

THE CALLAHAN REPORT

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At the Leading Edge of Credit Unions

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BY SEAN HESSION

GOVERNANCE: IS YOURS UP TO THE TASK?

IN MY CONSULTING work last year, I encountered a credit union whose board and management shared a unified vision and a cohesive set of goals in a productive, forward-focused relationship. Board members could describe significant past accomplishments as well as future objectives for their credit union. Management had an easy rapport with board members, even on tough issues. There was mutual respect between both parties.

It was a different story at another credit union. The board and management could not agree on annual goals or simple steps to take, much less on a long-term vision for the credit union. Management did not always seem to understand the board's concerns. In turn, these board members frequently insinuated themselves into the day-to-day operations better handled by management directly. Suspicion abounded between the two sides and even among board members themselves.

On paper, both credit unions had a similar profile with skilled, experienced management teams and board members that came from each institution's principal Select Employee Groups (SEGs). All of the board members had served for years, but because of the differences in governance, the effect of each board could not have been more opposite.

In the end, only one institution served its membership effectively, while the second struggled internally — limiting its ability to deliver long-term value. If left unchecked, governance at any credit union can quickly degenerate into a chess game. Boards and management must work to ensure that this partnership serves the institution and its membership, not the other way around.

Governance may seem a rock-solid principle, but it is nevertheless malleable, changing over time. And not just with people — such as CEOs and board members — but also with the times. A successful management team monitors these changes and makes the strategic adjustments to steer the board clear of decisions that could unsettle the credit union.

continued on page 2 »

IN THIS ISSUE

Q&A Tom Ryan
CEO, Langley FCU
& Stephanie Sherrodd
CEO, TDECU

THE BOARD AS INSTITUTION

As a distinct and vital component of a credit union, the board is supposed to evolve right alongside the institution. But boards are also a function of interacting human beings and subject to any number of forces that can dampen the credit union's growth and impede its long-term prosperity.

In the most successful scenarios, the board's role typically evolves from financial oversight to a more strategic, long-term view of the organization, a transition that is not always easy to make. In addition to agreeing on what that long-term strategy should be, the board also needs to achieve a general consensus on near-term goals, the metrics by which to measure their progress, and the products and services that are best for the membership.

This last task can be especially difficult. Despite a wealth of board materials that are meant to apply to any institution, each credit union's membership is unique. A good board not only has to be exceptionally sensitive to what that membership wants today but must also peer into the future and discern what members will want five years out, before they themselves even know it. To do that, a board needs confidence in its own abilities and the self-assurance that the directions it is recommending to management are the right ones. Without board confidence, no governance model will be successful.

This confidence can't be bought off a shelf. Although enjoyed one year, it can slip away the next. At the same time, a board also needs to be able to accept and adapt to changes at the credit union and within the cooperative movement. In my experience, the less confident a board feels, the more it will indulge the urge to manage daily operations and neglect its primary task of governance. Participating in league and industry conferences can build the board's confidence, enlightening individual board members more quickly and providing insight into new trends, laws, products, and services that will keep the institution relevant to its membership.



When it comes to meeting member needs, temptations abound to divert the board's attention, including internal politics and elections, concerns about the next report or the next meeting, and finger pointing over past mistakes. In my experience, boards do best when they try to discover their appropriate role for the credit union and then act in that capacity. One essential board obligation is to foster the cooperative model by ensuring that the credit union operates in harmony with the seven cooperative principles. The absence of a cooperative

“This winter, take stock of your board. Give it a checkup.”

spirit is an emerging and troubling trend among a number of institutions. Credit union leadership, as represented by both board and management, must highlight cooperative differences and do a better job of communicating how these values affect all stakeholders.

A well-functioning board also has to consider how it is going to attract the right people to replace those who retire. To do so, the board has to make governance appealing enough for other members to want to serve. Spell out the benefits of serving the membership and being a key part of the organization. Ex-

plain the standards and expectations for serving on the board. Motivate them to serve!

BOARD SELF-GOVERNANCE

Even as it governs the credit union, the board has to govern itself by holding members accountable. Boards should ask members to perform a self-assessment annually. This not only allows each to reflect on their contributions to the organization, but also serves to reinforce the expectations of the role. It also needs to examine how the institution's leaders view the board as a whole. The board should be open and honest about its effectiveness in governing the credit union. Are board meetings focused on the right issues? Is the dialogue among board members constructive? Is their dialogue with management at the appropriate level?

A well-functioning board often questions whether it is drifting from its paramount responsibility — establishing the credit union's long-term cooperative strategy — in favor of internecine squabbles or micro-management. A good board is also wary of adopting a checklist mentality for its meetings, instead of ensuring that each session adds to the credit union's long-term growth and prosperity.

Attaining this level of self-governance requires trust and the ability of board members to communicate candidly with one another about issues and solutions. This maturity starts with the quality and experience of the people elected and can be nurtured further through board retreats and sessions with consultants.

THE BOARD-CEO RELATIONSHIP

Good communication is difficult enough for two like-minded individuals let alone a group of people with varying personalities and experience, some of whom are paid for their services to the credit union (management) and some of whom volunteer (board members). An expectation of good communication needs to be honored and practiced by both sides.

Unfortunately, this is not always the case. In some instances, management

neglects to pass along important information. A board kept in the dark cannot govern effectively. Worse yet, it may not even recognize that it is kept in the dark at all.

Without all the facts, a board cannot know the answers to sensible questions put to management or perhaps even the questions that should be asked. This situation always ends poorly for the credit union and in many cases for the CEO, whom the board has hired to carry out its long-term vision for the credit union, and the CEO's close associates. I have seen situations in which the CEO left the credit union and the board, lacking sufficient information about the credit union's financial position and direction, could not keep the institution on course.

Good communication requires educating board members with benchmarks that show how the credit union compares with its peers. Otherwise, the board and the credit union are steering blind. Sooner or later, they will lose their bearings altogether.

In my experience, the best boards actively pursue the right balance in their relationship with management and then work to build and maintain that relationship over time. Another characteristic of effective boards is they expect success for the credit union, its management, its membership, and the communities they serve. More importantly, these boards design for success, from board processes and committee meetings to performance reviews and incentives.

GIVE THE BOARD A CHECKUP

Unlocking your board's full potential is a complex undertaking, but this winter, take stock of your board. Give it a check-up. Is it all that it should be? Is it adding value or just going through the motions? Evaluating a board has always been a delicate undertaking because these volunteers can be pulled in any number of directions by parenthood and careers. But they are also vital members of your organization, plotting the course for future cooperative success. As captain of the credit union ship, the board must not only be willing to take the helm periodically but also step aside and let management implement the board's vision. ✕

IN PERSON & ONLINE

WHERE YOU'LL FIND CALLAHAN IN FEBRUARY

LENDING VIA VIDEO CONFERENCE

February 06 | Online

Randolph-Brooks Federal Credit Union (\$5.2B, Live Oak, TX) continues to deliver personal service through new technology platforms. Find out how its members have responded to its video conferencing option for loan applications and how the credit union has benefited from the increased efficiency this solution provides.



ARE YOU MAKING THE MOST OF CALLAHAN MEDIA SUITE SUBSCRIPTION?

February 19 | Online

Join Alix Patterson, COO of Callahan & Associates, for a complimentary 30 minute Callahan Media Suite training session.

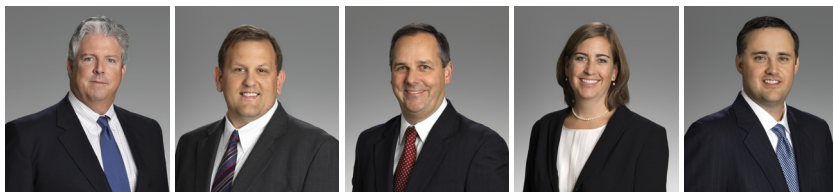
CUNA GOVERNMENTAL AFFAIRS CONFERENCE

February 24-28 | Washington DC

The GAC offers the opportunity to network with peers, hear from key legislative and political leaders and experience a variety of breakout sessions on issues most critical to credit unions. You'll learn how to effectively deliver the credit union message, make the most of your Capitol Hill visits, and communicate with the media. Following a major election year, you will also learn about how shifts in party and player power could impact credit unions.

EXECUTIVE TEAM

CALLAHAN
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GOVERNANCE WITH A NEW CEO

As the incoming leader of Langley Federal Credit Union, Tom Ryan helped his board strike the balance between embracing historic practices and plotting future improvements.

LANGLEY FEDERAL CREDIT Union (Newport News, VA) has over \$1.7 billion in assets and serves roughly 170,000 members throughout the Hampton Roads region. Tom Ryan previously worked as executive vice president of Digital Federal Credit Union (\$4.5B, Marlborough, MA) until about six months ago when he was hired as CEO by the board at Langley Federal Credit Union. Here, he shares his thoughts on how a CEO coming from outside the institution can integrate with and encourage good governance among an already established board.



Q&A Tom Ryan
CEO, Langley
Federal Credit Union

CU QUICK FACTS

LANGLEY FEDERAL CREDIT UNION

HQ: Newport News, VA
Members: 167,813
12-MO Share Growth: 3.73%
12-MO Loan Growth: 5.82%
ROA: 0.43%

WHAT WAS YOUR TRANSITION FROM DIGITAL LIKE?

Tom Ryan: Digital had a board governance structure that worked well for them. About 15 years ago the board was made up of very busy professionals and they were searching for a better way to do their work. They adopted a policy governance model based on the principles outlined by John Carver. Because the model delineated the CEO's role and the board's role, it empowered the CEO, and I believe was a key factor in Digital's success. Today, Digital is the country's 20th largest credit union.

When I was in discussions with Langley, understanding the board and how it operates was of great importance. As a new leader at this institution, I believed there were likely many changes that needed to be made and I wanted to ensure I'd have the latitude to execute. I've been here six months now and I can say that things have worked out very well. The support of the board has facilitated a smooth transition and I believe this has been a catalyst for our early wins.

HOW WOULD YOU DESCRIBE THE GOVERNANCE MODEL AT LANGLEY?

TR: The board has not formally adopted the Carver Model, but it operates under most of the same principles. Both the board and the CEO understand each other's distinct roles. The board sets a broader set of policies and strategic-level direction. The CEO handles the operation

of the credit union and the execution of strategy. Through the strategic planning process we established a new vision, mission, and strategic focus. We then identified the key metrics the board can use to monitor and inspect our progress and fulfill its fiduciary responsibilities.

When I arrived Langley was in a very strong financial position. It had with more than \$1.7 billion in assets and was in the top 100 credit unions across the country. The transition to a new leader was going to be a significant event. Jean Yokum had been CEO for more than 30 years and with the credit union for many years before that. When I came in, I used the strategic planning cycle as a means to learn about the organization and its people, and to explore its potential. This process culminated with the development of a formal long-range strategic plan, annual business plan, and budget for the upcoming year.

The insight gained from this process gave me fresh insight into the organization and how it worked. It also validated what changes were needed. Accordingly, I realigned people and positions to meet the strategic needs of the organization.

Although the board has not formally adopted a specific governance model, nevertheless it operates with the discipline of understanding the distinct roles of both the CEO and the board. We have adopted a very open communication that ensures board members are engaged without having to be involved in

operational issues. I believe this relationship sets the stage for our future long-term success.

HOW MANY PEOPLE ARE ON THE BOARD?

TR: Seven. I think this is an optimal number. It's also the same number we used at Digital. Once you get much beyond that number, it becomes more challenging for a board to facilitate meetings, ensure that opinions are being heard, and get important decisions made.

Some individuals have been on the board for longer than others but the board is well aware that one of its responsibilities is to perpetuate a strong board and it is currently active in board succession planning. They know what they are trying to do can be difficult but they also recognize that a board needs not only a certain strain of continuity but also a healthy amount of new blood.

Part of this process is to develop the right people, to acquaint them with the board process, and give them enough exposure to assess their potential as board

“I think the proper balance is struck when you give the board enough information to keep them informed and engaged, as well as build up their confidence so they know they don’t need to help the CEO do his or her job.”

Tom Ryan, CEO, Langley Federal Credit Union

members. Identifying potential qualified volunteers is far more complex than a general call for candidates. We are looking for thought leaders in our community that can make a difference as governors of a high-performing organization.

DOES THE BOARD HAVE COMMITTEES?

TR: Yes, but not many. There are only two standing committees: an asset/liability committee and a policy and governance committee.

HOW LONG IS A TYPICAL BOARD MEETING AND WHO ATTENDS?

TR: A typical board meeting lasts about 90 minutes. I have two members of my senior staff who attend with me. Having them there is a conscious aspect of development. They get to see how a board works and what a board/management relationship is like.

DO YOU HAVE AN ANNUAL RETREAT?

TR: Yes, in the fall. The focus is strategy and education. Board members also pursue their own education through industry conferences and meetings. There is a responsibility for board members to stay current and maintain a level of continuous education in order to fulfill their fiduciary obligations. As board members return from an education session they typically provide a debriefing to the board to pass along what they have learned.

HOW DOES COMMUNICATION TAKE PLACE BETWEEN YOU AND THE BOARD?

TR: I think we have good and open communication. Some emails are exchanged through the month, and the chairman and I meet ahead of time to plan the agenda for the upcoming meeting.

Monthly board packages are assembled and placed on our board intranet site. The board uses iPads to access board packages and policies and has essentially eliminated paper. Most questions are asked in advance of the meeting to ensure we have an answer, but in the event there is something that comes up at a meeting that results in an open-item, we maintain a list and follow-up by email or at the next board meeting.

WHAT TYPE OF INDIVIDUALS MAKE UP THE BOARD?

TR: Langley FCU origins date back to the earliest days of NASA and Langley Air Force Base. Not surprisingly, many of our past directors and some of our current directors have ties to these two organizations. Today, our field of membership is much broader, with hundreds of SEGs, associations, and underserved areas. As a result, our new generation of board members has begun to diversify. Regardless of their background, our board members understand they are representing all our credit union members and not a specific group or demographic.

HOW DO YOU ENCOURAGE THE BOARD TO STAY FOCUSED ON ITS MAIN TASKS, RATHER THAN WANDERING INTO MANAGEMENT TERRITORY?

TR: I feel fortunate in this respect. Members of the board understand how important their role is and how it differs from mine. We as managers give board members a lot of operational information, so it is easy to understand how a board can be drawn into operations. I think the proper balance is struck when you give the members enough information to keep them informed and engaged, as well as build up their confidence so they

know they don’t need to help the CEO do his or her job.

The governance process as it stands has been very helpful to me as a new CEO. It has helped me succeed as a new leader here and has moved the credit union along toward its long-term goals. ✕

A COMMITTEE STRUCTURE AT WORK

New CEO Stephanie Sherrodd channels past experience with her institution to encourage continued momentum and harmony in its future governance.



Q&A Stephanie Sherrodd
CEO, TDECU

TDECU (LAKE JACKSON, TX) traces its roots back to 1955, when it began serving the financial needs of Dow employees. It is now the largest credit union in the Houston area and the fourth largest in Texas with 30 service centers, roughly 170,000 members, and \$1.9 billion in assets. It is the largest mortgage lender in Brazoria County and has been voted the Best Financial Institution, Best Lender, and Best Employer by the *Victoria Advocate* newspaper for the last two years.

Stephanie Sherrodd has been with TDECU for more than eight years and has been involved in multiple facets of the business, transitioning from her initial role as vice president of branch administration to executive vice president and chief operating officer. In October 2012, she was named CEO of the credit union. Below, she explains how her extensive experience with this particular institution was beneficial in creating the type of productive board/management relationships that will push the credit union forward in 2013.

CU QUICK FACTS

TDECU

HQ: Lake Jackson, TX
Members: 168,477
12-MO Share Growth: 19.73%
12-MO Loan Growth: 15.25%
ROA: 1.00%

HOW DOES THE BOARD STRUCTURE WORK AT TDECU?

Stephanie Sherrodd: About two years ago the board began using a committee structure. The committees were created to establish focus and monitoring responsibility within the governance role. The work done during the committee meetings includes reviewing business performance results. On account of these separate meetings, the monthly meetings of the board as a whole can be devoted to the more forward-looking aspects of governance, including discussions of strategy.

ings. A lot of the governance work is done during these sessions.

DOES THE BOARD USE ANY PARTICULAR GOVERNANCE MODEL?

SS: No. We blend a variety of models. What we have is TDECU-developed.

WHAT DO YOU LIKE ABOUT IT?

SS: The structure we use saves a lot of time. As I said, much work can be done during committee meetings, so that when the board meets as a whole it can devote itself to long-term strategy and not get diverted to smaller issues.

terly, and some only as needed. I generally attend all of these meetings.

DID YOU ATTEND BOARD MEETINGS BEFORE YOU BECAME CEO?

SS: Yes, I have attended board meetings ever since I was hired by TDECU. This has been a big help now that I have become CEO. The previous CEO, Ed Speed, was an excellent mentor in seeing that I was acquainted with the board and board practices. Ed was not one to try to isolate senior leaders from the board, quite the opposite. All our managers have had a lot of exposure to the

board and I think this has been very helpful throughout the transition period. Senior managers, including me, knew the board and the board members knew us. This has been very beneficial because we now have a whole team who is familiar with the board.

HOW MANY PEOPLE ARE ON THE BOARD AND HOW MANY TYPICALLY FORM A COMMITTEE?

SS: Ten individuals currently serve on the board. Typically a committee is composed of four or five board members plus an equal number of senior management in the appropriate field — audit, risk management, business development and so forth. The managers get board exposure and the board members can ask a lot of their questions of management during these committee meet-

“Much work can be done during committee meetings, so that when the board meets as a whole it can devote itself to long-term strategy and not get diverted to smaller issues.”

Stephanie Sherrodd, CEO, TDECU

DO ALL COMMITTEES MEET MONTHLY?

SS: No. Several do, the finance committee, for example. Some only meet quar-

DO YOU ATTEMPT A MEETING ONCE A YEAR THAT IS COMPLETELY DEDICATED TO STRATEGY?

SS: While we have annual meetings fo-

cused on our business strategy, business plan, and budget, we spend time discussing forward-looking strategy at nearly every monthly meeting. There is not a single meeting approach to discussing long-term strategy.

DO YOU FIND THAT BOARD MEMBERS ASK FOR INFORMATION NOT OTHERWISE PROVIDED?

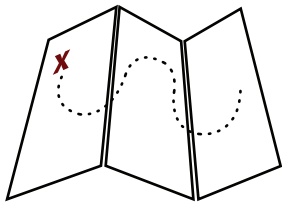
SS: Occasionally. Management supplies information and data to both committee members and the board based upon both management determination and board

feedback, and they supply it in advance of meetings. We work to continually refine the information we provide due to board questions or changing business demands.

HOW DO YOU ENSURE THAT BOARD MEMBERS ARE ABLE TO ATTEND THESE MEETINGS?

SS: Meetings are usually held in TDECU facilities. We use technology such as video conferencing when needed to make sure as many board members as possible can attend.

We have regular board packets and committee packets that are presented to board members at these meetings. Communication also transpires informally through emails or other forms of communication. Generally this happens when something unforeseen comes up — when there's something in the news or some other information emerges that requires immediate communication. ✕



NOTES FROM THE ROAD

What we've learned from where we've been.

ANATOMY OF AN INNOVATOR



Callahan & Associates spent two days in history-rich Charleston at the headquarters of Element Federal Credit Union. Previously known as WV United Federal Credit Union, this small institution has set the bar for thinking outside the box in the cooperative industry.

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Element represents the evolution of a kinder, friendlier way to handle financial service ... and people are taking notice. The credit union achieved an outstanding 11% loan growth in 3Q12 and possesses an average member relationship three times that of its peers.

NEW INVESTMENT PRIORITIES ARE HOT, HOT, HOT



Thirty plus partners of the Callahan Credit Union Financial Services Limited Liability Limited Partnership (CUFSLP) met in sunny Miami to shrug off the cold that gripped much of the nation and shake up some new ideas for collaborative solutions.

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Primary topics of discussion included the TCU family of mutual funds, the growing potential of big data utilization, solar energy lending, and the continuing evolution of the payments space. Look for more updates on these exciting areas of focus from CUFSLP in 2013 and beyond.

A GET TOGETHER AT OUR PLACE



Last year, more than 4,000 credit union attendees attended CUNA's 2012 Governmental Affairs Conference (GAC) here in our home city of Washington DC. This year, Callahan is pulling out all the stops to maximize the cooperative impact of this momentous gathering.

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Be sure to join us on the conference floor for a demonstration our new Peer-to-Peer Cloud Edition and check out creditunions.com for our coverage of the best new information, ideas, and initiatives to come out of the event.



Quality, Innovative, Content-Driven
CONFERENCES
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Three Vital Tracks of Information:

INSIDE

Your Organization

Leadership, Volunteers, Policies that Foster Internal Harmony and Excellence in Member

OUTSIDE

Your Organization

NCUA Updates, Membership, Growth and Retention, Security and Fraud Prevention

BEYOND

The Credit Union Industry

Technology, Economy, Cultural and World Issues



July 13 - 17
St. Thomas
US Virgin Islands

CONFERENCE SCHEDULE

Spring Conference

May 25-29 (Memorial Day Weekend)
Amelia Island, FL
The Ritz Carlton Amelia Island

Summer Conference

July 13-17
St. Thomas US Virgin Islands
Frenchman's Reef & Morning Star Marriott Beach Resort

Fall Conference

August 31- September 4
Jackson Hole, WY
Snow King Resort

Hawaii Conference

November 8-13
Maui, HI
The Grand Wailea , A Waldorf Astoria Resort Resort

Winter Conference

December 11-15
Branson, MO
Chateau On The Lake

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