THE MOST MAGICAL CREDIT UNION ON EARTH

Partners FCU serves the employees of the Walt Disney Company. But making its members financial dreams come true is no fairy tale in a moment of deep economic uncertainty.

BY ERIK PAYNE

The Walt Disney Company has a simple mission: to entertain, inform, and inspire. And through its various business segments — which include media networks, studio entertainment, and parks and experiences — Disney has grown into one of the largest and most successful media companies operating in the United States.

Its operations are so varied, in fact, that not long ago Disney had sponsored more than one credit union.

Founded in 1960 to serve the employees of Walt Disney Studios, Vista Federal Credit Union focused on the feature film production arm of the company. When employees of Disneyland Park — which is located in nearby Anaheim — wanted to take advantage of the benefits a credit union provides, the NCUA encouraged them to start a new cooperative rather than join Vista. They did, and DRC Federal Credit Union was founded in 1968 to specifically serve park employees.

FAST FACT

All employees of the Walt Disney Company are called cast members, whether they work in the parks or in its studio, a nod to its entertainment roots.

During the 1980s, DRC FCU rebranded as Partners Federal Credit Union and Vista FCU picked up employees of Walt Disney World — located in Orlando, FL — as a select employee group. For the next several decades, the two credit unions operated separately, serving different populations under the Disney umbrella.

The credit unions tried to merge at least twice with no success, says John Janclaes, the current CEO of Partners. When Janclaes joined Vista as CEO in 2004, he knew the history of the two organizations but also believed a unified shop would be key to the future success of both cooperatives. So, he tried again — this time by first establishing a joint venture focused on wealth management services.

"We discovered we had more in common than not and could work together," Janclaes says.

The credit unions finally merged on Nov. 5, 2007. The larger Vista FCU assumed Partners but took the smaller institution's name. The surviving organization claimed nearly $800 million in assets and more than 100,000 members.

Of course, the merger was just the beginning. For a credit union that serves those who make Disney's parks and film and TV production the most magical around, the past fifteen years has sure made for a good story.

A TYPICAL CREDIT UNION WITH BIG AMBITIONS

When Janclaes became the CEO of the combined Partners in 2007, the credit union had growth on its mind.

"We were a typical credit union with big ambitions," Janclaes says.

The combined Partners had nearly $800 million in assets and approximately 103,000 members. But because all Disney employees were now the focus of a single institution, the credit union could grow by both marketing to new populations and deepening relationships with inherited members. The pre-merger Partners posted loan and share growth of 4.6% and 0.5%, respectively, while its average member relationship was $10,350, performance the now-combined credit union knew it could improve upon.

But for the combined Partners to grow, however, Janclaes turned inward.

"For us to succeed it had to start with culture," the CEO says. "People, processes, and technology."

The credit union named Karen Spires as chief financial officer — a promotion from her post as Vista's vice president of finance — and hired a new chief lending officer. The two hires helped retool Partners' lending discipline and

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established a relationship-based pricing model to encourage members to do more business with the credit union.

FAST FACT

Partners FCU is a low-income designated credit union, and a large percentage of its members hold blue-collar jobs at Disney parks, resorts, and studios. This past spring, 25% of the credit union's members were furloughed or unemployed as a result of COVID-19.

"We wanted to reinforce the idea that if you're a real participant in the credit union, you'll get more value in return," Janclaes says. "What we call 'fair exchange of value.'"

The arrival of the two hires also coincided with the launch of an executive management school, an internal program that offers training on leadership philosophy and the science behind management. Partners initially limited the training to executives but gradually opened it to managers and now all employees.

"We're always looking to train up that next group of leaders," Janclaes says.

On the technology front, financials services was a different world before smartphones and digital-first banking, and Janclaes was focused on strategic changes more so than physical ones. Namely, the CEO wanted to know how the credit union could use technology to grow.

When Janclaes joined the credit union movement in 2004, members prioritized service over rates and fees, and rates and fees over access and convenience. That has shifted over time, he says. Now, members prioritize access and convenience over service, and service over rates and fees. This reversal prompted Partners to invest more in its digital experience over the years.

"We needed more forward-leaning technology that was ready to answer the wants and needs of our members," Janclaes says.

Three years ago, Partners implemented a "4X strategy" to increase the pace of digital development to four times that of its 2017 baseline. At the same time, the credit union adopted the agile methodology to project management. Together, these two changes to operational philosophy helped Partners reach its goal in 2020 — a year that included releases and updates both large and small, from a new online banking system and person-to-person payments to improved UI and UX.

"We focused on bringing value to members in the areas where they want it most," Janclaes says.

To read more about Partners' 4X strategy, flip to page 30.

TWO CRISES, ONE DECADE APART

The November 2007 merger between Vista and Partners occurred at an auspicious time. In December, the United States officially entered a recession brought on by a housing bubble burst, subsequent market correction, and subprime mortgage crisis.

Starting in the fourth quarter of 2007, total delinquency among credit unions nationwide began to rise and would ultimately peak at 1.79% in the third quarter of 2010; for California credit unions, delinquencies peaked at 2.35%. At the onset of the recession, Partners held approximately 60% of its loan portfolio in real estate, compared with nearly 52% for credit unions nationally.

Partners set aside cash in reserves and limited certain asset classes to protect itself against losses, says CFO Karen Spires. Total delinquencies peaked at 3.54% and net charge-offs at 2.30%, but capital remained at or exceeded 11% for the duration of the recession.

"It was stressful in the moment," Spires says. "But in the long-term, I think it helped us understand the risks we hold in our balance sheet and how to continually manage capital."

Since the recession, Partners has been more likely to sell first mortgage originations to offset concentration risk and prop up non-interest income. Historically, non-interest income as a percentage of total income at Partners has outpaced national and state peers. As of third quarter 2020, 34.5% of its total income was of the non-interest variety, compared with 27.9% for credit unions nationally and 24.2% for credit unions in California.

Additionally, Partners beefed up its capital planning efforts in mid-2018 to better understand the risk present on its balance sheet. Post-recession, Partners has maintained a loan-to-share ratio at or higher than 100%, which presents

WHO? WHAT? WHERE? WHEN? WHY?

WHO?

Walt Disney co-founded what would become the Walt Disney Company in 1923. As an animator, he created the cartoon characters Micky and Minnie Mouse, Donald Duck, and the dogs Pluto and Goofy. As a producer, he won 22 Academy Awards — an individual record.

WHAT?

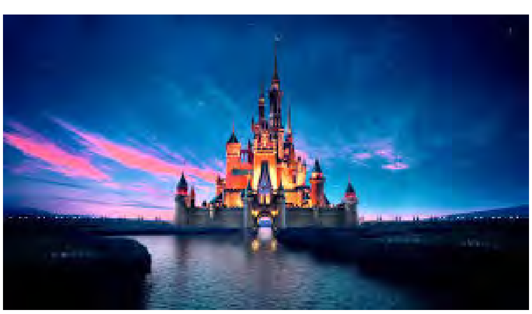
The Walt Disney Studios in Burbank, CA, serve as the international headquarters for the Walt Disney Company. The Burbank Disney Studio buildings are the only studios to survive from the Golden Age of Film.

WHERE?

Walt Disney initially wanted to build Disneyland adjacent to his Burbank studio. When that site was deemed too small, he purchased a 160-acre site in Anaheim, CA. Disneyland officially opened on July 17, 1955.

WHEN?

In March 2019, Disney officially acquired the non-news and sports divisions of 21st Century Fox. Based on valuation, the Fox acquisition ranks as the fourth-largest ever media merger



WHY?

The city of Burbank is named after David Burbank, a dentist who traveled west in the 1800s with two principal intentions: to buy land and to raise sheep.

SOURCES: LAIST, DEADLINE, BRITANNICA

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credit risk. But based on projections for internal investments or adverse scenarios, the credit union wanted to ensure it was covered in case something happened.

Managing through the Great Recession also helped Partners better understand how to meet members’ needs during a crisis.

At the onset of the recession, Partners instituted an aid package — dubbed the Member Assistance Program (MAP) — that included fee waivers, payment deferrals, and other forms of assistance. The skills employees honed while creating the program — such as listening, finding creative solutions, and working across the credit union — proved beneficial when fires and earthquakes in California and hurricanes in Florida necessitated institutional aid. And when COVID-19 brought on economic hardship in 2020, Partners once again expanded the program to meet the needs of members.

To learn more about MAP, how Partners has responded to COVID-19, and the credit union’s capital planning efforts, flip to page 26.

Like institutions everywhere, Partners had to help members respond to the pandemic while it was adjusting to a remote-first environment. Unlike institutions everywhere, Partners had to juggle local guidance and the effects of the virus on two different coasts, which at times had significant differences in restrictions.

Thus far, the pandemic has had a real impact on Partners’ balance sheet, though total delinquencies

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remain lower than the national average; share growth has spiked to more than 20%, and loan growth has moved negative. Infection numbers are rising during the winter months, and the Walt Disney Company is expected to layoff approximately 32,000 cast members in the first half of its 2021 fiscal year — 28,000 will come from its parks division, which has been hard hit by COVID-related lockdowns.

Throughout 2020, Partners has done what it can to support members through the major changes the year had in store, and it knows members will likely need even more support as the calendar turns to 2021. For its part, Partners is preparing for a large operational change of its own: CEO John Janclaes’ planned retirement on March 31, 2020.

BEST PRACTICE:

MARKET WHAT PEOPLE WANT

Because of its relationship with the Walt Disney Company, Partners has access to branding and marketing materials – including intellectual property that includes Avengers and Jedi Knights as well as princesses and mice – that reflect who its members are and what they do. “There are rules we have to follow, but we try to be creative with how we deploy these characters,” says Mike Terzian, chief member service officer. “We have access to this IP, but we’re still trying to create things that people want.”

2021 AND BEYOND

When Janclaes retires, he won’t completely leave the credit union industry. He plans to join the board of directors at AKUVO, a CUSO that offers data analytics services, and also serve as an industry advisor at NYMBUS, a cloud-based banking systems provider. In effect, he wants his next steps to make a wide impact.

In his 17 years with Partners, Janclaes’ voice and direction has helped the credit union grow into one of the largest in California and serve well one of the most iconic of American companies. He’s overseen the construction of 11 new branches and the hiring of 300 new employees. Under his leadership, assets have grown nearly tenfold and membership has increased more than 130,000.

Janclaes has shepherded Partners through an influential merger, hurricanes, fires, and earthquakes, and through his focus on people, processes, and technology, he helped Partners become the modern credit union it is today. Still, he’s looking forward to tomorrow.

“I think after 17 years, it’s time for someone else to lead,” he says. “It’s a big deal to be the organization that someone trusts with their financial dreams. We’ve always made sure those needs and those people were being handled well.”

Partners mission statement — “Making all financial dreams come true today and tomorrow” — holds special meaning for members, for the next generation of credit union leaders, and for the Walt Disney Company itself.

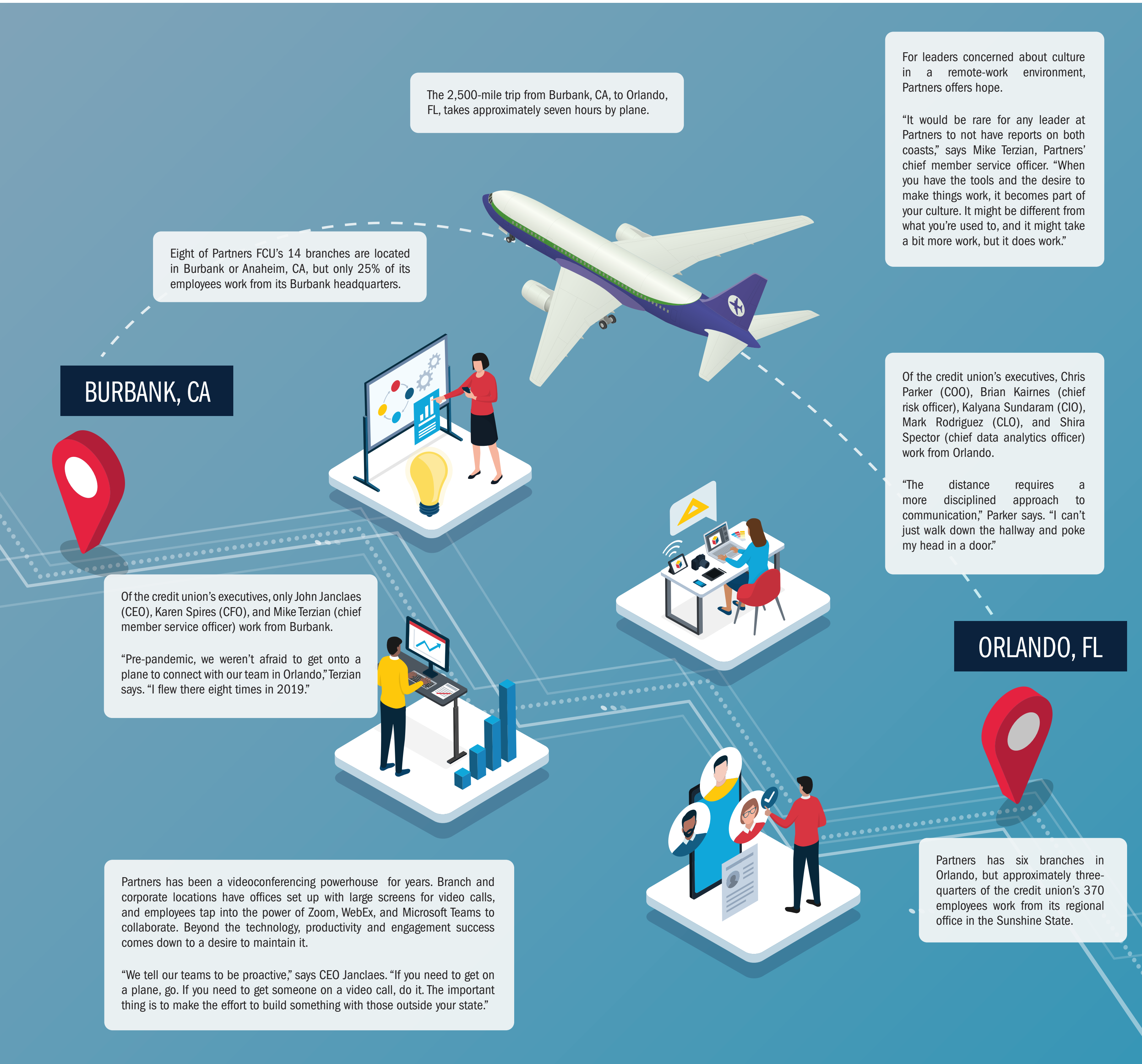
“When a company as successful as the Walt Disney Company can point to Partners and say, ‘this is the credit union that can help make your financial dreams come true,’ it goes to show we’ve been doing things the right way,” Janclaes says. “And that will only continue.”

PARTNERS HAS CLOSE TIES TO ITS SPONSOR GROUP, THE WALT DISNEY COMPANY, AND USES ITS IP IN ITS MARKETING EFFORTS.

THE 2,500 MILE HALLWAY

Partners FCU operates bi-coastal corporate offices to serve membership concentrations in southern California and central Florida.

BY ERIK PAYNE



The 2,500-mile trip from Burbank, CA, to Orlando, FL, takes approximately seven hours by plane.

Eight of Partners FCU's 14 branches are located in Burbank or Anaheim, CA, but only 25% of its employees work from its Burbank headquarters.

Of the credit union's executives, only John Janclaes (CEO), Karen Spires (CFO), and Mike Terzian (chief member service officer) work from Burbank.

"Pre-pandemic, we weren't afraid to get onto a plane to connect with our team in Orlando," Terzian says. "I flew there eight times in 2019."

For leaders concerned about culture in a remote-work environment, Partners offers hope.

"It would be rare for any leader at Partners to not have reports on both coasts," says Mike Terzian, Partners' chief member service officer. "When you have the tools and the desire to make things work, it becomes part of your culture. It might be different from what you're used to, and it might take a bit more work, but it does work."

Of the credit union's executives, Chris Parker (COO), Brian Kairnes (chief risk officer), Kalyana Sundaram (CIO), Mark Rodriguez (CLO), and Shira Spector (chief data analytics officer) work from Orlando.

"The distance requires a more disciplined approach to communication," Parker says. "I can't just walk down the hallway and poke my head in a door."

Partners has been a videoconferencing powerhouse for years. Branch and corporate locations have offices set up with large screens for video calls, and employees tap into the power of Zoom, WebEx, and Microsoft Teams to collaborate. Beyond the technology, productivity and engagement success comes down to a desire to maintain it.

"We tell our teams to be proactive," says CEO Janclaes. "If you need to get on a plane, go. If you need to get someone on a video call, do it. The important thing is to make the effort to build something with those outside your state."

Partners has six branches in Orlando, but approximately three-quarters of the credit union's 370 employees work from its regional office in the Sunshine State.

PROVIDING COMFORT, NO MATTER THE SEASON

The systems and processes in place at Partners FCU served members well during the onset of the coronavirus pandemic. Now, the credit union is focused on what comes next.

BY ERIK PAYNE

It's the middle of the winter, but Partners Federal Credit Union ($2.1B, Burbank, CA) is thinking about the summer. For the southern California-based credit union serving the employees of the Walt Disney Company, that has more to do with preparation than the weather.

"To be successful, you have to be comfortable with the season," says John Janclaes, CEO of Partners. "If you're wishing for summer in the middle of the winter, you're behind."

Some might consider 2020 a yearlong winter given the economic and social reckonings brought forth by the COVID-19 pandemic. If that's the case, Partners was certainly ready for the season. Several years ago, Partners started developing its digital channels, creating a capital plan, and implementing data analysis capabilities. That work came to a head when social distancing was the norm and a large number of members faced economic hardship.

A CAPITAL CONSIDERATION

To say this has been a challenging year for the Walt Disney Company would be an understatement. The company has closed most of its theme parks and resorts or has operated them at a significantly reduced capacity since March; it has suspended entirely its cruise ship and guided tours. Parks, experiences, and products drove only 25% of the conglomerate's revenue in fiscal year 2020 — a 37.1% drop from the year prior — and, all told, the segment posted an operating loss of $81 million in 2020, according to the company's late November filing to the SEC.

In April, Disney announced the furlough of 100,000 cast members, and in so doing changed the economics at Partners FCU. Consumer loans and interchange income both declined. To offset the negative impacts on its employees and its bottom line, Partners moved some staff members to the mortgage department to cover originations. It also sold more mortgages to the secondary market. In fact, Partners sold more first mortgage originations during the third quarter of 2020 than at any point in its history.

"We were looking to get through the next 12 months," says Karen Spires, chief financial officer at Partners.

Spires has held the CFO seat since 2007 and knows firsthand how Partners can weather a storm. During the Great Recession, which was primarily driven by real estate, the credit union's white-collar members bore the brunt of the blow. The event, however, taught Partners an important lesson about concentration risk and preparation.

"We're never going to be in a position to know exactly what's coming," Spires says. "But we can be prepared."

After the recession, Partners beefed up its semi-annual capital planning exercises, which it presented to its board as part of a three-year plan. Based on any number of adverse scenarios, the credit union modeled available capital and could predict with confidence how it would respond to anything from a change in interest rates to layoffs from its sponsor group.

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"The recession certainly instilled more discipline," Spires says.

In mid-2018, Partners increased the frequency of its capital planning exercise and deepened the scope of its analysis. Credit risk is a key element in its capital analysis — after all, the credit union has historically been loaned out — and now, every quarter, it identifies how much credit risk it holds on its books. From there, it identifies the minimal and worst-case impacts from various economic scenarios and considers what waterfall effects might follow.

"For example, it would be unlikely that raising rates would follow a significant credit event," Spires says. "So, we can say the likelihood of certain events following one another is high or low, which gives us an idea where to set our risk parameters and where to set capital. We do the exercise to identify where we are now and understand what we can invest and what we need to hold onto."

This capital strategy proved invaluable at the onset of the COVID-19 pandemic. Partners considered the nature of the virus and what it was likely to destabilize; then, the credit union confidently allocated more to its loan loss allowance while maintaining a well-capitalized position. When consumer loans declined and shares spiked, the risk profile of Partners changed, too.

"We're holding more in the allowance even though we have fewer loans," Spires says.

BEST PRACTICE:

K-WATCHING

Making dreams come true is difficult when members are struggling to recover from a pandemic reality. "We're watching for a K-shaped recovery," says CEO John Janclaes, "where white-collar jobs have rebounded more quickly than industries like entertainment, hospitality, and food and beverage, where many of our members work."

To wit, Partners' third quarter coverage ratio of 265.5% is notably higher than the industry average of 199.0%. Despite that, the credit union's capital ratio is still higher than 11%, which means Partners has a buffer for future COVID-19 fallout.

In November, Disney announced it would lay off 32,000 employees — primarily from its parks sector — in the first half of its fiscal year. January will be a critical month for Partners, and the credit union is already making forecasts based on several different factors, such as: Will there be a government aid package; will these cast members receive unemployment benefits; should the credit union offer short-term bridge loans; what would happen if the credit union extended loan deferments and mortgage forbearance; how widely and quickly will vaccines be available to park employees; and will a vaccine affect how long they're out of work?

"It feels like we're in a continuous strategic cycle," Spires says. "All we can do is to look at our products and services and make adjustments to help our members get through this time."

ANALYZING THE PANDEMIC

Because Partners works with the Walt Disney Company, the credit union caught wind early on of the potential hardships COVID-19 would cause, says Mike Terzian, chief member service officer at Partners. Disney operates several parks and resorts in Asia, and understanding how the virus impacted things on the other side of the Pacific shaped planning at Partners.

"It influenced us to get aggressive early on," Terzian says.

The credit union sent home those employees who could work from home and ordered personal protective equipment, hand sanitizer, and plexiglass screens for its branches even before the initial wave of shutdowns began. It also implemented a pod structure for branch staff where one group comes into the branch and the other stays home. Additionally, it trained staff on how to maintain service despite keeping a social distance.

The pandemic also prompted Partners to offer its Member Assistance Program (MAP), which includes fee waivers, skip-a-pays, and small bridge loans for members in good standing.

The credit union has offered some version of this program since the Great Recession, although Partners tends to deploy it for severe weather events from fires to hurricanes. For this iteration, the credit union has waived approximately 115,000 fees amounting to $550,000, processed more than 72,000 loan extensions, and granted more than 6,000 mortgage forbearances — all as of November. Partners also is offering

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LET THEM HAVE MORE

Members' needs evolve rapidly and can differ by coast. To ensure Partners doesn't lose sight of what's important, it has identified four buckets of member need for which branch staff ask: Does this member need to ...

- **EARN MORE:** By moving money into higher-earning deposit product or by having a conversation with a wealth advisor?
- **SAVE MORE:** By refinancing a loan?
- **PROTECT MORE:** By taking out home or auto insurance?
- **LIVE MORE:** By using technology or education to make life easier?

$1,000, $3,000, or $10,000 pandemic loans at 0% interest for two years. As of November, it has made $7.6 million of these loans to more than 21,000 members.

"For our affected members, there was an immediate cashflow problem," says CEO Janclaes. "The loans were designed to fill the gap between their last paycheck and when unemployment or stimulus money came in."

Partners dialed up its education efforts, too, and via classes like budgeting fundamentals or cybersecurity during a pandemic, ensures members have the tools they need to make their money stretch further.

Looking forward to 2021, Partners aims to personalize its approach to aid and will lean on its nine-person business intelligence and analytics team to help the credit union be more proactive.

Traditionally, the credit union has used analytics to identify ways to deepen existing relationships. Partners has a proprietary segmentation system that provides a member relationship score. The credit union layers in behavioral, demographic, psychographic, and other forms of data to better understand potential gaps in the relationship and how Partners might provide value to a given member.

In the context of the pandemic, however, the utility of its analytics evolved, enabling the credit union to identify vulnerable populations.

By running cashflow analysis — looking at changes in direct deposits, incoming funds, credit or debit spending patterns, and bill payments — Partners can identify who is feeling — or will soon feel — economic strain from the pandemic. From there, the credit union can segment the population by product — for example, by identifying who has an auto loan and didn't receive a direct deposit last pay period — to proactively communicate solutions through outbound calls, targeted marketing, and more.

Ultimately, nearly 25% of the credit union's members were furloughed or unemployed in the pandemic's earliest stages, but that doesn't mean they all had the same needs.

"The key for us is to understand each individual situation and communicate accordingly," Terzian says. "There can be trouble when one or both parties know there's a problem, but there's silence between them."

As personalized communications become more important — during the pandemic and beyond — analytics and marketing will need to work together to reach the right members with the right message at the right time. Currently, the two groups co-manage an engagement platform, Braze, that tracks and prompts outreach based on regularly updated member profiles. Marketers take responsibility for the message, business intelligence provides the data and insight, and members receive timely solutions. That connection between marketing and BI is integral to ensuring members discover new value in their credit union relationship.

"Think of it like building a race car team," Terzian says. "BI builds and services the car, while marketing puts on the branding and drives. When it's done right, you're going to move fast and win the race."

TECHNOLOGY FOR TODAY AND TOMORROW

The pandemic unearthed the good and exposed the bad of many a credit union's technology systems. Remote back offices and more digitally engaged members put a strain on people and processes and brought to light the work required to prepare credit unions across the industry for a moment like this.

> Supporting our cast members through the pandemic is a primary focus. But we're also asking ourselves how we can bring in technology that excites them.
>
> — KALYAN SUNDARAM, CIO, PARTNERS FCU

"The pandemic made visible certain behind-the-scenes work across IT departments," says Kalyan Sundaram, chief information officer at Partners. "All the things we've done show the organization how prepared we were."

Sundaram joined Partners from another large California credit union in July, but the seeds to the credit union's technology success were sown before the onset of the pandemic.

Partners is a bi-coastal credit union that has branches and executives evenly distributed between Burbank, CA, and Orlando, FL, both areas where a large percentage of Disney employees work and live. The setup meant remote operations were long in the credit union's vocabulary before 2020 made them ubiquitous.

"Videoconferencing has been the way of life for us since I started at the credit union in 2007," says Chris Parker, chief operating officer, who works from Orlando. Like its sponsor Disney, Partners had used Blue Jeans for years before transitioning to Zoom, Microsoft Teams, and WebEx for its video needs.

"In that respect, we were certainly prepared," Parker says.

On the member side, the credit union wanted more control over its remote services roadmap. It wanted to better control its own digital destiny and provide valuable services faster. Notoriously, says Parker, it took eight months for the credit union to bring a card control application to market.

The credit union set a goal — dubbed its "4X strategy" — to quadruple its technology production in four years. It partnered with Kony, since acquired by Temenos, for its digital offerings and adopted the agile methodology to project management. With open-API architecture and a fast-moving development team, Partners began to bring new releases and updates to market at a much faster pace.

In September 2019, Partners introduced a new mobile banking application that offered more capabilities and a better user experience for members and the ability to continuously customize for the credit union. That bit of technology was critical to serving members from a distance at the onset of the pandemic.

According to CIO Sundaram, since his arrival in July, he's looked for additional ways to introduce new technologies and streamline existing ones — all with an eye toward member service.

"Supporting our cast members through the pandemic is a primary focus," he says. "But we're also asking ourselves how we can bring in technology that excites them."

If that sounds like a credit union planning for the summer in the winter, it is. But it's more than that, too.

Sundaram is formalizing the production process by setting clear goals for his agile teams and defining roles and responsibilities more clearly. He's also instituting an innovation board that will accept ideas from anyone across the organization. He wants his team to focus on small projects without losing the big-picture understanding of what they are working toward.

"They need to have a clear picture of strategy," he says. "Not just from the IT perspective, but from the entire credit union."

That strategy is all about digital. In the fall of 2020, the credit union introduced a new online banking application with Temenos to match its mobile platform. And in late 2020, Partners introduced contactless debit cards, an ability its credit cards have had for some time.

"We certainly learned how important that can be as our members looked to stay safe this year," says COO Parker. "Contactless is a good way to go."

To that end, Partners has completely digitized its new member application and slashed the completion time from 25 to 10 minutes, closer to its target of five. The credit union plans to launch the new process in January, although Parker recognizes Partners will need to make updates. Additionally, CIO Sundaram would like to implement contactless authentication at the branch, which would allow members to generate a QR code on their mobile device rather than hand over an identification card or member number.

Beyond that, the credit union is looking forward to new hardware updates, vendor assessments, and a potential large-scale data migration.

It might be winter now, but summer will come soon enough. When it does, the needs and preferences of members might be significantly different than they were at the onset of the season. Regardless, credit unions that have planned for what comes next will be positioned to meet members wherever they are.

"You can't control what season you're in," says CEO Janclaes. "You just have to know there's opportunity in each one."

TECHNOLOGY DEVELOPMENT AT 4X THE SPEED

Recognizing the need for faster releases and updates, Partners FCU set a goal to quadruple the rate of its production. To do that, it adopted the agile methodology to project management.

BY ERIK PAYNE

Technology was never the issue.

Three years ago, Partners Federal Credit Union ($2.1B, Burbank, CA) set a goal that challenged its technology team to increase the pace of innovation and development.

"We had the technology," says CEO John Janclaes. "But we weren't putting out state-of-the-art technology fast enough to keep up with our members' demands."

Thus, the 4X strategy was born.

Every year starting in 2017, Partners wanted to best its development performance of the previous year by a factor of one. If the credit union produced at 1X in 2017, then it wanted to hit 2X in 2018, 3X in 2019, and crescendo with 4X more development in 2020 than in 2017.

To hit its goal, Partners adopted the agile framework to project development. The methodology has helped the California credit union sift through years of new releases and updates and served an even greater purpose in 2020 when the COVID-19 pandemic changed the credit union's development schedule.

"Even with the pandemic, our competitors didn't stop innovating and adding services," says Chris Parker, the credit union's chief operating officer, who oversees operations, lending, payments, and digital strategy. "Neither did we."

In this Q&A, Parker discusses the agile methodology at Partners, the 4X strategy, sentiment analysis, and more.

IN TERMS OF DEVELOPMENT, WHAT QUESTIONS DID THE CREDIT UNION ASK ITSELF THIS YEAR?

CHRIS PARKER: What is the market asking us to do from a competitive standpoint? What is the competitive landscape? What do our members want from us? Need from us? What are our members telling us about how they use our services?

As you try to balance the answers to those questions it becomes a challenge. Yet one of the ways we've tried to overcome it is through our agile work.

CHRIS PARKER, CHIEF OPERATING OFFICER, PARTNERS FCU

WHOW WOULD YOU DESCRIBE PARTNERS' RELATIONSHIP TO TECHNOLOGY AND INNOVATION?

CP: We recognize technology is critical, but technology is not the same as the member experience. It should enable the member experience. We ask ourselves: Do we want to be a technology company that offers financial services? Or do we want to be a financial services company that uses technology to drive experiences?

We'd say we're the latter. We want to deliver experiences, and we want to use leading-edge, sound, solid technology to accomplish that. At the end of the day, our members don't care what systems we're using, what the architecture looks like, if we have an open back end. They want to know if it's easy, convenient, and secure.

CAN YOU DEFINE YOUR 4X STRATEGY? HOW DOES IT MANIFEST WITHIN THE CREDIT UNION?

CP: In 2017, we averaged one new release or update for our digital channels every six months. That was not going to get us to where we needed to be. It was not going to help us meet our members where they needed to be met. We wanted to improve that velocity.

We partnered with Boston Consulting Group in 2017 to teach us the agile methodology for project management, and we started to see how we could get faster while creating a seamless experience. We set speed as the goal: Could we produce at four-times the baseline we set in 2017, while still producing products and services that our members found valuable.

CU QUICK FACTS

Partners FCU
DATA AS OF 09.30.20
BURBANK, CA

$2.1B
ASSETS

181,072
MEMBERS

13
BRANCHES

20.2%
12-MO SHARE GROWTH

-5.9%
12-MO LOAN GROWTH

0.37%
ROA

> “Even with the pandemic, our competitors didn’t stop innovating and adding services. Neither did we.”
>
> – CHRIS PARKER, CHIEF OPERATING OFFICER, PARTNERS FCU

SO, IT’S MORE ABOUT VALUE THAN SIZE OF THE RELEASE OR UPDATE?

CP: Right. A small release in terms of scope could still be valuable to tens of thousands of members. We could go to market fast with something we think is cool, but if no one uses it, that’s not valuable. What’s important is that we are putting out high-value items for our members to use. That strategy fits within our strategic flywheel.

WHAT’S YOUR STRATEGIC FLYWHEEL?

CP: It’s a visualization for how we generate profitable growth. It starts with our cost structure — which is as much about managing expenses as generating revenue. But if you can manage your cost structure, it’s going to help you put value into the marketplace, which will drive better member experience and thus higher utilization. Higher utilization should help grow balances and capital, which will boost ROA. And that ROA can be reinvested back into the credit union.

The idea is that this flywheel creates a fair exchange of value between credit union and our members. Now, as the 4X strategy is concerned, imagine we accelerated the spinning of that flywheel to deliver more and more value to our members. If we keep that mindset, I think we’ll continue to meet our members where they need to be met.

HOW DO YOU DETERMINE YOUR DEVELOPMENT CYCLE BEYOND ASCRIBED VALUE?

CP: We have an integrated feedback loop that is set up like a three-legged stool.

First, what is the market saying that Partners needs to offer to be competitive? Are there services we don’t have that would make us a more likely primary financial institution?

Second, can it create better reach by helping us enter a new line of business?

Third, and most important, what do members think?

We’re not always right. We think we know the market, we think we know what we should be doing, but if the members don’t use it, then we need to rethink it. We pilot all our releases for that reason.

We also have listening posts set up in our digital channels, our contact center, and in other areas to collect member feedback — a dozen listening posts in all. We run sentiment analysis on that data to inform follow-up releases. For example, when we rolled out a new online banking system in September, the team did a great job. But there were small bumps with external transfers and log ins in the initial rollout, and with that analysis, we knew what we needed to fix fast.

HAS SENTIMENT ANALYSIS CAUSED YOU TO MAKE CHANGES, NOT JUST FIXES?

CP: Remote deposit capture is table stakes in our market. Last year, we put in restrictive endorsements based on how we understood some regulatory guidelines. But the technology didn’t work properly, so even if a member followed our instructions and wrote “For mobile deposit only” and “Partners Federal Credit Union” on the back of the check, which are a lot of words, the app was rejecting it. We worked on the technology, but members got more and more vocal. Ultimately, it turned quite a few of them off of mobile deposit entirely. We saw utilization dip while feedback spiked.

Because it was a guideline, we decided to remove the restrictive endorsement entirely. Utilization started to come back, and satisfaction and sentiment grew more positive.

HOW DID THE PANDEMIC CHANGE YOUR MEMBERS’ NEEDS AND YOUR PRODUCTION SCHEDULE IN 2020?

CP: It has been a cross-functional effort all year, but we really rallied our teams together. In April, the Walt Disney Company, our sponsor, announced it would furlough tens of thousands of cast members, and we had two weeks to put pandemic programs into the marketplace that didn’t exist before. We also had to change some internal programming to allow us to skip payments and waive fees. At the same time, we moved 90% of our workforce remote in two weeks. That’s really where our energy was in March and April.

We moved some projects back, like a review of our core system. Digital production never stopped, whether that was updating the mobile app or making adjustments to the

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> We recognize technology is critical, but technology is not the same as the member experience. It should enable the member experience.
>
> – CHRIS PARKER, CHIEF OPERATING OFFICER, PARTNERS FCU

website. Our development didn't stop, but we prioritized projects that would more directly benefit members in 2020.

YOU ADOPTED THE AGILE METHODOLOGY IN 2017. WHY?

CP: Back then, we offered our first version of a credit card control in our mobile app. At that time, we had one part-time developer, and it took us 32 weeks to bring that one feature to market. We liked our mobile provider, but every time we asked where something was on the roadmap, they would say, "it's coming but not here yet." We need to control our own development destiny, so we switched to a provider that has a low-coding barrier to development. We control it. We create our own momentum.

Another part of this is that we had our members rate our digital experience. 90% or more said our experience was average. That was an eye-opening moment. We asked them to compare our digital offerings to others in the marketplace, and our members came back with the My Disney Experience app, which is the central location for all things Disney World vacation planning. That blew us away. If we were being compared not only to Starbucks and Netflix but also a theme park, then we needed to pick up our pace of transformation or get left behind.

HOW DID YOU CREATE AN AGILE TEAM?

CP: As I mentioned before, we partnered with the Boston Consulting Group to teach us the agile philosophy and how to integrate it into our operations. We had our digital services team operate with a proof of concept to add FICO scores into our mobile app so members could see their credit scores for the first time.

We used that as a first project because it involved working with a vendor and wasn't something our members were necessarily asking for. We did three sprints over six weeks — two weeks per sprint — and were able to go to market. From there, we were able to do our own fast follow updates. It was a good test for us.

WHAT DOES YOUR AGILE APPROACH LOOK LIKE TODAY?

CP: We have five teams that use agile principles, and they share eight developers among them. They each have their own product owner but share scrum masters and a quality analyst.

We have a digital services team focused on mobile and online, a lending and payments team, a core banking team, an infrastructure team that works on the network, and a business intelligence/data analytics team.

Those teams operate individually, but because many of our projects entail work from multiple teams, each week we do a "scrum of scrums" where all five teams come together to discuss next steps on certain projects. An example would be something like e-sign capabilities. The core team is involved because it works with that vendor, the lending and payments team is involved because it has to be added to the documents, and the digital services team is involved because it's working on the UI and UX side of things.

DO THOSE TEAMS WORK WELL TOGETHER?

CP: They all play nicely together. What we're really doing is reorganizing our technology teams. Except for the product owners of the lending and payments and digital services teams — who report to me — everyone else is part of our technology team. We've restructured our technology team to work in an agile manner. So, its members work well together because they're all on the same team and have been successful at getting products to market. If they weren't, we wouldn't have come close to our 4X goals.

HOW DO YOU SEE AGILE EVOLVING AT PARTNERS?

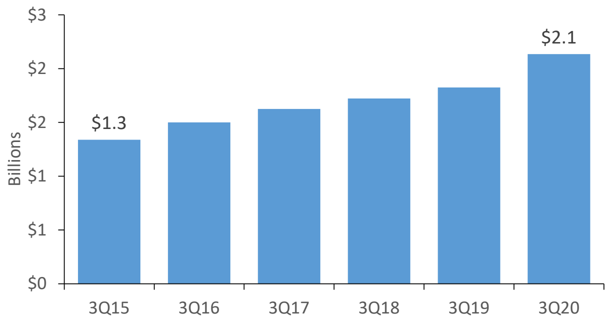
CP: We've done the heavy lifts in the digital space. Our platforms are built, but there's open architecture underneath. I'd like to see us tighten our integration loops and leverage dedicated user groups more frequently. We'd like members to provide feedback in a controlled way for larger releases.

Then, can velocity stay the same? I try not to get caught up in the calculus of where we are against our baseline. More important to us is whether we're driving value from the member experience.

TOTAL ASSETS

FOR PARTNERS FCU | DATA AS OF 09.30.20

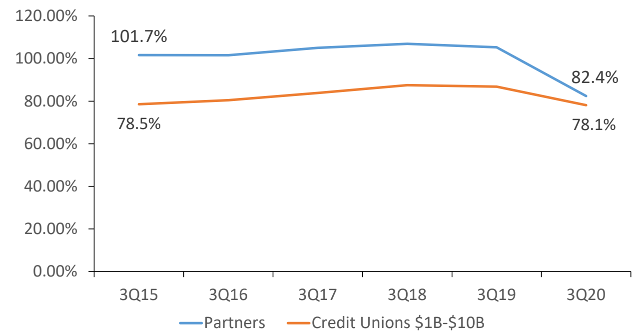
In the past five years, Partners has grown assets by nearly $1 billion. Asset growth has been all organic since the initial merger between Vista and Partners FCUs in 2004. In the last half-decade, Partners has consistently reported member growth north of 10%.



LOAN-TO-SHARE RATIO

FOR CREDIT UNIONS > $1B - $10B | DATA AS OF 09.30.20

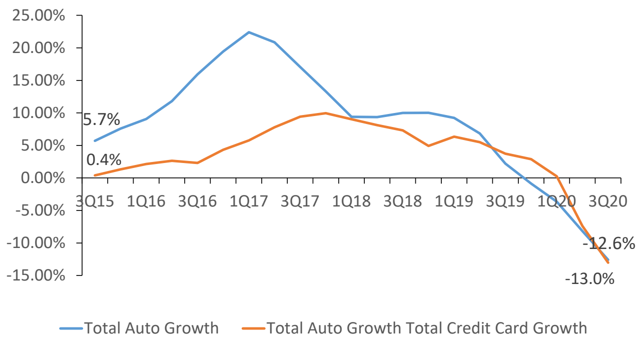
Partners has historically maintained a loan-to-share ratio greater than 100%, but certain sectors of its loan portfolio have slowed and share growth has picked up because of the pandemic. Consequently, this ratio has dropped more than 20 percentage points year-over-year. Credit risk as a percentage of assets has decreased, too, as a result, says CFO Karen Spires.



CONSUMER LOAN GROWTH

FOR PARTNERS FCU | DATA AS OF 09.30.20

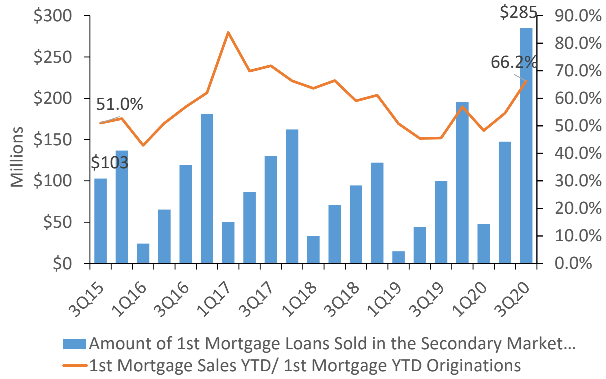
Partners FCU is a low-income designated credit union that serves employees of the Walt Disney Company. Some Disney cast members were particularly vulnerable to the economic hardships created by COVID-19, and widespread furloughs and layoffs at the company prompted members of the credit union to reduce spending across 2020.



FIRST MORTGAGE SALES

FOR PARTNERS FCU | DATA AS OF 09.30.20

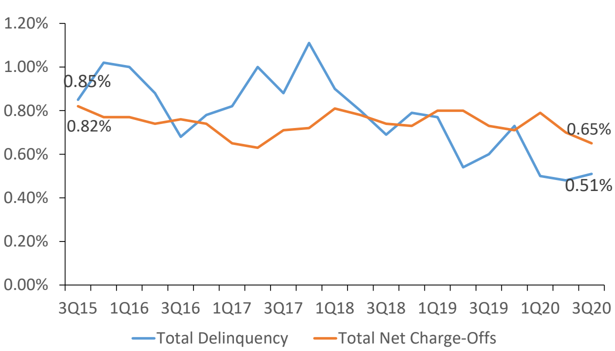
Partners has worked to offset losses in consumer spending by selling more mortgages to the secondary market. "That's helped make up some of the gap from consumer spending and heavy loan payoffs," says Karen Spires, CFO.



TOTAL DELINQUENCY AND NET CHARGE-OFFS

FOR PARTNERS FCU | DATA AS OF 09.30.20

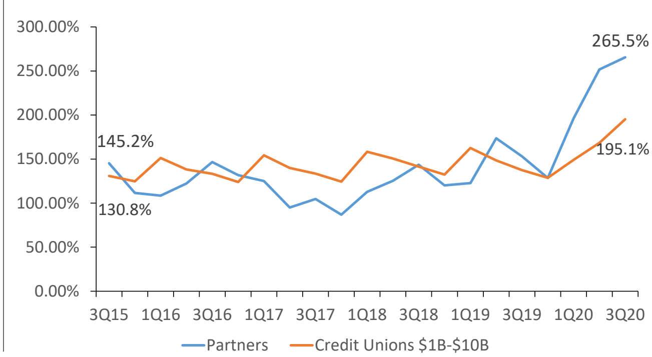
Delinquencies and charge-offs remain little changed from their post-recession lows. However, based on the credit union's experience from the Great Recession and its sponsor's layoffs, the credit union is monitoring asset quality closely in early 2021.



COVERAGE RATIO

FOR CREDIT UNIONS > $1B - $10B | DATA AS OF 09.30.20

The coverage ratio at Partners is 70 percentage points higher than its asset-based peer group. Decreased loan activity, higher allowance allocation, and stable delinquency have put the credit union in a strong financial position.



SOURCE: CALLAHAN & ASSOCIATES

WITH GRATITUDE

Callahan & Associates wants to thank the following individuals for sharing their time and insight, both over the phone and across several video calls. Their willingness to talk about the past, present, and future of Partners FCU at a time of economic uncertainty highlights how credit unions can make their members' financial dreams come true while ensuring safe and secure operations. We hope readers will find value in what the big Disney credit union has to offer.

JOHN JANCLAES, CEO
"I want to grow personally and professionally. I want to challenge myself. Serving a sponsor as dynamic as the Walt Disney Company requires you to move fast and expand your capabilities. It's a great fit."

KALYAN SUNDARAM, CIO
"What attracted me to Partners was the ability of its leaders to look at the current market while keeping an eye on the future. I could tell there was a cohesive team all marching toward the same goal."

CHRIS PARKER, COO
"The credit union culture is more collaborative, less competitive, more community- and family-focused. Working for Partners has been everything I thought it would be."

MIKE TERZIAN, CHIEF MEMBER SERVICE OFFICER
"Our work can be difficult and challenging, but it's always rewarding. We have a ton of fun together."

KAREN SPIRES, CFO
"We value trust, integrity, and relationships. We have an enduring passion for the work we do and for whom we do it that makes Partners a great place to be."

THANK YOU,

PARTNERS!