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10

TIPS TO IMPROVE CHECKING ACCOUNT DESIGN



FOR MORE CREDIT UNION STRATEGY & PERFORMANCE VISIT

CREDITUNIONS.COM

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4 WAYS TO FOCUS ON DEPOSITS

BCU breaks down the strategy it used to increase shares 9.8%.

BY ERIK PAYNE

Credit unions commonly use deposits as a funding mechanism for higher-earning loan products. But deposits provide value beyond liquidity. They engage members and provide cross-selling opportunities, too.

Historically, BCU (\$2.6B, Vernon Hills, IL) has focused on the lending side of the balance sheet, as evidenced by its roughly 94% loan-to-share ratio.

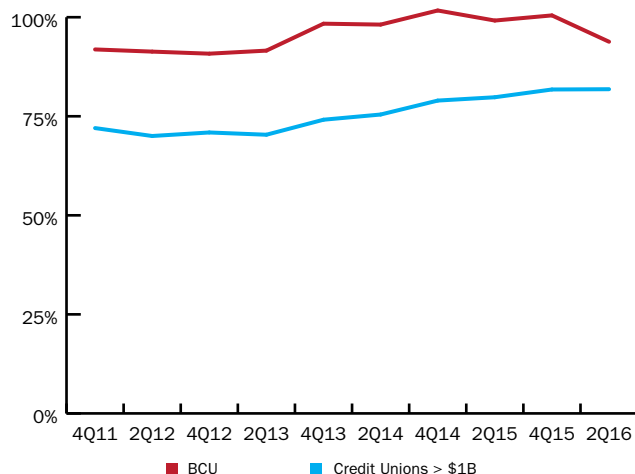
The credit union's total loan portfolio has grown approximately 10% every quarter since the second quarter of 2012 — outpacing its asset-based peer group — but BCU is taking steps to even things out.

“We assessed whether there’s value in focusing as much on deposits as loans; the answer was clearly ‘yes,’” says Ken Dryfhout, director of balance sheet management at BCU. “They go hand in hand from a liquidity perspective — you need the dollars if you are going to lend them — but also in terms of synergies.”

Increasing deposits requires success in a number of variables, including a willingness to change and adapt. Here are four rules BCU follows to build its deposit portfolio.

LOAN-TO-SHARE RATIO

FOR U.S. CREDIT UNIONS | DATA AS OF 06.30.16



FOCUS YOUR EFFORTS

More than one year ago, BCU created a manager of deposit products position to reinvigorate deposits and hired community banker Brett Engel to fill the role. Engel's hiring underscored CFO Tom Moore's commitment to deposits.

“He’s always talked about how the most successful retail financial institutions have a successful deposit program as a foundation,” Dryfhout says of Moore.

Dryfhout and Engel have spearheaded BCU's deposit growth efforts, which have included pushing for more evenly distributed resources between deposits and loans. For example, its average cost of funds is 0.87%, meaning for every \$1 deposited, the credit union spends \$0.87 on higher interest rates and larger dividends. That's higher than the average of its peers \$1 billion and more in assets.

“It’s a matter of making that commitment, understanding the value, and trying to get deposits ramped up to the degree we’re doing on the lending side,” Dryfhout says.

BCU values relationships, especially those with some transactional component, such as a checking account. Specials on certificates of deposit (CDs) can collect millions in deposits, but they don't engage members. Checking accounts, however, require the member to keep BCU top-of-mind every time they use the account. These members are more likely to consider other BCU products or services.

To track the performance of BCU's deposit portfolio, Dryfhout and Engel have created an internal deposit dashboard. The central reporting repository allows branch managers at the institutions' 42 locations to compare their performance against one another using metrics such as checking penetration and checking activation, among others.

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“We want to drill into the individual branches to see their production level,” Engel says. “We want to get data into the hands of the people who have the ability to turn that data into action.”

The institution's commitment has contributed to 16% share growth year-over-year.

PUSH FOR EARLY ACTIVATION

“If we value deposits on par [with loans], they should be getting as much air time.”

— KEN DRYFHOUT, DIRECTOR OF BALANCE SHEET MANAGEMENT, BCU



BCU believed, and now has the data to show, that members with deposit relationships are more engaged.

BCU members with both active checking and credit card accounts — transactional relationships — are more than twice as likely as members without those accounts to take out an auto loan, mortgage, or HELOC; set up direct deposit; or use online and mobile services, says Dryfhout. BCU defines an active checking account as one that has at least one transaction and a cumulative \$500 deposit within the first 60 days of activation.

Although it does track activation over time, BCU focuses on new products to ensure it is engaging members up front, Dryfhout says. It's worth more to the credit union in terms of effort and resource allocation to make sure members activate new products immediately rather than revisit inactive accounts months later.

The main tab of BCU's deposit dashboard that allows users to examine performance by branch or seg.

Dryfhout and Engel rely on BCU's front-line staff, who interact with members most frequently, to encourage activation. To want to do that, they must understand the value of deposit products for the institution — a growing deposit base translates into more efficient marketing and outreach and the ability to leverage engagement data for cross-sell opportunities.

“They have to understand why we are making investments and marketing the way we are to grow this part of the balance sheet,” Dryfhout says.

SET A GOAL

BCU continuously monitors its members' needs and develops products to meet them. Today's members have diverse needs, and the credit union looks at purchase decision variables such as functionality, price, and convenience to determine how well it is meeting those needs.

“Convenience continues to climb up the ladder in terms of what members desire,” Dryfhout says.

Responding to member demands for functionality and simplicity, the credit union consolidated two of its premium checking products, its Power Interest and Total Access Checking accounts, into a single product in late first quarter 2015. The new product will offer high yields and reimbursements for ATM surcharges, which are common at local banks and credit unions already, Engel says.

“We recognize that our checking sales pitch is long-winded and confusing when comparing the two accounts,” Engel says. “We think the consolidation will help alleviate this confusion as well as provide additional value to our members.”

The credit union does not yet have a penetration, activation, or usage goal for the consolidated product, but the account plays a large part in BCU's 14% checking balance growth goal in 2015.

INCREASE INTERNAL VISIBILITY

BCU has a strong internal sales culture, and loans receive the most attention at the institution's monthly organization-wide sales meeting.

“If we value deposits on par [with loans], they should be getting as much air time,” Dryfhout says.

So Dryfhout and Engel looked for a way to increase visibility and knowledge of deposits that was easy to put together, approachable, and allowed employees to interact with the information on their own time.

The duo now produces five- to 10-minute videos every month and releases them internally to staff. The videos update viewers on the performance of the deposit portfolio from an institutional and branch level. Employees enjoy watching these light, personable videos as much for the personality as the information.

“The videos allow the organization to get to know us and what we're trying to do,” Dryfhout says. “They've lowered potential barriers that would otherwise be in place and sped up the time we've needed to increase our visibility.” 🧐

This article originally appeared on CreditUnions.com on January 12, 2015.

CU QUICK FACTS

BCU

VERNON HILLS, IL
DATA AS OF 06.30.16

\$2.6B

ASSETS

208,414

MEMBERS

42

BRANCHES

16.0%

12-MO SHARE GROWTH

9.7%

12-MO LOAN GROWTH

0.97%

ROA

BUILDING RELATIONSHIPS ONE CHECKING ACCOUNT AT A TIME

A single checking account with automatically applied tiered benefits helps San Francisco Federal Credit Union reach 1,000 new account holders.

BY E.C. HARRISON

With seven branches stretching from Golden Gate Avenue southward to El Camino Real near San Mateo, San Francisco Federal Credit Union (\$1.0B, San Francisco, CA) faces some of the nation's most intense competition for checking, deposits, and loans.

In 2014, senior leaders at the 40,000-member credit union knew they needed to enhance their simple checking product. Other financial institutions were offering reimbursements for some or all foreign ATM fees. SFCU had four legacy checking accounts with various incentives including a \$10 monthly cap on ATM reimbursements, free simple checking, and checking dividends.

Credit unions have held the upper hand over large banks since the first Bank Transfer Day backlash in 2011 that forced Bay Area icon Bank of America to back off plans for new debit card and other fees. Free checking has become a mainstay at most credit unions since the introduction of the Durbin Amendment, and this environment has helped SFCU evolve products and pricing models to build deeper relationships across checking account holders, depositors, and borrowers.

As SFCU prepared for its 60th anniversary in 2014, Jude Gogan, senior vice president and chief operating officer, worked with her marketing counterpart to design a new checking product. They were close to finalizing it with CEO Steven Stapp when they realized they weren't happy with the fundamental approach of launching another product.

"We decided to go back to the basics with a plain Jane checking account," Gogan explains. "ATM reimbursements seem to be the biggest thing for checking accounts, so rather than creating a product and having to change that product again, we decided why not change the relationship?"

A CHANGE TO THE RELATIONSHIP

What emerged on Nov. 1, 2015 was a more comprehensive, three-tier Relationship Rewards program tied to members' deposits, certificates, IRAs, and loan balances. Each tier requires a higher minimum daily balance — Avenue (\$100), Park (\$5,000), and Bridge (\$10,000) — and is linked to a host of options for free services and three levels of ATM reimbursements — one, three, or five per month instead of a \$10 cap.

"More than 1,000 members have signed up for the new account since November," Gogan says.

The move to Relationship Rewards was a natural follow on to SFCU's new vision statement, adopted in 2014.

"Our goal is to make our members' financial lives easy," she said. "In a nutshell, this is about as easy as you can get."

Tiered pricing wasn't new to the credit union. The first step came two years ago with a new approach to its three money market accounts. The credit union had offered three interest rates based on dollar thresholds, with the highest threshold being \$7,500.

CU QUICK FACTS

San Francisco FCU

SAN FRANCISCO, CA
DATA AS OF 06.30.16

\$1.0B

ASSETS

40,507

MEMBERS

7

BRANCHES

4.3%

12-MO SHARE GROWTH

27.3%

12-MO LOAN GROWTH

0.47%

ROA

“Rather than creating a product and having to change that product again, we decided why not change that relationship?”

— JUDE GOGAN, SVP & COO, SAN FRANCISCO FCU



“In the old days, if members had to make a withdrawal, they would have to close that account and go back to another account with a lower rate until they were ready to move back,” Gogan says. “We took that away. If you go below that tier level, you get the lower interest rate, and when you put money back in, you get the higher interest rate.”

The next natural step was applying the tiered philosophy to membership savings accounts.

“As a new member, you only need to open one savings account,” Gogan says. “As you build that, you’ll start earning money market rates when you reach that threshold.”

She says the approach also simplified the job for front-line staff.

“When you’re talking about cross-sales and getting the member in the right product and the right financial services, it’s easy to explain to the member: ‘You don’t have to think about your balances. We’re going to take care of that for you.’”

Simplifying the credit union’s three checking accounts was next. It increased the threshold for the top tier — Bridge, signifying the Golden Gate Bridge — from \$7,500 to \$10,000. This was an easy decision, Gogan says, because SFFCU also wanted to link rewards to loan balances as well as deposits.

“We wanted to give those benefits to people who might only be borrowers with us for car loans or real estate loans, but unless they had the same deposit with us, they weren’t getting these benefits,” Gogan says.

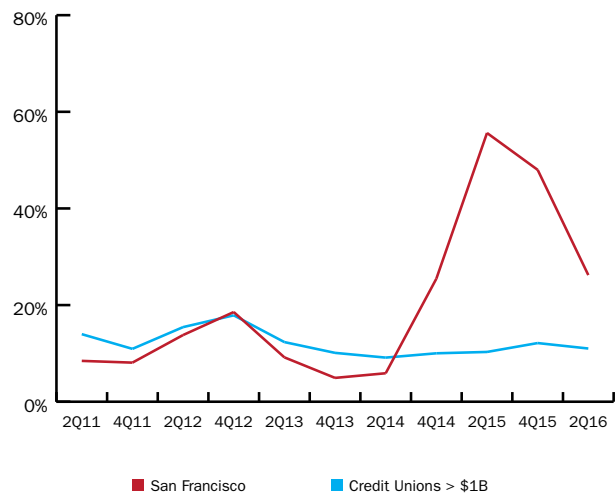
REWARDS FOR LOYAL MEMBERS

It was also time to take a long, hard look at fees; when they were being waived and why. Gogan says they knew some hard costs related to fees, but not all of the decisions were based on the credit union’s costs. For example, the credit union provides BALANCE, a financial education and consumer credit counseling service, to all tiers for no fee.

“We used to require no minimum balance, but we charged a fee if the balance fell under \$100,” Gogan says. “Since our goal is to move you into products that earn interest, it made sense to set the entry level tier at \$100.”

REGULAR SHARE GROWTH

FOR U.S. CREDIT UNIONS | DATA AS OF 06.30.16



Other rewards available to all tiers include: access to 29,000+ surcharge-free ATMs and 5,000 branches nationwide through CO-OP, shared branch transactions, personal auto shopper, enterprise car buying, AutoSMART vehicle quotes, RepairPal auto repairs, and AD&D insurance.

Gogan says the team also took an inventory of all of the other services the credit union provides, whether or not it charged a fee. It was a long list.

For example, the second and top tiers — with \$5,000 and \$10,000 thresholds, respectively — also include free travelers checks, third-party teller checks, telephone account inquiries, and one free box of image checks per year.



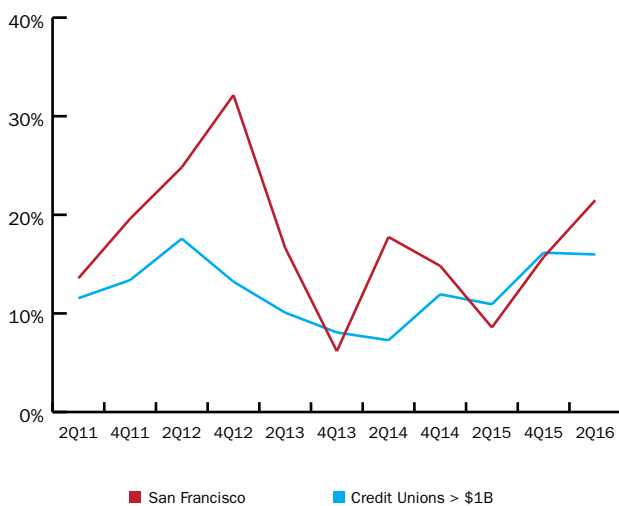
“You can’t do it too early, and you don’t want to do it too late. We did focus groups and role playing exercises for our front-line staff. It’s hard to fit it in in the work day, but you can’t do too much training.”

— JUDE GOGAN, SVP & COO, SAN FRANCISCO FCU



SHARE DRAFT GROWTH

FOR U.S. CREDIT UNIONS | DATA AS OF 06.30.16



Bridge account holders get even more rewards: mailed paper statements, account history printouts, duplicate statements, immigration and naturalization service letters, same-day payroll/government check cashing, photocopy of transaction documents, verification of deposit, incoming wire transfers, and excess personal withdrawals from savings and health savings accounts.

“In the past, members only recognized these benefits when they needed a service that required a fee waiver,” Gogan says. “No one knew what that meant for them other than the fee on the checking account would be waived. It was never really out there for a member to know what benefits came with this nice deposit.”

KEEP IT SIMPLE

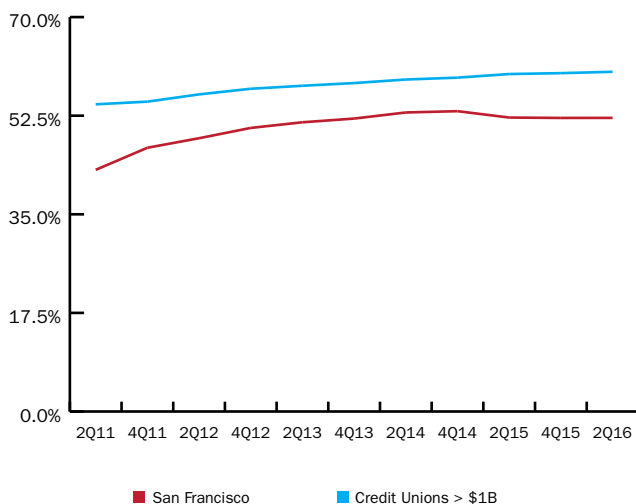
To promote Relationship Rewards, SFCU posted an easy-to-read checklist on its website, and its monthly account statements show benefits and fee waivers available for each tier.


“Every month, members can see where they are and what rewards they’re qualified for,” Gogan says.

SFCU’s share growth was 25.46% in the fourth quarter of 2014, compared to 8.67% on average at credit unions with \$500 million to \$1 billion in assets, but Gogan says the rewards program represented only part of the increase. The credit union also launched a successful CD promotion with competitive rates and kicked off a direct deposit program for interns and youth accounts as part of the city’s financial empowerment program.

SHARE DRAFT PENETRATION

FOR U.S. CREDIT UNIONS | DATA AS OF 06.30.16





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Although SFCU is actively promoting the rewards program to members, it is not forcing anyone to migrate from legacy accounts. Those accounts will likely stay in place through late 2015 or early 2016, Gogan says.

As far as lessons learned, Gogan says it was all about full staff training.

“You can’t do it too early, and you don’t want to do it too late,” Gogan says. “We did focus groups and role playing exercises for our front-line staff. It’s hard to fit it in in the work day, but you can’t do too much training.”

This article originally appeared on CreditUnions.com on March 09, 2015.

A LITTLE LOVE FOR LOYAL MEMBERS

FORUM Credit Union's relationship-based checking account clicks with its membership.

BY ERIK PAYNE

Credit unions don't just want members, they want activity and relationships. But how can credit unions turn inactive members into ones who use an array of products and services? Relationship-based pricing is one way to encourage and reward members that expand their financial relationships with the institution.

In the past, FORUM Credit Union (\$1.2B, Indianapolis, IN) offered members with larger balances different pricing on products and services. It was a "traditional" program, according to COO Andy Mattingly, that offered perks and free fringe benefits based on balances and depth of relationship. But in 2010, FORUM changed its approach. Taking inspiration from the seven cooperative principles, the credit union developed a better way to serve members and deepen relationships. It consolidated its various checking accounts into the YOUR Checking account and offers the same features and benefits for all members with different rates depending on credit risk. Members now have a single choice: Do they want to participate in FORUM's rewards program?

"The checking account defines if you are truly an active member of the credit union because you are using us to do everything," Mattingly says. "Based on what you do with us, we're going to give you rewards back."

YOUR Checking gives members monthly credits they can redeem for rewards. Members earn credits based on loan and savings balances, account longevity, and monthly transactions — 10 or more transactions per month indicate an active member. Members may then select rewards in the form of dividend rate payouts, cash deposits, or bankable credits that offset fees or pay out one lump dividend at the end of the year. These types of rewards, according to Mattingly, recognize members who do more business with the credit union.

MARKET LIKE A COOPERATIVE

Rewards programs like this can deepen relationships with current members while attracting new ones and differentiate the credit union from competitors.

"One of the questions we get is, 'I don't understand why you reward so much?'" Mattingly says. "We're a credit union. We're a financial cooperative. The more you do with us, the more you get rewarded both in the cost of services and financially."

Don't reinvent the wheel. Get rolling on important initiatives using documents, policies, and templates borrowed from fellow credit unions. Pull them off the shelf and tailor them to the credit union's needs. [Visit Callahan's Executive Resource Center today.](#)

The credit union uses YOUR Checking to demonstrate to members and non-members alike how using more products and services benefits the user and the institution. It divides members

CU QUICK FACTS

FORUM Credit Union
INDIANAPOLIS, IN
DATA AS OF 06.30.16

\$1.2B
ASSETS

130,675
MEMBERS

15
BRANCHES

9.6%
12-MO SHARE GROWTH

15.8%
12-MO LOAN GROWTH

0.40%
ROA



“The checking account defines if you are truly an active member of the credit union because you are using us to do everything. Based on what you do with us, we’re going to give you rewards back.”

— ANDY MATTINGLY, COO, FORUM CREDIT UNION



into 10 niche groups based on the relationships they have with and what they desire from the credit union. For example, “Simple Sam,” one of the groups, is indifferent to rewards and other benefits of the credit union. Instead, this group looks solely for basic loan and deposit products. The breakdown helps FORUM tailor its marketing messages depending on which niche it is trying to reach and markets YOUR Checking differently depending on what “Simple Sam” or “Grandma Gertie” wants. The credit union has struggled at times to convince hesitant members to switch their checking accounts because of the associated transaction friction, so FORUM strives to show members how the benefits of a YOUR Checking account outweigh any perceived hardships.

FORUM markets the account through traditional media — such as billboards and TV ads — as well as through new media — such as organic search and website banner ads. It’s not an insignificant marketing expense; however, the credit union makes up for costs with positive returns on investment.

IT’S YOUR CHECKING

FORUM increased share balances by more than 41% between September 2011 and June 2016, according to Callahan & Associates’ Peer-to-Peer data. But FORUM does not simply track account balances or account openings. It also tracks those active checking accounts, ones with 10 or more transactions during a one-month period. It’s an arbitrary figure the credit union believes accurately represents the difference between active and sedentary members. Prior to launching YOUR Checking, FORUM’s yearly growth rate of active accounts was 4-6%; now that figure is nearly 10%, Mattingly says. Seven in 10 new accounts are active within the first six months of being open, up from six in 10 a year ago. All this activity indicates more members are now using FORUM as their primary financial institution.

“We are getting an increase in [ROI] that we are not sure we would have seen had we not moved to YOUR Checking,” Mattingly says.

Outside of the financial investment, FORUM has also seen an increase in word-of-mouth referrals. The credit union does not yet track referrals directly related to the YOUR Checking account, but based on member survey data, new members cite their friends and family as reasons for joining the credit union.

“If our current members like what we are doing, then they are going to tell other people,” Mattingly says. “And our survey data shows that they are.”

For those members who find it difficult to believe YOUR Checking rewards are as good as they appear, the credit union stresses that the account comes with no hidden fees or unwanted financial surprises.

“[Members] are always looking for the small print that says ‘you have to do this or this to actually get the reward,’” Mattingly says, adding that YOUR Checking is really based on the member’s relationship. “There is not some catch fee that says ‘if you don’t do these things, then you are going to be hit with more fees.’”

This article originally appeared on CreditUnions.com on Feb. 10, 2014.

HOW DO YOU COMPARE?

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HOW TO ENTICE MEMBERS TO CHOOSE FEE OVER FREE

An account that pays members up to \$200 a year in merchant rebates plus unlimited cash back rewards on signature-based debit card transactions has helped members at One Nevada ease into checking options.

BY E.C. HARRISON

The region of Nevada stretching from Reno to Las Vegas is home to more than 2.5 million residents and has been in the front car of the economic roller coaster for years. In 2011, Nevada had the nation's highest credit card charge-off rate — 9.61%. That fell to 5.71% by 2013, according to Experian-Oliver Wyman Market Intelligence Reports. Nevada's foreclosure rate in May 2015 — one in every 555 loans — was still among the nation's top 10 highest, according to RealtyTrac, but new foreclosures are steadily declining.

An improving economy for One Nevada Credit Union (\$795.3M, Las Vegas, NV) means new growth opportunities in Clark, Washoe, and Nye counties, which include the cities of Las Vegas and Reno plus numerous rural towns and communities in between.

"We're a member-centric, heavy transaction-based credit union, and we do a lot of debit and credit card transactions," says Steve O'Donnell, senior vice president and CFO at One Nevada Credit Union. "We want to take advantage of the recovering economy, and we've been focusing on the checking account — migrating away from free checking and making sure we are providing value-added checking."

The number of PIN Authorized Visa Debit (PAVD) transactions continues to rise, causing issuers' debit card revenues to decline. Many of One Nevada's nearly 77,000 members are still using free checking, but in 2012, the credit union introduced its One Checking Rewards program, which includes a \$5 monthly fee, rebates on purchases with more than 50 local merchants, and cash back on signature-based debit card transactions.

"We wanted to provide value to our membership," O'Donnell says. "A lot of credit unions are migrating away from free checking, and a lot of banks in our area are charging quite a bit of money for a checking account and not adding much value."

TWO REWARDS OPTIONS

With the One Checking Rewards, the credit union waives the \$5 monthly flat fee during the first 90 days for new accounts. For a \$5 monthly fee, the credit union also offers its standard One Checking account, which includes merchant rewards but doesn't include the cash back incentive. On both, One Nevada waives the monthly fee if members complete at least 15 signature-based debit card transactions or maintain a \$2,000 average daily checking account balance.

Rewards coupons, similar to online Groupons, are available on One Nevada's web and mobile banking sites. Members click on the coupons to activate the rewards, and the credit union's third-party partner, Cardlytics, automatically settles and posts the rebate after the member makes a purchase. At the same time, members are eligible for cash back from One Nevada equal to 0.5% on all signature-based debit card transactions.

CU QUICK FACTS

**One Nevada
Credit Union**

LAS VEGAS, NV

DATA AS OF 06.30.16

\$795.3M

ASSETS

77,544

MEMBERS

14

BRANCHES

4.3%

12-MO SHARE GROWTH

13.3%

12-MO LOAN GROWTH

1.08%

ROA



“We’ll be looking into ways to integrate geo-positioning into our app, so merchants can push notifications to members’ phones while they’re shopping at the mall and let them know about the rewards available to them.”

— STEVE O'DONNELL, SVP & CFO, ONE NEVADA CREDIT UNION



FIND THE RIGHT SOLUTION TODAY

One Nevada partners with Cardlytics for its rewards coupons. Find your next partner in Callahan's online [Buyer's Guide](#). Browse hundreds of supplier profiles by name, keyword, or service area.

“Many of our merchants are giving 10% of that transaction back, and that means some of our members are getting \$200 back a year, which more than pays for the account,” O'Donnell says. “We’ve been seeing some healthy growth with these rewards, and we’ve been averaging approximately \$10,000 a month in payments to members.”

CHANGING MEMBER BEHAVIORS

One Nevada's products are aimed at changing behaviors, O'Donnell explains. The credit union migrated inactive checking accounts to the fee-based accounts to give members an incentive to increase transaction activity. For other free account holders, One Nevada has no plans to force them to move to Rewards checking, but a growing of members are choosing the Rewards accounts.

“We’re seeing a three to five percent growth rate in checking,” O'Donnell says. “And we have a great selling point: You can move from a free account to an account that pays you.”

To support the state's recovering economy, One Nevada also offers a New Start Checking account for people with credit problems who have trouble qualifying for a checking account elsewhere. Members must deposit at least \$20.00 into a savings account and \$20.00 into a checking account and provide proof of employment.

The credit union assesses a monthly fee of \$19.50 for 12 months. If the account holder remains in good standing for one year — which the credit union defines as no more than three non-sufficient funds paid or unpaid and no loan delinquencies — then One Nevada upgrades the member to an account that comes with lower fees.

Similarly, the credit union's Essential Checking product caters to members who have been laid off or experienced a reduction in hours and have a combined annual income less than \$35,000. That account requires a \$5 minimum balance and proof of income, but the credit union waives its monthly maintenance fee.

“We’re in multiple counties and have a diverse mix of members,” O'Donnell says. “I’ve seen reports of up to two-thirds of consumers in Nevada have had some sort of credit blemish. This is part of our mission to provide services to the unbanked. And from my experience, credit unions have a unique chance in that space.”

According to O'Donnell, New Start is one of the credit union's most popular accounts. But because One Nevada is continually moving members to better checking options, the number of accounts stays pretty flat.

LOOKING TO THE FUTURE

Accounts like these are helping the credit union build lasting, sticky relationships with its members. As of midyear 2015, the Nevada credit union's year-over-year growth in average member relationship was 6.66%. That's stronger than the 4.33% and 4.52% averages posted respectively by credit unions with \$500 million to \$1 billion in assets and all credit unions nationally, according to Callahan & Associates' Peer-to-Peer data.

Looking ahead, One Nevada plans to continue to look for ways to add value to its checking products. The credit union just launched its Rewards program on its mobile banking app, and O'Donnell sees the mobile channel as a foundation for further growth.

“We’ll be looking into ways to integrate geo-positioning into our app, so merchants can push notifications to members’ phones while they’re shopping at the mall and let them know about the rewards available to them,” O'Donnell says. 🌐

This article originally appeared on [CreditUnions.com](#) on Sept. 28, 2015.

Read more about New Start Checking
on [CreditUnions.com](#).

HOW ELEMENTS FINANCIAL USES HEALTH SAVINGS ACCOUNTS TO SPUR DEPOSIT GROWTH

HSA's help Elements Financial deepen relationships with select employer groups and improve the financial health of its membership base.

BY ERIK PAYNE

The loan-to-share ratio at Elements Financial Federal Credit Union (\$1.3B, Indianapolis, IN) at second quarter 2016 was 97.53%, higher than the 81.83% average that credit unions with more than \$1 billion in assets posted.

The loan-to-share ratio for all U.S. credit unions has risen from a low of 66.11% in first quarter 2013 to its current 77.73% as of midyear. This reflects the industry's robust lending performance in recent years and underscores the industrywide need to increase deposits to even out the balance sheet.

In a January 2015 CreditUnions.com article, Chip Filson reviewed quarterly trends in loan and share growth. According to the Callahan co-founder, "Most of the share growth for credit unions occurs in the first quarter of each year. With the exception of 2010 and 2011, loan growth surpasses share growth in each of the following three quarters of the year... The trend of loans growing faster than shares is accelerating. With one minor exception, the first quarter of each year is the only quarter from 2012 through 2014 when shares grew faster than loans."

Elements is no outlier. Shares at the Indiana credit union increase by hundreds of millions of dollars every first quarter as employees of its largest SEG and No. 1 source of deposits — pharmaceutical company Eli Lilly — deposit their year-end bonuses.

The credit union has a goal to sustain a 5% YOY growth rate. As of second quarter 2015, it posted 10.38% YOY growth in shares. For loans, YOY growth was 22.69%.

But in addition to Eli Lilly, for which the credit union was originally named, Elements has nearly 70 other employee groups through which the closed-membership financial institution can increase deposits. To that end, in 2012 it introduced a health savings account (HSA). Thus far, the credit union has been pleased with the results.

WHAT IS A HEALTH SAVINGS ACCOUNT?

An HSA is a tax-advantaged medical savings account available to taxpayers who are enrolled in a high-deductible health plan. Account holders may use their HSA to pay for qualified medical expenses without federal tax liability or penalty.

Basically, it's a way for members to save money for future medical expenses.

Unlike Flexible Spending Accounts, unspent funds in the HSA roll over and accumulate year to year. And unlike Health Reimbursement Arrangements, the individual account holder — not the employer — owns the HSA.

Contributions to HSAs can come direct from the account holder, direct from other individuals, or through a payroll deduction. In this re

CU QUICK FACTS

**Elements
Financial FCU**
INDIANAPOLIS, IN
DATA AS OF 06.30.16

\$1.3B
ASSETS

90,036
MEMBERS

7
BRANCHES

10.4%
12-MO SHARE GROWTH

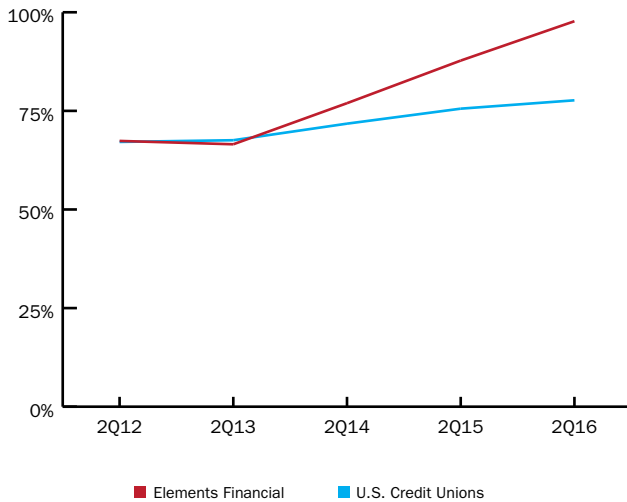
22.7%
12-MO LOAN GROWTH

0.62%
ROA



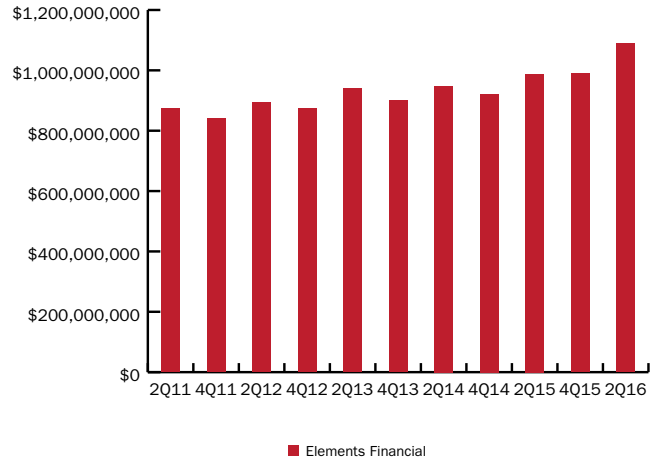
LOAN-TO-SHARE RATIO

FOR U.S. CREDIT UNIONS | DATA AS OF 06.30.16



TOTAL SHARE BALANCES

FOR U.S. CREDIT UNIONS | DATA AS OF 06.30.16



Elements' HSA pays up to a 1% annual dividend and charges few fees. It also gives members access to an investment program through TD Ameritrade. Features like this makes the product competitive in the credit union's central Indiana market, says Andrew Vahrenkamp, the credit union's senior vice president of marketing and member experience.

"We're a \$1.3 billion credit union with six branches," Vahrenkamp says. "We pride ourselves on our member giveback in terms of rates and fees. This is just an example of that."

To date, Elements has 7,132 open HSA accounts at 18 employee partners, totaling \$9.7 million in balances.

BECOMING BETTER HEALTHCARE CONSUMERS

Because the nature of healthcare can be confusing, when a company selects Elements as its HSA provider, credit union representatives go on-site to teach employees how to use the account. The credit union hands out a [welcome kit](#) that explains the product and describes how employees can make the most of it. It's all about active education for Elements.

"We do a lot of events and seminars on how to use the product, how to be the model healthcare consumer, and how to prepare for retirement, those kinds of things," Vahrenkamp says.

"That's one of our competitive advantages," adds Michelle Payne, the credit union's assistant vice president of branding and communication. "There are several local institutions that offer the product, but we actually go on-site and teach people how to use it."

It's that package of advantageous fees, rates, educational materials, and expertise that sells new employee partners on the credit union. The account appeals to companies that want to improve the financial health of employees and make their healthcare programs more appetizing.

"The sell to the companies is that your employees are not productive if they are worried about their finances," Vahrenkamp says. "If you have a high-deductible healthcare program, then you need an HSA. Why don't you pick on that is local and has great rates and tools?"

EXPANDING RELATIONSHIPS AND MEMBER GROWTH

When Elements introduced its HSA product, it did so with the idea the account would be an entry point for a larger relationship.

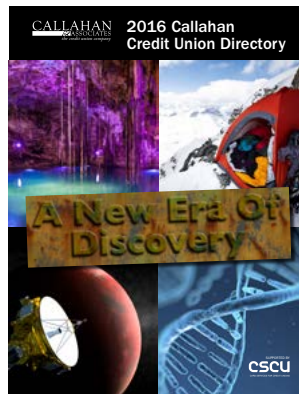
Elements has an assistant vice president of business development who fosters new partnerships with community businesses. Currently, the AVP is focused on companies with 500 employees or more. The credit union also has two additional employees who maintain existing employer relationships.

The credit union's HSA has proven fruitful for ginning up additional business from two of its SEG partners that offer the product, the Indiana Chamber of Commerce and Angie's List, the Indianapolis-based crowd-sourced reviewing website.

The Chamber holds financial wellness seminars and events for HR managers through its Wellness Council — of which the credit union is a sponsor. Elements uses these events to not only share its story but also drive new relationships.

“We’re a \$1.3 billion credit union with six branches. We pride ourselves on our member giveback in terms of rates and fees. This is just an example of that.”

— ANDREW VAHRENKAMP, SVP OF MARKETING AND MEMBER EXPERIENCE, ELEMENTS FINANCIAL FCU



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“It’s part of the overall SEG relationship with the credit union, but we consider it a business partnership too,” Vahrenkamp says. “We are providing financial wellness to employees.”

Although the credit union’s relationship with the Chamber is a great example of how it is building rapport within the community, the credit union’s relationship with Angie’s List is perhaps more representative of how the HSA can provide future value to employees through additional loan and deposit products.

The first year Elements offered the HSA to Angie’s List, Elements added few additional members.

“But we kept pushing,” Vahrenkamp says.

Elements continued holding events and seminars at the company’s headquarters, and “one by one” it started to get loans.

“They started telling co-workers who then told their co-workers,” Vahrenkamp says.

Since the end of 2013, the credit union’s loans to Angie’s List members have increased from \$250,000 to \$4.2 million, or 1700%. Among its other HSA SEGs, loans have increased as well, by 136%.

Although the product has been a great source of member and deposit growth, cross-selling has been more difficult than anticipated, according to Vahrenkamp.

Elements will continue to push HSAs for employee groups, and Vahrenkamp is optimistic the product will grow and more cross-sell opportunities will present themselves.

“To deepen that relationship takes time,” he says. “We can’t just send emails telling people they have a relationship with us. It’s about the one-on-one impact that we can have. It’s about good, old-fashioned, member service.”

This article originally appeared on CreditUnions.com on Sept. 28, 2015.

FIRST IMPERIAL GROWS DEPOSITS WHILE SHRINKING PAYDAY LENDERS' MARKET

This California credit union grows deposits by focusing on checking accounts, and loan growth among members other financial institutions rebuff.

BY MARC RAPPORT



FIDEL GONZALEZ,
CEO, FIRST IMPERIAL
CREDIT UNION

Pairing a fresh start checking account with a short-term loan has helped First Imperial Credit Union (\$90.7M, El Centro, CA) post strong deposit growth in an area where a lot of people don't have a lot of money to spare.

The credit union's three-branch operation in Southern California's Imperial Valley serves an agricultural area where seasonal work results in unemployment that regularly exceeds 20%.

Imperial County is more than 80% Hispanic, and many of its residents use check cashers and payday lenders, as well as reloadable prepaid cards from their employers, to turn their paychecks into usable cash.

That's expensive, and that's where First Imperial comes in. To encourage direct deposit and help members build a relationship with a traditional financial institution — many for the first time — the credit union offers a starter account called Opportunity Checking.

"We created Opportunity Checking to help those that were using check-cashing establishments because no one else would open an account for them," says Fidel Gonzalez, who moved from Los Angeles to take the helm at First Imperial in 2009.

Gonzalez says he and his staff typically find that members with a negative ChexSystems record have a history of overdrawn accounts with unpaid fees. Most tell the credit union they were willing to pay for the transaction but couldn't afford the fees that came along with it, so the bank closed their accounts.

For \$10 a month, Opportunity Checking provides direct deposit and a debit card but no overdraft privileges. Those and lower fees come later, once members prove they can handle the new financial relationship.

And if \$10 sounds pricey, "add up those fees they're paying elsewhere, and we charge a hell of a lot less," Gonzalez says, adding he's heard little pushback over it.

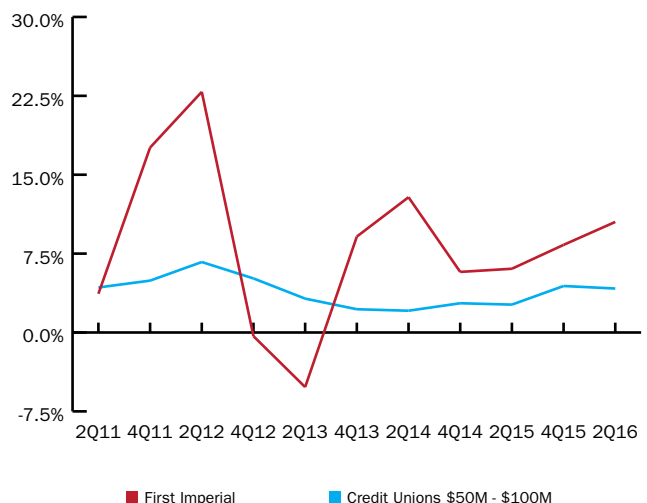
DEPOSIT GROWTH

Under Gonzalez's tenure, total checking accounts have grown from 3,500 to 5,200, about one third of its membership. That includes approximately 350 of the Opportunity Checking accounts.

Share growth, meanwhile, was 10.51% in the quarter ending June 30, 2016, compared with 4.2% for its peer group: the 740 credit unions of \$50 million to \$100 million in assets nationwide.

SHARE GROWTH

FOR U.S. CREDIT UNIONS | DATA AS OF 06.30.16



“It’s easy to help those that have perfect credit scores and stable jobs. When you position your credit union as one that is willing to work with those that truly need it, the word gets around.”

— FIDEL GONZALEZ, CEO, FIRST IMPERIAL CREDIT UNION



“Our deposit growth has mainly been because of membership growth and making a big push for checking accounts with direct deposit,” Gonzalez says, adding that direct deposit is not required to open an Opportunity Checking account.

Member growth during the second quarter was 10.01% at First Imperial, compared with 0.97% for its peer group, continuing a five-year trend wherein the credit union has averaged 1,000 new net members each year.

“It’s easy to help those that have perfect credit scores and stable jobs,” Gonzalez says. “When you position your credit union as one that is willing to work with those that truly need it, the word gets around.”

LENDING MATTERS

First Imperial’s loan growth in the second quarter was 13.56%, above the 6.21% average for credit unions with \$50 million to \$100 million in assets, according to Callahan & Associates.

That number includes a fair population of loans that many financial institutions might not have made, and some they already did. The former are people who fall into the payday lending cycle. The latter are auto loans.

First Imperial offers an alternative loan of up to \$500, with no credit check and payable in four installments, for anyone who direct deposits paychecks into a credit union account.

Members can take out up to four of these loans per year, and the credit union reports them to the credit bureaus. This helps members increase their credit scores and ease their reliance on payday lenders, Gonzalez says. But that’s not the only loan for marginalized members.

“We’re a big auto lender in our community, and we have positioned the credit union as a refinancing hub,” Gonzalez says.

According to Gonzalez, First Imperial’s refinancing of loans at two percentage points below the existing loan — with a floor of 4% — started as a successful promotion that the credit union never ended. Otherwise, the credit union does no indirect auto lending and very little mortgage lending.

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LENDING PHILOSOPHY

First Imperial uses work record instead of credit score to determine whether to lend, and it uses credit score to price the loan. According

to Gonzalez, the ability to repay a loan at the time of funding is more important than what has happened in the past.

“We look at the whole credit relationship to be able to understand if we are helping or hurting the member by granting the loan,” the credit union CEO says, adding that the institution focuses on real trade lines rather than collection accounts.

First Imperial’s second quarter 2016 loan delinquency rate of 1.28% is higher than the 0.96% for its peer group. The credit union offsets some of its credit risk with higher average loan yields — 6.96% at First Imperial compared with 5.27% for its peers — but it is prepared for a rough fourth quarter that is typically the worst for delinquencies and charge-offs.

“Many of our members fall behind because they spend their monies elsewhere and we end up picking up more vehicles than normal,” Gonzalez says.

Write-offs also jump in December when the credit union charges off its repos on hand.

“We overfund our allowance account on the fourth quarter so when December charge-offs hit we don’t take such a big hit to the bottom line,” Gonzalez says.

CAPITAL AND COMMUNITY

Solid deposit growth has allowed First Imperial to maintain a loan-to-share ratio of approximately 75%. Gonzalez says a current capital ratio of more than 11% means the credit union is not concerned right now about its own guidelines that call for additional deposits if the loan-to-share ratio reaches 90%.

What the CEO and his staff instead can focus on is building its member rolls — and the deposits that come with it — through serving the community holistically.

For Gonzalez, that began with creating the credit union’s first real Hispanic outreach, including Spanish language marketing and disclosures, along with offering the online services and checking and savings options that all credit union members expect.

“We’ve done a good job of getting involved in community events and promoting the benefits of membership versus using alternative financial options,” he says. 🗣️

This article originally appeared on CreditUnions.com on Jan. 12, 2015.

CU QUICK FACTS

**First Imperial
Credit Union**

EL CENTRO, CA
DATA AS OF 06.30.16

\$90.7B

ASSETS

17,727

MEMBERS

3

BRANCHES

10.51%

12-MO SHARE GROWTH

13.56%

12-MO LOAN GROWTH

1.09%

ROA