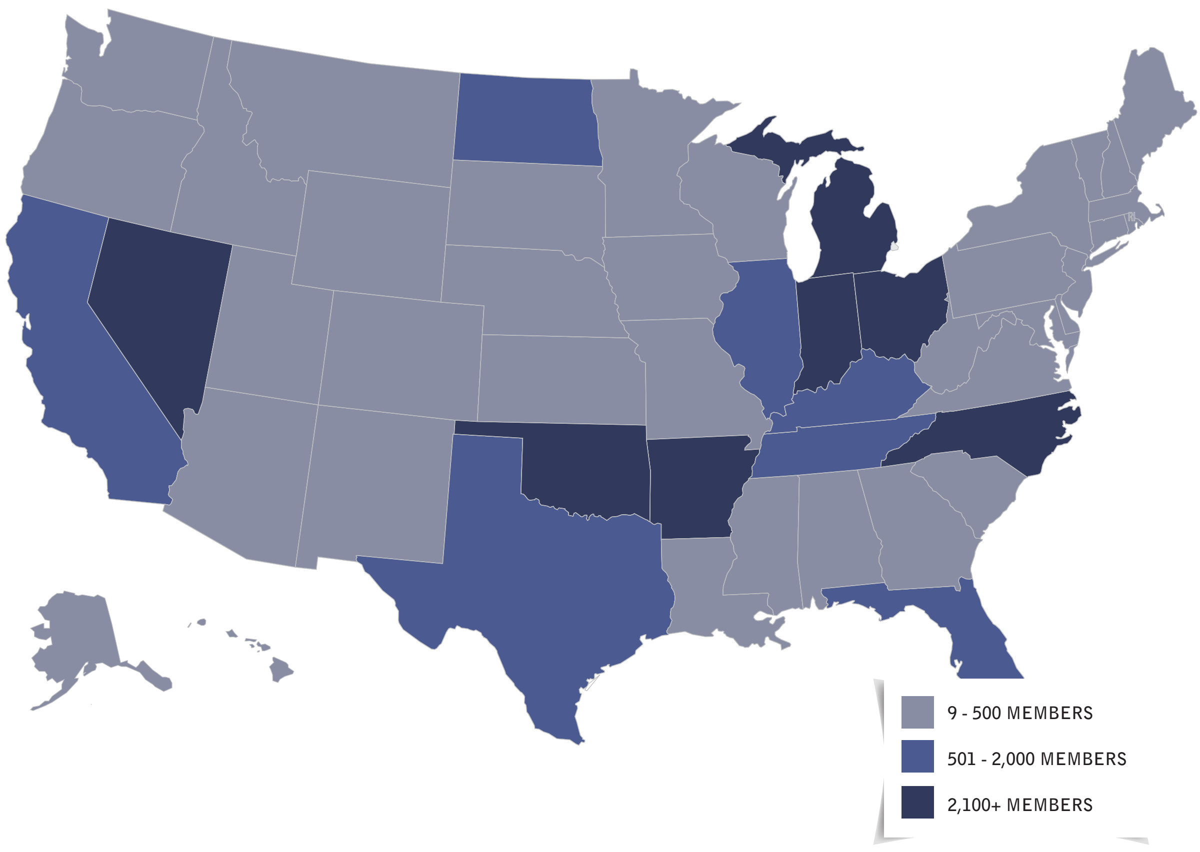

> "Our goal is to make it feel like the credit union our members have always known, but balance it with the need for growth that's driven by a competitive environment."
>
> Tim Bennett, vice president of marketing, United Federal Credit Union

The credit union can stay in struggling areas to secure its position for when things turn around. Such diversity is a strength for a cooperative of any size, whether it is in the branch network or the balance sheet.

"It's no secret Michigan is not growing," says Duane Nelson, chief operating officer. "The state has actually reduced in population, so we need to be able to move where our members our moving."

The Opportunity To Expand

Through the course of its history, United has experienced nearly every type of so-called *inorganic* growth. These opportunities took different forms and each came to the credit union in different ways.

Although not exact matches in asset sizes, the 2006 merger of $215 million United Federal Credit Union and $480 million First Resource Federal Credit Union was a melding of institutional equals and was the largest voluntary credit union merger of its time. The merger of the two institutions created economies of scale in a localized region without adding redundancies or overlapping services.

"We didn't duplicate our footprint or our infrastructure," Nelson says. "That move was the stepping stone for much of our continued success."

In 2009, United acquired Clearstar Financial Credit Union ($150M, Reno, NV) through a purchase and assumption in which the NCUA functioned as the liquidating agent. The P&A opened new market share opportunities for United. In return, United offered Clearstar members not only continued financial services but also expanded products and services.

The planned purchase and assumption of Indiana's Griffith Savings Bank, which has struggled to raise capital levels, will present new challenges and opportunities as members from the banking world are onboarded into the cooperative one.

"Both merger and acquisition models give you a revenue stream from day one, because you've already got a book of business that's in place," says Tim Gray, vice president of finance and accounting. "That helps us hit the ground running and quickly offset some of those upfront costs."

The difference between a merger and acquisition really comes down to how the transaction is put into place, Gray says. But given the cooperative nature of the institution, the credit union steers clear of hostile takeovers, whatever the financials gains might be.

"United is looking for a merger of cultures," Gray says. The credit union's growth strategy is not about buying up businesses, it's about examining how different institutions line up with United's philosophy, services, and products.

To guarantee a smooth merger of cultures, United brings on not only members and employees but also senior leadership and Board members from acquired institutions. For example, in United's 2006 merger, the credit union expanded its Board roster to keep the directors from both institutions.

One board member took emeritus status, but the remaining 15 helped soften the blow from succession issues the institution would face in the years ahead, says Mike Hildebrand, vice chairman of the Board.

Qualifications And Risk Assessment

Verifying an opportunity is a three-step process that evaluates geography, the institution, and the benefit to members. "It has to provide a net value increase for the credit union, because it's the members' money we're talking about," Easterling says.

To identify the best fits, United's Business Intelligence (BI) team analyzes and score various opportunities and cross-references them with the scores of United's existing branch networks.

"The BI group scored every county in the country using our own model," Easterling says. "We've found we do best in markets that are somewhat rural or suburban; big cities, not so much."

Such data and insight has greatly simplified the scouting process. The credit union's proficiency with its own merger criteria means the assessment team can make frequent, low-impact flyovers in a variety of regions. And despite the credit union's active history, United underscores the importance of being able to walk away from opportunities that are not ideal.

"Within just a few days we can determine if we want to go forward with additional due diligence, without spending a lot of money," Easterling says.

Even with such capabilities, there's

BEST PRACTICE

A business intelligence team helps determine if merger opportunities meet specific institutional goals. Where can your organization dedicate resources and expertise to accomplish your own cooperative mission?

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Joy Wilson, VP, Talent Management, ORNL Federal Credit Union

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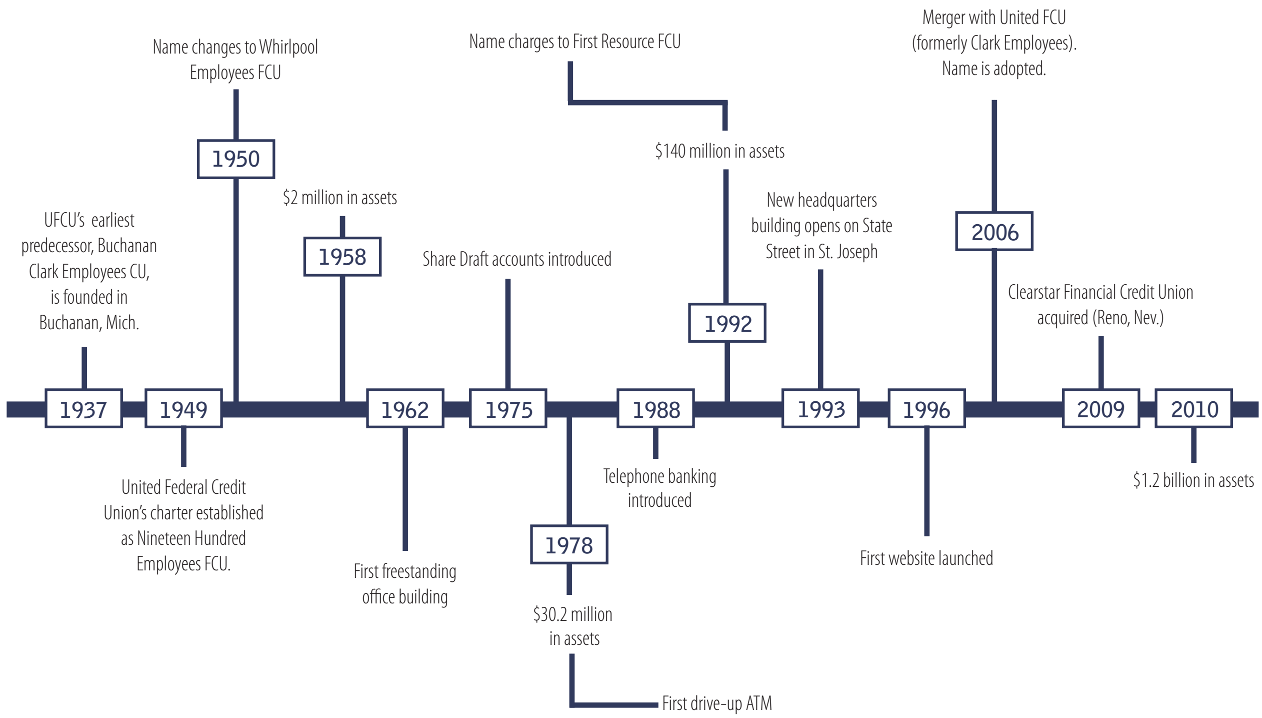

no guarantee a beauty won't turn into a beast after the papers have been signed. That's where due diligence comes in.

"Probably the biggest challenge is making sure the entity is valued properly," Easterling says. "Another issue is credit risk."

Dealing with loans it did not originate means United is playing by guidelines that are not its own. To combat this risk, it conducts a thorough assessment of the loan portfolio, including the institutional and individual factors that were in place when the loan was issued. It also examines the creditworthiness of each loan entity compared to the credit union's standards.

For example, when United expanded into Nevada, it did not expose itself to vulnerable mortgages there because Clearstar held only a handful of loans on its balance sheet.

"This helped us mitigate substantial risk from exotic products and overbuilt markets," says Jeff Leep, director of sales strategy and development for mortgage.

In other cases, the credit union brought aboard a number of products and relationships that complemented its existing goals.

"In previous instances, we've acquired good portfolios," says Nada Kramp, electronic delivery systems manager. The 2006 merger by itself increased the existing card portfolio by roughly 50% with very little fallout, she says.

Organization And Communication

Not unlike credit union service organizations (CUSOs), mergers with a larger institution are one way for small credit unions to provide new or lower-cost services through the cooperative system.

"Prior to some of our own mergers, we had smaller departments and knew we weren't as efficient as we could be," Nelson says. "Some credit unions address this need to improve operations through CUSOs, but some like the ability to do it on a closer scale and proximity in their own office."

The operations piece of United is, for the most part, centrally located to increase efficiency. But as the cooperative grows, it is addressing how to best preserve and strengthen its connections to its satellite locations.

"Although we're big, we need to act small," Hildebrand reminds. This

BEST PRACTICE
Be out of site but never out of mind. Every expansion or new direction the credit union undertakes requires dedicated efforts and resources to keep the ship on course.

eliminates the bottom-up pressure from members and employees who feel like the institution is changing without keeping their interests in mind, he says.

"In my prior career, I worked in a small office with my regional manager 300 miles away and my big boss 1,000 miles away," Easterling says. "Sometimes I felt like they forgot who I was. I've never forgot that lesson."

Today, United works to preserve institutional connections regardless of whether a new acquisition is in the next state or down the street. For example, to preserve localized perspectives, members' and otherwise, the credit union has implemented entrepreneurial, regional leaders.

Each of United's regions has a vice president who is semi-autonomous and can provide a boots-on-the-ground perspective to help identify market opportunities and challenges. These VPs not only keep communication flowing across multiple time zones, they also help relieve the pressure of managing remote operations for centralized staff.

To convey the trust the institution places in its regional directors, United is considering ways to implement a "fire and forget" method, where senior staff can green light a project a regional vice president wants to develop and implement. Senior staff later receives an assessment of the project but it doesn't have to be directly involved with it.

"We're making these organizational and leadership changes so we can have the same type of agility we had when we were a $200 million institution," Easterling says.

Preserving Culture And Member Value

Despite all its best practices, there is more to a merger than operations.

"It's policy, it's procedural, it's cultural," says Shawn Birch, director of innovation. "We spend a lot of time learning about the other organization and try to assess best practices going forward."

Just because you acquire another institution doesn't mean your way of doing things is better, she says. Mergers present many opportunities to take lessons and best practices from other institutions and combine them for the betterment of the continuing institution.

Bringing on a new institution of any size means changes to your operation, and a good merger team will seek out and preserve best practices, agrees Easterling.

"If you're not careful, you can go in too heavy-handed and totally eradicate the value that was there," he says. "Then you've only acquired a building and some accounts that are not very vibrant."

For existing members, they want to know their credit union is protecting its value and identity. If things change too much, too quickly, the original membership might feel left out of the institution's vision.

"Our goal [with mergers and acquisitions] is to make it feel like the credit union they've always known but balance it with the need for growth that's driven by a competitive environment," says Tim Bennett, vice president of marketing. "If competitors continue to grow and drive down costs, ultimately we have to do the same to provide the kind of value a credit union member recognizes."

Understanding what must change while protecting what can't are among the stepping stones that move the brand from point A to point B while keeping it intact for membership. Balance is the key, even as changes roll through.

"You've got to have a culture that survives," Easterling says. "You can't stay two separate institutions."

He quotes the sentiments of his predecessor during the 2006 merger: "We will take the best of both credit unions and make a better credit union."

This is United's attitude as the cooperative expands its branch network into 2012 and beyond.

> "Credit is the life line for a company, for its growth and its operations. So I see business lending as one of our key products."
>
> Steve Downs, director of business services, United Federal Credit Union

By Aaron Pugh

The Engine Of The Institution

Products and services drive organic growth and deeper relationships at UFCU.

How do you stand out in a sea of financial service providers? Being big might make you noticeable, but size alone won't distinguish you from Chase or Bank of America. Instead, exceptional products and services have emerged as differentiating factors for cooperative financial intuitions of all sizes, blending old-fashioned service with modern delivery.

"I'm fond of saying 'if you walk out our front door and yell, three banks will hear you,'" says JB Hoyt, chairman of the Board of Directors at United Federal Credit Union ($1.3B, St. Joseph, MI). "We have to be different, and member service is a key part of that."

Community Connections

The credit union partners with its largest select employee group, Whirlpool, and other local institutions to donate time and money to community projects.

"Whirlpool sponsored the 100th Habitat For Humanity home for Benton Harbor [where Whirlpool is headquartered] and we sponsored home 101," says Gary Easterling, CEO of United.

To encourage both corporate and individual philanthropy, the credit union gives employees eight hours a year of paid volunteer work to use as they see fit, in whatever fields they see fit. Corporate commitment, employee activities, and word-of-mouth communication helps United establish its brand in the communities it serves. Where that leaves off, marketing materials pick up the torch and fan the flames.

United tends to spend more on traditional broadcast media in regions with lower brand recognition, says Tim Bennett, vice president of marketing. For example, the credit union launched a new TV commercial – the first in a number of years – and member referral campaign to maximize the impact of its branch presence in several new markets.

Organic growth remains a major area of opportunity for United, driven primarily by grassroots promotion of ancillary products and services by branch staff.

"We have about 3.1 services per household," Bennett says.

Powerful Products

It takes a balanced blend of rigidity and flexibility to generate products and policies that serve individual needs without putting membership at risk. For United, that balance unlocks its true potential for organic growth.

To decide what stays the same in its own product mix, the credit union begins with identifying what works.

"We had phenomenal growth in loans last year, in the midst of a recession when no one was lending," Easterling says. "It happened because we stuck to our knitting and didn't violate our underwriting standards, so we didn't have baggage on our balance sheet."

> **BEST PRACTICE**
> Saying "No" to members is an important part of looking out for their financial well-being. Be prepared to follow up with an explanation of why a product or service isn't a good fit and provide alternatives.

That growth was not all rate-driven, as the credit union's strategy is not all about a race for the best rate.

"We are constantly asking how [other institutions] are making it work with that rate?" says Tim Gray, vice president of finance and accounting. "In some cases they are [making it work] and in some cases, maybe they aren't. But there's a reason we stick with our underwriting standards. It's good, sound businesses decisioning we work with."

Once it has locked down its *must haves,* United asks how it can make those products better.

"Consumers' needs evolve and you have to be willing to evolve with them," Easterling says. "What worked two years ago isn't going to work two years from now."

"We run a 120-130% loan-to-share ratio, which scares the daylights out of some people, but we know how to do loans," says Mark Weber, vice president of national sales and service.

A key portion of this loan generation is United's indirect lending program. Its delinquency is currently at par with direct lending at less than 1%, but it far exceeds direct lending in volume, Weber says.

When it comes to the real estate portfolio, the institution consistently ranks as one of the top players in its Michigan market. Nearly half of the mortgages in United's portfolio are in Michigan, but the credit union also has mortgages in 36 other states and can service members' mortgage needs anywhere in the country, says Jeff Leep, director of sales strategy and development for mortgages. As such, the credit union is becoming more top-of-mind in other regions, too.

In addition to the ARMs and fixed-rate products members most prefer, the credit union is seeking opportunities in niche and underserved areas of its newer marketplaces, including construction lending in Arkansas, where the industry was not as hard hit as elsewhere, and FHA and VA loans in areas that attract first-time homebuyers, Leep says.

"We have about 4,000 mortgage loans and more than 65,000 households," Leep says. "With national homeownership rates at about 65-66%, there's an opportunity for us to expand within our existing membership, let alone membership from the regions we acquire."

The same potential for growth is true of cards, says electronic delivery systems manager Nada Kramp. The credit union currently has 23,000 credit cards accounts and 70,000 debit cards, with active usage at 83% and 80% respectively.

The 2006 merger of United Federal Credit Union and First Resource Federal Credit Union bumped up the card portfolio by nearly 50%. Acquisitions such as Clearstar Financial in 2009 brought mostly debit relationships, so the potential for growth in these markets is strong.

Beyond the consumer side, the credit union is developing opportunities to become a stronger commercial lender in its markets, says Steve Downs, director of business services.

Although offering responsive business products such as business checking and ACH direct deposit is important, the main competitive advantage United has as a local lender is its ability to offer credit when banks can't or won't.

"Credit is the life line for a company, for its growth and its operations," Downs says. "So I see business lending as one of our key products."

When it comes to bolstering sales, United identifies needs before they arise and then gets in front of members. Many times, a sale comes about not because the member was aware they had a need but because the credit union presented an opportunity or solution the member wasn't even thinking about.

"If we know when your expiration date is for your insurance policy, we can send you information prior that shows our alternative and how it can save you money," Weber says. "That's how sales happen."

BEST PRACTICE

Layoffs within your SEGs or communities mean financial issues for everyone ahead. Make your battle plans early and physically get in front of members to address concerns before they become long-term problems.

Online Options

Convenience is critical in United's online suite because even the best products go unused unless they are easily accessible. To keep up with growth and demand, United is upgrading its website, phone service, and online banking suite to offer expanded options for bill pay, business banking, online account opening, and mobile banking, says Carly Eldridge, eCommerce manager.

The credit union moved from an extensive network of vendors who offered singular services to a small umbrella of more diverse providers. In doing so, the credit union hopes to create a seamless brand for its online experience.

"We looked at spending levels and efficiency in our digital media and we've increased that percentage of our budget two or three times over in just one year," Bennett says. "At some point, spending for digital media will probably eclipse offline media."

Such investments are paying off. Since unveiling its redesigned website in April, United has increased the amount of time visitors stay on the site 40-50%. But it's not just high-tech investments that are wowing members.

"One product we weren't sure would take off but worked out really well was text banking," Eldridge says. Members latched onto text banking because it was easy to type in a command and get basic account info, such as balances, it didn't require an expensive Smartphone, and it had minimal wait or loading times, she says.

Above And Beyond

United developed its budget counseling program, initially referred to as loss mitigation, to ensure that even when the credit union has to say "no," it's not the end of the member's involvement.

"We teach you how to manage your finances, we put you in a budget, and we work with you as your family adapts," Weber says. "If you follow the program, we'll be able to give you the loan you need."

And if a member can't come to United, United is willing to go to them.

"We have a factory in one of our markets laying off a bunch of people for the third time," Weber says. "We'll be sending budget counselors out to that market and have them work with those employees to help them with that transition."

You never know how going the extra mile with a member will pay off, whether it is a delinquent loan paid in full or a champion for your cause.

"I got involved with United and the Board because they let me live in my house as long as I made the payments and were willing to take a risk on me," says Mike Hildebrand, vice chairman of the Board of Directors. "It wasn't just all about the almighty FICO score."

By Aaron Pugh

Strong Roots Yield Healthy Branches

Employees are the heart of the cooperative, and United keeps its troops engaged by offering the right technology, training, and culture.

Rapid expansion, such as through mergers or acquisitions, brings new marketplace opportunities for credit unions and new standards of service for members. It also requires a significant assessment of how a larger footprint might affect a cooperative's employee and volunteer network.

In many cases, a credit union must invest additional time and money to keep its growing team capable and cohesive. That's a standard with which United Federal Credit Union ($1.3B, St. Joseph, MI) is familiar. For growing institutions of any size, United's experiences offer more than a few best practices.

There are three components to daily operations that hold steady regardless of the institution's growth environment: the technology, the people, and the cultural support, says Shawn Birch, director of innovation. "You pull all that together and you make it happen and watch it grow."

Board And Volunteers

Credit union leaders must learn when to advise and when to listen if they want to support their Board during times of change. United focuses on developing its Board's role at the helm of the institution. This helps directors maintain the macro view needed to make big decisions and steer the credit union without getting mired in tangential details.

"As a Board, we've consciously worked to stay at the strategy level," says chairman JB Hoyt. "We try not to get down in the weeds and the operational details because that's not where the Board adds value."

On occasion, directors will use committees to drill down into an operational facet, but these activities are separate from the Board's standard operations.

Credit unions shouldn't underestimate the need for continued onboarding, training, and development for Board members, new and old alike, says Mike Hildebrand, vice chairman of the Board. Use new faces and team growth as an opportunity to readdress how the Board works as a unit. That cohesion is necessary in a growing institution.

In addition to stepping up its onboarding process, United has built a Board pipeline that blends experience with fresh perspectives. The Board acquires talent during mergers and also actively courts potential directors. In interviews with potential candidates, the Board examines whether individuals understand United as an organization, says Hoyt.

United understands it will only get from the Board as much as it gives to the Board. A stagnate corporate culture or ineffective communication chain creates stagnation or desertion among the Board, so the credit union looks for ways to engage its Board.

For Hoyt, who has volunteered at United for nearly 25 years, the volunteer experience has to be rewarding to keep him coming back. Seeing the fruits of his labor in the growing, developing institution is one of those rewards.

"You have to feel you're providing something to the organization," Hoyt says.

MUST-READ FROM THE CUSP ARCHIVES

Merger Mechanics: A Merger Story From The Trenches

Talk a walk back in time to hear Shawn Birch discuss operational strategy, straight out of the trenches of the 2006 merger.

Employees

Rapid growth can present challenges for existing and acquired employees alike, and moving the various pieces to function as a whole in the midst of change can be daunting for leadership. Setting up organizational structures and accountability for smaller projects now pays off as United continues to grow.

"The strategic team sets priorities: Where do you spend your time and focus? If there's a conflict, what drops?" says Birch. "Those priorities always have to be clear and be communicated throughout the organization."

In an expansion situation with multiple projects in the air, United defines the roles and responsibilities of each team involved and documents, documents, documents. This helps manage the expectations of staff, members, and the Board throughout the process.

"Being team centric is the key," Birch says. "Even if you're a small credit union, you need to formulate that culture now."

BEST PRACTICE
It's not over yet! The settling period after a major operational move is the perfect time to reassess all aspects of your organization, from staff incentives to community outreach and camaraderie among your Board.

Mergers and acquisitions bring new staff members that need effective communication to drive home the importance of any cultural or policy shifts. Without it, they risk continuing the same behaviors that contributed to their previous employer's financial distress.

"It's a matter of messaging," says CEO Gary Easterling. "Employees are going to see the sign change, and some of our policies and procedures are going be different."

Attitude also counts at United. The credit union's rapid growth and stability has allowed it to glean the market for top-notch organic hires.

"We've been able to bring in a lot of expertise while a lot of our competitors are shedding their labor force, trying to pare down their expense," says Jeff Leep, director of sales strategy and development for mortgage. "We've taken some of those talented individuals from other institutions and built skills sets we didn't have a few years ago."

But whether it is a new hire or an employee acquired from another institution, the basics of training and culture development are the same.

"We hire for attitude and then train the skills," says Meg Johnson, collections manager. "It's easy to teach but not as easy to find individuals who understand and want to be part of a member culture."

There is energy in the air at a highly functional credit union and if an employee is a good fit, you should get that same energy back from them.

"Prior to our recent core conversion, where we brought on new employees, most of the staff has been with us for an average of six years," Johnson says.

And when it comes to securing long-term loyalty, employees and employers need to picture a course of development for each person at the co-op. Employee satisfaction surveys and other methods of feedback help put everyone on the same page.

"We've grown so quickly, we're trying to catch up with a more formalized system in terms of employee development," says Cindy Swigert, chief human resources officer. "Traditionally organizations rank career development as one of the lower scores on their satisfaction survey, but because we're growing, we have a real opportunity for a win in that space as we get these programs in place."

For those employees who do not want to advance to management, United offers career goals that are as diverse as its staff.

"We're developing the idea of becoming a subject matter expert, without the need to become a manager," says Swigert. The credit union looks to these individuals for opinions, judgments, and mitigation assistance. This system helps dedicated employees resolve difficult situations in their field without having the pressure of managing others.

Tools Of The Trade

As markets and organizations grow, the chance of seeing a familiar face in the crowd typically diminishes. For United, technology is a valuable resource that helps employees connect to new members and one another.

"Our front line is very skilled in using the relationship management systems we've developed," says Tim Bennett, vice president of marketing. "It lets them know what product or service the member has and what is the next most likely product they'll need."

CRM and other databases are critical to unlocking employee sales and service potential, especially on the front lines where most member interactions occur. If approached properly, what starts as a simple transaction can turn into a significant change in the member's financial situation. But employees have to have their head in the game.

"I want branch staff to be focused solely on the member, not on operational pieces," says Mark Weber, vice president of national sales and service. "They just take the information, put it into the system, and let the support department do the processing so they can focus and engage with the member."

Technology is also useful for employee training and communication.

"When we have these various times zones that we have to traverse, you have to rely a lot on technology," says Easterling. For example, the credit union conducts its team meeting through three distinct video conferencing sessions to accommodate the three time zones in which it operates.

The technology is not perfect, but it is critical. And in cases that warrant live visits or on-site training, such as in the upcoming shift to a new core operating system, United brings regional employees and managers onto the corporate campus for group training.

"It's all about creating relationships right from the get go," says Easterling.

So whether a credit union is a national player or a one-branch shop, finding the balance between technological investment and cultural infrastructure is critical. After all, laying a good foundation today leads to easier processes in the years of growth ahead.

"There is a cost to operating in multiple markets," Easterling says. "But we believe the cost is worthwhile because of the value of diversity."

A Word Of Appreciation

We'd like to extend a special "thank you" to United Federal Credit Union, its employees, and its membership for their hospitality, time, and expertise. It's been a pleasure to learn more about how a large, expanding institution maintains its cooperative, small-town values in a large marketplace. We wish you and your membership continued success in the years ahead.

Carly Eldridge, eCommerce manager

"70-80% of our members are on one core system, but we consider the other 30% when making vendor selections so after the fact we don't have to say 'that feature is no longer available.' That way, we minimize member impact."

Cindy Swigert, chief human resources officer

"Something in one region might not play exactly the same in another region, but I think best practices still can apply to other regions, especially if you have the communication networks for that learning to take place."

Duane Nelson, chief operating officer

"United has been fortunate to be a market and industry leader in a lot of areas. Anytime we can share those best practices with other credit unions, we don't mind doing it. That doesn't mean our way is always the best, but if others can take what we've done and find ways to improve it, we're pleased."

Gary Easterling, president/CEO

"As competitors retreated from the marketplace, we were there. Any quality indicator you can look up, we have four of five stars because of our safety and soundness, and that has really been important to consumers during this recession. It's demonstrating how we provide value to our membership.""

JB Hoyt, chairman of the board

"We were a $90 million southwest Michigan-focused credit union when I joined, but today we're a $1.3 billion credit union. A lot has changed, and some challenges have grown, but it's been a lot of fun."

Jeff Leep, director of sales strategy and development for mortgage

"In 2011, we doubled our sales force across all of our regions. We've got a broader presence in our regions today and it allows us to go into the real estate community such as realtors, builders, and other sources. We promote the credit union, what our capabilities are, and get referral business out of that."

Mark Weber, vice president of national sales and service

"The goal is not to sell the member something but to identify opportunities. We get them engaged and help them see that at the end of the day, we're all in this together."

Meg Johnson, collections manager

"In a holistic approach, we're not just looking at what loan they [members] have with us or what's past due, but what is happening in their life. We're figuring out their challenges and their strengths to help them create a solution that is workable and sustainable."

Mike Hildebrand, vice chairman of the board

"Some of the big financial institutions fail because all the brains are in one central location and it's this big bureaucratic nightmare. Our goal is to give local control and local decisioning to the local branches and empower them to be brains, too."

Nada Kramp, electronic delivery systems manager

"All of our branches are equipped with instant issue, both for debit and credit cards, and the equipment we have is poised to switch over to the newest chip technology (Europay MasterCard Visa) once we make the decision to go that route."

Shawn Birch, director of innovation

"You have to spend time doing the research. You have to understand where your organization wants to go, how you plan to get there, and what your risk tolerance is. . . . As a credit union, we probably will not have a physical branch network like Chase or PNC, so the virtual space is critically important to us and that's where we're investing a lot of time."

Steve Downs, director of business services

"Whether it's through acquisitions or growth or whether we're buying certain loan portfolios or selling them off, there are all different ways we're growing the portfolio. We view this all as a great opportunity."

Tim Bennett, vice president of marketing

"Out of the80 attributes we measure, our members rate us highest on being local and friendly, so you have to balance the need to grow and keep costs low with delivering on those two pillars of our brand."

Tim Gray, vice president of finance and accounting

"In today's world, it's easy to fall into some knee-jerk reactions. You have to be patient, step back, and make sure the decisions you're making are still the type of decisions you want to be following on a long-term basis."

thank you