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9

6 WAYS TO BOOST NON-INTEREST INCOME

FOR MORE CREDIT UNION STRATEGY & PERFORMANCE VISIT

CREDITUNIONS.COM

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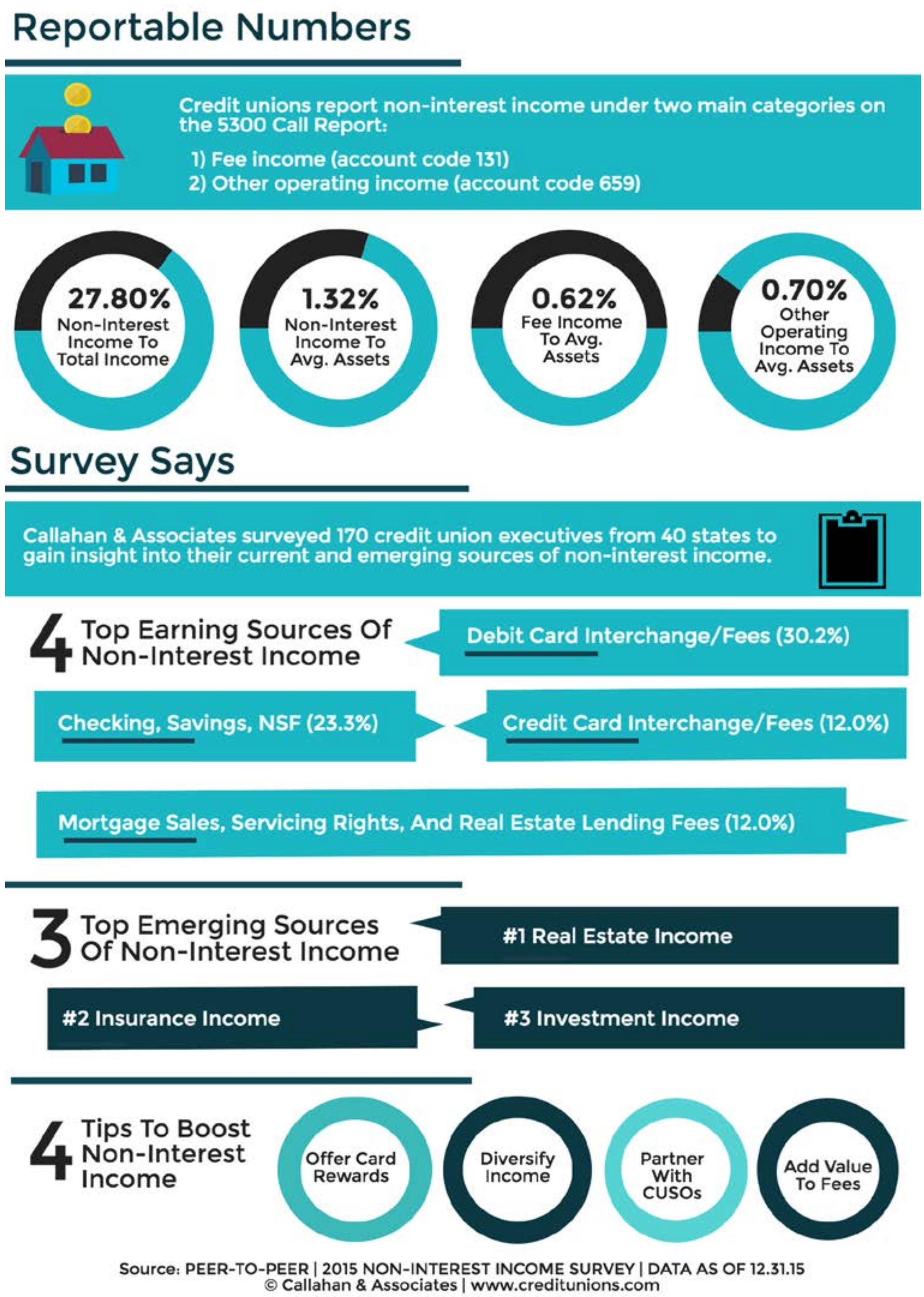
Nationally, non-interest income makes up nearly 30% of total credit union income, a significant portion that many credit unions look to maximize without inundating members with fees. This Callahan Collection features ways credit unions are driving non-interest income, including fee strategies, secondary market sales, and more.

WHAT TO KNOW ABOUT NON-INTEREST INCOME

Survey results shed light on current and emerging sources of non-interest income.

BY CALLAHAN & ASSOCIATES



SELL MORTGAGES. REAP NON-INTEREST INCOME.

How Members 1st Federal Credit Union sells mortgages and makes itself more efficient.

BY ERIK PAYNE

At all U.S. credit unions, net interest income covers approximately 91.5% of total operating expenses. However, net interest income at individual institutions fluctuates based on economic factors such as the rate environment.

"When rates come down there's a general tendency for margins to squeeze," says Steve Murray, CFO at Members 1st Federal Credit Union ($3.2B, Mechanicsburg, PA). "The longer they are low, especially as they have been over the last eight years, the more margins get squeezed, so we're constantly looking for other means of income to supplement the ebb and flow of the net-interest margin and net-interest income."

To augment its net interest income, Members 1st operates insurance and mortgage settlement CUSOs as well as an investment services group. They also earn non-interest income in the form of deposit and loan account service fees, courtesy pay, interchange fees, and other general fees.

And for more than 15 years, the credit union has originated mortgages specifically to sell on the secondary market and earn non-interest income.

FEE GENERATION AND RISK MITIGATION

According to Murray, the credit union's average mortgage loan runs between $100,000 and $300,000. It sells between 70 and 100 mortgages per month for a total of $20-$21 million each month in mortgages sold, or a little more than $250 million per year.

The strategy has certainly boosted the credit union's non-interest income. For the year 2015, the credit union's annualized non-interest income of nearly $51.5 million represented 32.36% of its total income. These totals beat the performance of asset-based peers by nearly $20 million and 4.5% respectively.

READ THE 2016 NON-INTEREST INCOME REPORT

What new sources of non-interest income are right for your credit union? Callahan & Associates surveyed 170 credit union executives to gain insight into their current and emerging sources of non-interest income. Read The Executive Summary

The strategy also offers interest rate and liquidity risk mitigation benefits. Placing hundreds of 20-, 25-, or 30-year mortgage loans on its books introduces risk in an uncertain rate environment. Selling them alleviates that risk.

CU QUICK FACTS

Members 1st FCU
MECHANICSBURG, PA
DATA AS OF 06.30.16

$3.2B
ASSETS

328,573
MEMBERS

53
BRANCHES

10.30%
12-MO SHARE GROWTH

14.42%
12-MO LOAN GROWTH

1.10%
ROA

> “We can’t sustain putting long-term mortgages on our books and keep growing. But by selling, we increase liquidity.”
>
> – STEVE MURRAY, CFO, MEMBERS 1ST FEDERAL CREDIT UNION

Plus, selling the loans provides Members 1st with a source of liquidity to continue lending and growing.

“We can’t sustain putting long-term mortgages on our books and keep growing,” Murray says. “But by selling, we increase liquidity.”

According to Murray, the credit union booked $3.6 million in mortgage fee income in 2015, approximately $2.8 million of which was sale premiums.

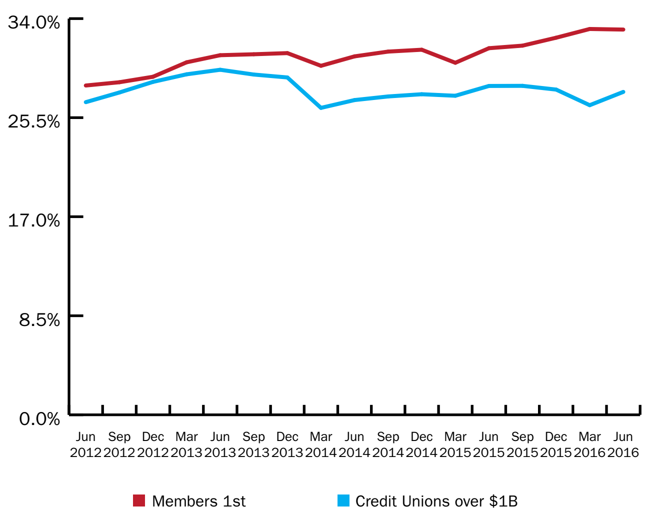
HOW MEMBERS 1ST SELLS MORTGAGES

Members 1st is a SEG-based institution that serves more than 7,000 members within seven southcentral Pennsylvania counties. Out of common courtesy to its members, the credit union always notifies borrowers upfront that the credit union might sell their loan.

“We don’t want them to think we were going to keep and service their loan and then sell it to somebody five minutes later,” Murray says.

NON-INTEREST INCOME / TOTAL INCOME VS $1B+ PEERS

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



Source: Callahan & Associates

The credit union underwrites loans according to secondary market guidelines, and it sells primarily to US Bank, SunTrust, and the Federal Home Loan Bank of Pittsburgh. It makes the loan available for sale, locks directly with the investor when the rate is set, sells the loan before it gets to the credit union’s books, and waits for buyer funding.

“If there are no extenuating circumstances, we sell our longer term mortgages on the secondary market,” Murray says. “Otherwise we put it in our own portfolio. But those are few and far between.”

For example, the credit union offers a construction-to-permanent loan that it once held in portfolio. Now, the credit union uses the FHLB’s MPF program to sell them.

NOT RETAINING SERVICING

The credit union utilizes the services of a third party, Midwest Loan Services, to service the majority of their portfolio loans for the sake of efficiency.

If Members 1st retained servicing, Murray says, the credit union would have to build up its support staff. Releasing the servicing means it doesn’t have to add operational expenses.

To see the products and services driving credit union income unrelated to fees and rates, check out “4 Graphs About Non-Interest Income.”

Currently, the credit union has a group of loan officers and processors who put together the loan packages and close the loans.

These employees must keep up with new and changing rules, regulatory or operational, as well as changes in pricing. They also work closely with MidWest. And Members 1st has a thorough list of qualifications it prefers in its servicer.

“They have to be able to do everything,” Murray says.

“Everything” in this sense applies to not only serving the loan capably, but also creating reports, answering member questions, and notifying members with additional information when necessary.

Members 1st also plans to plans to expand its mortgage sales process by dispatching a new team of mortgage loan originators into a Pennsylvania county not currently within its branch footprint. That, Murray hopes, will allow the credit union to continue growing.

“Maybe we’ll be able to sell $300 to $400 million per year,” he says.

This article originally appeared on CreditUnions.com on April 18, 2016.

A STRATEGY TO BUILD NON-INTEREST INCOME ONE TRANSACTION AT A TIME

How an Iowa credit union increased its interchange revenue by 41% over four years.

BY SUSAN LEVI WALLACH

The University of Iowa Community Credit Union ($3.6B, Iowa City, Iowa) is no stranger to finding new ways to boost non-interest income and lower its cost of doing business. But the most interesting strategy it has adopted is one that is not only unique to its market but rarely found anywhere else.

Contrary to standard credit union operating procedure, UICCU charges its members $1 for point-of-sale PIN transactions as well as those made at a foreign ATM. The practice isn't new, and it's longevity is one marker of its success: the 140,000-member institution, which has 14 branches clustered in the Iowa City/Cedar Rapids area, introduced the fee soon after it launched its debit card 20 years ago.

According to the 2013 Non-Interest Income Survey by Callahan & Associates, revenue from debit-card and interchange fees made up 23.8% of total non-interest income for credit unions, making it the largest component of non-interest income among the 102 responding institutions. At UICCU, those numbers are considerably higher.

The goal behind UICCU's PIN fee was to increase interchange revenue, and that it has: for fiscal year 2015, checking interchange income hit close to $6 million net, a four-year increase of 41% due both to additional member use of swipe-and-sign and to an increase in card revenue that UICCU negotiated with its card provider. Signature transactions are up 29% over the same four years, from 11 million in fiscal 2012 to 14.3 million in fiscal 2015, with transactions averaging $30.

In addition, UICCU pulls in some $1.3 million per year in fees from members who still use their PIN for merchant-terminal transactions. Transactions at any of the dozens of UICCU-owned ATMs in Johnson County, IA, remain fee free.

"The fee wasn't originally designed to be an income generator," says Jim Kelly, the credit union's senior vice president, marketing. "It was designed to change member behavior. We wanted to incent them to swipe and sign using their debit card [as they would a credit card], so we would receive the interchange income from the transaction. If they use their PIN, there is significantly less income. We charge the dollar fee to encourage wider use of swipe and sign."

According to Kelly, he cannot separate the additional revenue generated from swipe-and-sign from that generated by the lower card-provider charge, nor can he break out fees collected from use of foreign ATMs from those for point-of-sale debit-card use.

POINT OF SALE PIN TRANSACTION DATA

For University of Iowa Community Credit Union | Data as of 12.31.15

	Avg. Monthly Signature Transactions	Total YTD Signature Transactions	Total YTD Signature Transactions $	YTD Avg. Ticket $	Avg. Monthly Signature Interchange	Total Signature Interchange (YTD)
2012 YTD	922,100	11,065,197	$335,164,817.13	$30.29	$342,658.40	$4,111,900.76
2013 YTD	1,024,206	12,290,472	$375,224,260.02	$30.53	$384,069.49	$4,608,833.93
2014 YTD	1,097,138	13,165,656	$406,443,802.56	$30.87	$449,843.43	$5,398,121.13
2015 YTD	1,189,560	14,274,717	$434,860,166.30	$30.46	$484,360.52	$5,812,326.29

»

"The challenge is to find a way to make checking accounts profitable while offering the freebies that members expect."

– JIM KELLY, SVP OF MARKETING, UNIVERSITY OF IOWA COMMUNITY CREDIT UNION

CU QUICK FACTS

University of Iowa Community Credit Union

NORTH LIBERTY, IA

DATA AS OF 06.30.16

$6.3B
ASSETS

141,020
MEMBERS

13
BRANCHES

25.05%
12-MO SHARE GROWTH

24.68%
12-MO LOAN GROWTH

1.48%
ROA

THE KEY TO A SUCCESSFUL FEE

The key to implementing the PIN fee was explaining the concept to traditionally fee-averse credit-union members. As Kelly points out, members are not primed to see credit-union income as their concern.

"Any time you introduce a fee, you're going to get some pushback from members," he says. "But we used it as an opportunity to educate them."

The credit union uses both its checking webpage and its staff to explain the PIN fee — as well as how to avoid it. It offers a Rewards Checking account that refunds up to $10 per month in non-UICCU ATM fees and reimburses non-UICCU ATM fees. Rewards Checking members also can receive up to 2.25% APY on their account, up to an account balance of $20,000. The potential over the course of a year for the diligent Rewards member whose account meets all conditions, including a minimum of 12 posted-and-cleared, signed debit-card transactions per month, is $450. For this, there is no maximum balance.

Its Basic Checking, only for members who live outside Johnson County, includes seven free non-UICCU ATM transactions per month. But even members who opt for Free Checking can keep PIN fees at bay. In addition, UICCU will refund one fee a year if a member calls to object, and staff members use that phone call to talk about sidestepping the PIN fee.

"We see big trends toward using the card as swipe-and-sign," Kelly says. "It's been a regular source of income but also a good way to push members toward using signature-based transactions. We're always looking for ways to generate non-interest income. This is the primary income generator for checking accounts."

NO RISK; NO REWARD

Kelly acknowledges that UICCU took a chance with its PIN-fee strategy.

"It is uncommon," he says. "I can't speak for other credit unions, but I think [one reason is] their desire to offer entirely free checking accounts. Nobody has followed us in this local market."

Those free checking accounts are as much bane as boon. Industrywide, they have become less and less profitable as credit unions and banks pile on the free services—online bill pay, mobile banking applications, and so on—required to remain competitive.

"We give those away for free but they cost us money," Kelly says. "The challenge is to find way to make checking accounts profitable while offering the freebies that members expect.

Nonetheless, the credit union did consider adding other fees.

"We looked at services such as remote deposit capture and bill pay and determined those would have to be free services because we would be alone in this market," Kelly says. "This would be it for us in terms of unique fees."

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Kelly puts UICCU's growth rate on checking accounts at approximately 6%.

"By industry statistics, which we get from Callahan & Associates, that is fairly average for credit-union checking accounts," he says. "Could we grow a lot faster if we didn't charge that fee? I would say 'yes.' But would we want to grow an account that is marginally profitable or not profitable? We're happy with our growth rates right now."

What made the PIN fee palatable was the UICCU's clear position that it would rather not collect it. The credit union knew it would generate more income, whether by fee or behavior was up to the members, but it was shooting to increase income by increasing interchange income.

So what does Kelly concede is a drawback to this strategy?

"It does make it more challenging to sell our checking accounts," he says. "But we seem to be doing OK in that regard.

This article originally appeared on CreditUnions.com on April 18, 2016.

THE YEAR OF LIVING DANGEROUSLY

Introducing monthly dues was a risky move for Arizona Federal. Yet one year later, the credit union has a more engaged membership as a result.

BY CATHERINE SISKOS

As the housing crisis spread like wildfire across hard-hit Sunbelt states, the loan portfolio at Arizona Federal Credit Union ($1.4B, Phoenix, AZ) was in free-fall — $101 million in net charge-offs in 2008 — and the hemorrhaging had just begun.

Over the next three years, as members struggled to repay mortgages amidst soaring unemployment and tumbling home values, the credit union wrote off more than $300 million in bad loans from its books.

The steep losses slashed Arizona Federal's total capital from a high of $220 million in October 2007 to just $98 million in April 2011, plunging the institution into undercapitalized territory during much of that time. By early 2011, its ratio of net worth-to-total assets had fallen to a mere 2.9%, far below the 7% regulators needed to consider the institution well capitalized.

A near-death experience like this one would traumatize any credit union, but what makes Arizona Federal's story compelling is not just how the cooperative navigated its way back to solid capitalization, where it has been for more than two years. Rather, it's what came next that garnered this credit union the biggest backlash it has ever seen.

In November 2012, Arizona Federal announced it would begin charging a $3 monthly membership fee in January 2013.

The credit union knew the decision to charge membership dues, as it calls the fee, would be controversial, and it was. Arizona Federal may be the first credit union to impose membership dues, which critics quickly condemned as contrary to cooperative values. Many of those same critics predicted the institution would pay dearly for this unforgivable breach of trust, driving members away while earnings plummeted.

"The judgment was this was not a good, credit union-like thing to do, that a true cooperative wouldn't do this and that we were behaving like a bank," says Steve Kelley, Arizona Federal's senior director of marketing. "But we didn't do this for other credit unions or for the trade papers' approval. We did this for our members."

Charging membership dues might seem like a funny way to give back more money to the members, but that's exactly what happened. The credit union, which has a tradition of paying bonus dividends at year-end, rewarded members last December with a $5 million payout, its largest since 2006, when Arizona Federal distributed a record $10 million in bonus dividends.

The 2013 payout exceeded what the credit union collected in dues for the year by approximately $1 million, essentially returning the fees and then some to members.

"The size of the payout is entirely a function of our financial results, and if we had made a mistake by charging membership dues, those results would have suffered," Kelley says.

CU QUICK FACTS

Arizona Federal Credit Union
PHOENIX, AZ
DATA AS OF 06.30.16

$1.4B
ASSETS

123,637
MEMBERS

16
BRANCHES

4.82%
12-MO SHARE GROWTH

6.51%
12-MO LOAN GROWTH

1.59%
ROA

“We didn’t do this for other credit unions or for the trade papers’ approval. We did this for our members.”

— STEVE KELLEY, SENIOR DIRECTOR OF MARKETING, ARIZONA FCU

THE CASE FOR MEMBERSHIP DUES

In an industry that differentiates itself from banks by minimizing fees, imposing a membership fee could have been disastrous, but Arizona Federal’s experience demonstrates just the opposite — that credit unions can successfully navigate the treacherous waters of charging for membership. The credit union succeeded because it not only made a strong case to its membership for the fee but also adeptly handled the inevitable fallout from disgruntled members.

The argument for this fee strategy stems directly from Arizona Federal’s traumatic history. The credit union had failed its members badly and wanted to carve a new pathway forward, one that offered solid financial footing while better rewarding a smaller but actively participating membership. Inactive members who had little interest in making Arizona Federal their primary financial institution were free to leave.

“Our goal was not to take money from someone who didn’t find value in being a member,” Kelley says. “We wanted the membership to use more of our products and services, and we were going to be whatever size institution we ended up being based on finding members who were more actively engaged.”

Nevertheless, charging dues was a risky move, so months before announcing the fee publicly, senior managers sought opinions about it from everyone in the organization. At meetings, they discussed worst-case scenarios and hammered out solutions. They also established basic ground rules. The credit union would not waive the fee for anyone. Every member, including employees and board members, would pay the same $3 charge to access all the benefits of membership, like paying dues at a club. The only difference was that Arizona Federal never intended to keep the money.

Instead, it hoped to repay members with year-end dividends that were at least as much as the credit union collected annually in dues. Extra money would also come from the additional merchant interchange fees that Arizona Federal expected to generate by requiring members to become more active credit union users.

The cooperative had always had a thriving credit card business, and traditionally, all members had shared in any year-end bounty. But under the new system, only members who had used their Arizona Federal debit or credit card for 10 transactions a month over the preceding year would be eligible for dividends. Any member who failed to meet that standard would get nothing. “Everyone has monthly expenses and buys something, so we have a hard time understanding why they wouldn’t use our cards,” Kelley says.

Payouts would also be scaled according to how much each member used the institution that year so that, for instance, a member with a car loan would receive more money than someone who only met the 10-transaction standard.

Although the strategy seemed harsh, Arizona Federal wanted all members doing their part to keep the cooperative healthy.

ALL HANDS ON DECK

On the last day of November 2012, a letter from Arizona Federal’s CEO Ronald Westad announcing the new changes went out to all 160,000 members. The letter concluded with the credit union’s decision to resume paying year-end dividends in 2012 after a five-year suspension, but there was a catch. In keeping with the new requirement that only active debit or credit card users got the dividend, Arizona Federal stipulated that only members who met the 10-transaction standard in December 2012 would receive dividends.

The credit union wasted no time calling those members who were most likely to object the loudest to paying membership dues. Anyone without an active checking account made the list, as did individuals with only a modest savings account of $1,000 or less.

"These were the people who were not going to see any benefit from paying dues," Kelley says. "So we went out of our way to show them how to get value from their membership and also to make it easier to close their account if they thought they wouldn't derive any value."

Members with a certificate of deposit and an accompanying minimal savings account of $25 presented an especially tricky problem. An earlier promotion that paid a better rate to certificate holders who also opened a $25 savings account had attracted new members whose only relationship with the credit union was that deal. Arizona Federal was unwilling to expire the certificate early to release the funds but couldn't in good faith charge $36 in monthly dues, which would take the accompanying savings account balance negative.

Initially, the credit union froze the savings accounts. However, it eventually released the money and waived the dues when the certificates expired, marking the only time the credit union has ever broken its rule of never waiving the fee.

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Meanwhile, the fallout had begun, and it was all hands on deck. Phones began ringing off the hook from members who were unhappy about paying dues. Anticipating the response, Arizona Federal had recruited employees from other departments to help take the calls.

One angry member, who lived out of state and had only a $25 savings account, sent hate emails to the credit union before setting up a website that claimed to represent 100 disgruntled members by copying posts directly from Arizona Federal's Facebook page, Kelley says. On Facebook, where many members vented their frustration, the comments were especially harsh.

"We had to coach employees not to get defensive because with social media, the gloves are off and people say things they would never have said otherwise," Kelley says.

The dues were a nonstory in Arizona's local newspapers, but the national trade press was having a field day quoting experts who vilified the credit union's decision. No one seemed to understand or care about Arizona Federal's strategy to more than reimburse those dues for the credit union's active users.

This was a shame, because the credit union did distribute $3 million to 77,000 eligible members at the end of 2012 for an average payout of $38 per member — more than enough to cover their dues for the following year.

The hubbub continued into February with a second wave of angry responses coming from members who hadn't read the credit union's letter in November and had just realized their account was being charged the fee. Then, almost as suddenly as the crisis began, it went away.

ONE YEAR LATER

In one respect, the critics were right. As a result of the membership fee, approximately 30,000 Arizona Federal members ran for the exits. At the same time, the credit union's remaining 130,000 members have become more dedicated users of its products and services. The percentage of members with loans, for instance, rose modestly from 35% to 39% in 2013, with average loan balances growing 8% over the same period.

Arizona Federal's assets and capital also held steady despite the leaner membership and losses that continued to trickle in from loans that predated the economic collapse. In many respects, the credit union is still in the process of rebuilding the business it had before the recession hit, and there are signs that it might finally be turning the corner.

The cooperative does expect to have erased all its loan losses by early 2014 and hopes to begin growing its business later in the year by courting new members who will make Arizona Federal their primary financial institution.

Some of that new growth could come from referrals of members who stayed loyal to the credit union and were rewarded handsomely in 2013. Despite having a membership that was nearly 19% smaller than in 2012, Arizona Federal paid dividends to 11,000 more people in 2013 and increased the average payout amount by 67%.

Demographics are also working in the credit union's favor, with younger members in their prime borrowing years taking the $3 monthly membership dues in stride.

Younger members, Kelley says, didn't view those dues as a terrible expense "because they go to Starbucks every day to buy a $5 cup of coffee." Plus, those members recognize there are costs and benefits associated with being part of a group.

"These are the folks who grew up with study groups in school and like to be a part of something," Kelley says. "If we can help them understand why they should pay to be a part of our group, the benefits will speak for themselves."

This article originally appeared on CreditUnions.com on April 11, 2014.

HYPE THE SWIPES TO BOOST NII

A debit payback program at Blue FCU builds member interest and non-interest income.

BY MARC RAPPORT

Blue Federal Credit Union ($864M, Cheyenne, WY) is rewarding its members for swiping things, in this case their debit cards at the rate of five cents a transaction.

The 70,832-member institution launched its Earn 5 rewards account last October. It's one of five free checking programs the credit union offers, and one of only two that offers rewards. The other one offers up to 2% interest, but that doesn't serve the many members who don't maintain significant balances but do use their debit cards a lot.

Blue designed the Earn 5 account to be easy and automatic. Participants must enroll in e-statements, have at least one automatic debit or credit to the account, and complete at least six point-of-sale purchases every month. The first five don't earn the nickel, but the fifth one does, and the credit union automatically deposits the cash at the end of the month. The cashback limit is $25 a month, but even the heaviest users earn much less than that — approximately $4 a month for their 85 swipes.

Members enroll in Earn 5 by calling a toll-free number or going to one of Blue eight branches in Wyoming and Colorado. And there's no monthly fee, no minimum balance, and no penalty on the account for not earning rewards.

Steve Salazar, Blue's vice president of marketing, says the results have been better than expected both in terms of earning new members and higher non-interest income.

"We hoped to open 25 new accounts in the first month, and we got 101 in the first two months," he says. "We based this card on people who like to spend instead of those who like to save, and it's working very well for them and for the credit union."

Earn 5 generated $10,051.72 in interchange income during its first five months and paid out $1,350.60 in rewards. For those keeping score, like CFO Kim Alexander, that's net income of $8,701.12.

And those numbers are growing. Members made 208 transactions during the first month of Earn 5's availability and 9,517 in the fifth.

For credit unions that have a lot of savers, take note. This program is not just for the young folks who would rather earn rewards based on spends rather than balance.

CU QUICK FACTS

Blue Federal Credit Union

CHEYENNE, WY

DATA AS OF 06.30.16

$864M
ASSETS

70,832
MEMBERS

8
BRANCHES

51.65%
12-MO SHARE GROWTH

52.49%
12-MO LOAN GROWTH

0.59%
ROA

EARN 5 RESULTS

For Blue FCU | Data as of 12.31.15

Income Month	Qualified Transactions	Dividends Paid	POS Sig Tran Income / Tran	POS PIN Tran Income / Tran	Average Interchange Income Per Month	Earn-Five Net Income
October-15	208	10.40	0.450	0.220	76.23	65.83
November-15	3,852	192.60	0.450	0.230	1416.80	1224.20
December-15	6,512	325.60	0.460	0.240	2435.07	2109.47
January-16	6,923	346.15	0.460	0.220	2559.85	2213.70
February-16	9,517	475.85	0.460	0.220	3563.77	3087.92
TOTALS	**27,012**	**1,350.60**	**N/A**	**N/A**	**10,051.72**	**8,701.12**

"We knew a lot of millennials would go for this, but we also see a lot people from our older demographics, too," says Blue marketing manager Mindy Peep.

In addition to generating immediate NII income, Earn 5 shows promise as a relationship builder. The average age of Earn 5 participants is 28 to 30. Many have modest incomes and a first auto loan or mortgage in place or on the way, and they're not particularly loyal to any given institution.

"Rewards for balances don't really matter to them," Salazar says. "But they'll swipe that card all day long."

Earn 5 participants are also savvy but busy, which played into the credit union's marketing strategy.

"We looked at a lot of things based on the nickel idea, like making nickels fall from the sky," the marketing vice president says. "But we wanted to keep it professional, too, so we decided the 'Earn 5' idea would work well."

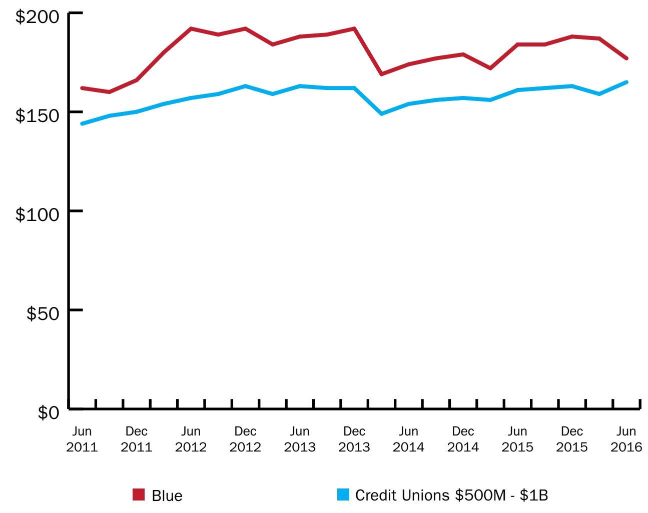
To see the products and services driving credit union income unrelated to fees and rates, check out "4 Graphs About Non-Interest Income."

It's simple yet polished.

Blue already is well-experienced in targeting its younger demographic and using social media marketing tools, and in this case focused on Instagram and movie theater ads for the initial Earn 5 launch. "Earn Money While You Spend" is the program's tagline, and its home page includes a You Tube video.

NON-INTEREST INCOME/MEMBER

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



Blue FCU is a profitable institution. Its ROA of 1.11% in the past quarter is well above average, and generating non-interest income is a key component of that, garnering $10.3 million, or approximately 30% of its total income at year's end, right at the average for its peer group.

> "We based this card on people who like to spend instead of those who like to save, and it's working very well for them and for the credit union."
>
> – STEVE SALAZAR, VP OF MARKETING, BLUE FCU

The credit union also reported making an annualized $188 in NII per member in the fourth quarter, well above the $151 reported by the average credit union of $500 million to $1 billion in assets, according to data from Callahan & Associates.

Providing member value while keeping things simple is one key to Blue's success, but so is learning from what didn't work so well, such as a promotion last year at its Fort Collins, CO, operation and Colorado State University.

"We offered these awesome Under Armour backpacks and thought people would rush through our doors," Peep says. "All they had to do is sit down with a member services representative and see where we could help."

Unfortunately, members and potential members shied away from those direct discussions, Peep says. So now the credit union offers debt consolidation and low-interest credit cards digitally, in a much less invasive way.

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.

As for Blue's debit card payback strategy, the credit union advises its fellow cooperatives to make sure operations can handle something that's simple on the consumer end but can be complicated in the back office.

"Give yourself plenty of time to ensure your core system can handle it," says Salazar, the marketing vice president. "Make sure your program planning and management includes a good look at all the resources you'll need to make sure Earn 5 can work.".

This article originally appeared on CreditUnions.com on April 18, 2016.

READ THE 2016 NON-INTEREST INCOME REPORT

What new sources of non-interest income are right for your credit union? Callahan & Associates surveyed 170 credit union executives to gain insight into their current and emerging sources of non-interest income. Read The Executive Summary

HOW FIREFIGHTERS FIRST CREDIT UNION PLANS TO HIT $1 MILLION IN NET INCOME

The Los Angeles-based credit union sees a bright future for its "non-punitive" insurance option.

BY MARC RAPPORT

Firefighters First Credit Union ($1.1B, Los Angeles, CA) expects to make $250,000 in net income this year from its in-house insurance agency, a revenue stream the California credit union expects to push to $1 million per year in the not-too-distant future.

The credit union — which has five branches in Los Angeles and Northern California and primarily serves professional firefighters and their families — opened Firefighter Insurance Services in 2010 and currently offers 4,800 auto, home, commercial, motorcycle, RV, boat, umbrella, life, and earthquake policies from 10 different insurance companies, including Mercury, CSE, and Safeco.

MIKE MASTRO, CEO, FIREFIGHTERS FIRST CREDIT UNION

The credit union's president and CEO, Mike Mastro, says the insurance agency serves two goals. First, it creates a reliable source of non-interest income; second, it provides members and non-members alike an essential product under a brand they trust.

Firefighter Insurance Services achieved profitability within 18 months of its launch and has helped Firefighters First Credit Union post strong performance since. For example, the credit union's net income per FTE has risen from below its peer average five years ago to now sharply higher than peers, according to data from Callahan & Associates.

"We've always felt there was an opportunity to derive value from the marketplace and share that with the membership," Mastro says.

There's more to come, too. Firefighters First owns the agency under a holding company structure and is focused on growing additional non-interest income through acquisition and organic growth as opportunities arise.

»

"When someone comes in for a home loan, we'll talk to them about insurance on their home. Our members tend to like the idea of wrapping those two things together around a brand they trust."

— MIKE MASTRO, CEO, FIREFIGHTERS FIRST CREDIT UNION

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FROM THE BEGINNING

During the past recession, margin compression and growing competition forced Firefighters First — then Los Angeles Firemen's Credit Union — to consider new income streams.

"We believed there were positive, non-punitive ways to grow non-interest income," Mastro says. "You just have to be creative in discovering where they are and what their risk profiles are to ensure the business is sustainable and will grow."

The credit union researched its options, brought in its board, and created an insurance agency in partnership with a 50-year-old firm that focuses on firefighters and other civil servants as its customer base.

"We are 51% owners," Mastro says. "From the beginning we felt it was important that we had appropriate control of what we were doing."

ALONG INSURANCE LINES

Firefighters Insurance Services combines the institutional knowledge and back-office operations of its partner — Crusberg Decker Insurance Services, a company owned by the family of a Pasadena battalion chief — and the internal expertise the credit union has developed as the operation has grown to comprise a CEO, a commercial underwriter, and two front-line staffers.

Firefighters First markets the policies through the agency's own website as well as through regular conversations its staff has with members.

"When someone comes in for a home loan, we'll talk to them about insurance on their home," Mastro says. "Our members tend to like the idea of wrapping those two things together around a brand they trust."

The same thing happens with commercial insurance, which — along with auto and home — are Firefighters Insurance Services' three most popular lines.

Member business lending is a big deal at Firefighters First. Its portfolio of $78.7 million more than doubled the $38.9 million average for the 231 credit unions with $500 million to $1 billion in assets at year-end 2014.

That exemplary performance carries over to Firefighters First's average member relationship, which was $51,612 in 2014 compared with $16,892 for its peer group, according to Callahan data. Meanwhile, its loans per member was 1.05, twice the peer average, and its average loan balance per employee was $25,545, also twice the peer average as well as fourth highest among its peer group.

The credit union also has a 99.92% loan-to-share ratio, according to year-end Callahan data. Perhaps most importantly, its Return of the Member score of 100 is tops in its peer group

CU QUICK FACTS

Firefighters First Credit Union
LOS ANGELES, CA
DATA AS OF 06.30.16

$1.1B
ASSETS

35,401
MEMBERS

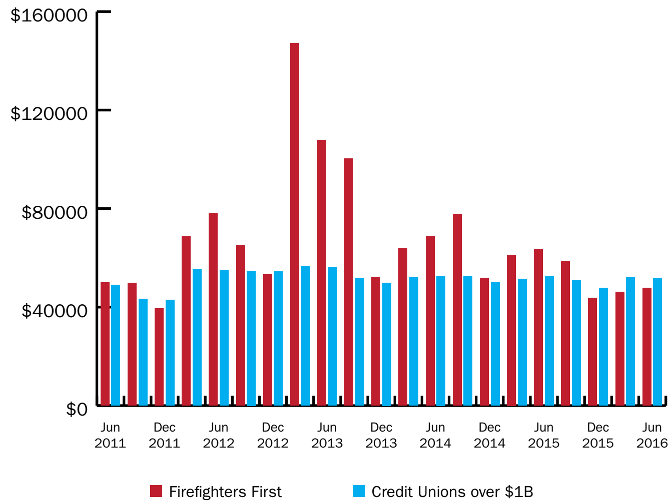
5
BRANCHES

12.39%
12-MO SHARE GROWTH

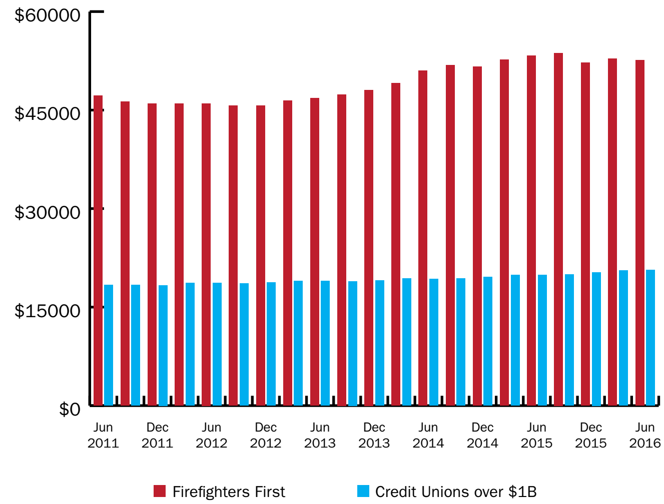
2.58%
12-MO LOAN GROWTH

0.65%
ROA

NET INCOME PER FULL-TIME EMPLOYEE
FOR U.S. CREDIT UNIONS | DATA AS OF 06.30.16



AVERAGE MEMBER RELATIONSHIP
FOR U.S. CREDIT UNIONS | DATA AS OF 06.30.16



nationwide. That's Callahan's measure of product usage and value — and Mastro says member value is what it's all about.

"Our board insists that quality of service and service to the member drive every decision we make," Mastro says. "Our members obviously appreciate that and we intend to protect that relationship while using it to boost our bottom line."

A COOPERATIVE CONCEPT

Firefighters First expects its internal business to continue growing and has now begun creating insurance agencies for other credit unions. It has launched four so far and has two more in the pipeline. The credit unions can enter a 51/49 ownership deal, with Firefighters Insurance Services as the minority partner, or they can become a referring agency and commit a share of the commission but not contribute capital.

Mastro says those credit unions are all in the Los Angeles area. He intends to move at a measured pace, adding perhaps two to four new partners a year as his credit union exceeds the billion-dollar mark in assets and the insurance business moves toward adding $1 million a year in net income.

That's while continuing to look for other ventures, as well.

"We're on a quest to understand what's in the marketplace in terms of additional non-traditional businesses," Mastro says.

This article originally appeared on CreditUnions.com on June 1, 2015.

Four Tips To Ensure Insurance Success

Firefighters First CEO Mike Mastro says moving into a new line of business can be disconcerting. That's why he offers this advice for credit unions considering it:

- If it's important to the credit union, make sure someone owns it. "It has to become an important part of who you are and what you believe is important," Mastro says.
- Ensure the board down through the management team discusses and embraces the idea. "Everyone has to be aligned and in support of what you're doing," Mastro says.
- Ensure the front-line staff is on board. "You have to put appropriate incentives in place for your staff to be attentive," Mastro says.
- Ensure you educate staff on the products as they're rolled out and as they change. "Education around our insurance program—especially to our members while they're in front of us—is an important part of our success," Mastro says.

HOW 4 CREDIT UNIONS ACHIEVED MEMBER INSURANCE AND INVESTMENT SUCCESS

Credit unions on both coasts share how they ramped up new insurance and investment services.

BY MARC RAPPORT

Prolonged low interest rates, shrinking interchange income, and growing pressure from non-financial institution competitors has credit unions seeking new revenue sources.

For many, that's insurance and investment services. In fact, the NCUA says 119 credit unions have added one or both just in the past two years. A review of the list shows those credit unions include institutions large and small.

State Employees' Credit Union in North Carolina, Nutmeg State Financial Credit Union in Connecticut, USC Credit Union in California, and Peninsula Community Federal Credit Union in Washington state use different business models — from scratch to turnkey —and each has developed its own proven marketing methods. Yet all four institutions view insurance and investment services as a way to deepen the member relationship.

Here, the four credit unions reveal how they chose their paths and how the new product suite influences the bottom line.

CU QUICK FACTS

Peninsula Community Federal Credit Union
SHELTON, WA
DATA AS OF 06.30.16

$166.6M
ASSETS

17,765
MEMBERS

5
BRANCHES

4.83%
12-MO SHARE GROWTH

2.61%
12-MO LOAN GROWTH

1.88%
ROA

PENINSULA COMMITS TO CUSO

Jim Morrell, president and CEO at Peninsula Community Federal Credit Union ($166.6M, Shelton, WA), cited member need, steady income, and ALM as primary reasons his credit union added investment services two years ago.

"We determined our members needed it," Morrell says. "It was an opportunity to generate non-interest income. And it's one more tool in our kit for asset-liability management."

The credit union launched Peninsula Wealth Management Services in April 2013 in what Morrell calls a "relatively turnkey" arrangement with CUSO Financial Services in San Diego. In 25 months, the credit union has drawn $15 million in invested funds from 189 households and has generated a little more than $100,000 in net income.

The agency's in-house financial advisor is a longtime local wealth manager. CUSO Financial — in close consultation with Morrell and his team — hired and manage the advisor, but he solely serves all five credit union branches.

CUSO Financial also is responsible for another area that is outside a typical credit union's wheelhouse: complying with investor regulations, including the financial industry regulatory authority.

"We just didn't have anybody in-house with the experience to do all these management functions," Morrell says.

4 TIPS FOR NEWCOMERS

Thinking about adding investment or insurance services? Here are some things to keep in mind:

1. There are different arrangements to consider, ranging from total turnkey to your credit union owning the whole thing, and staff doing the selling and servicing. By far, most credit unions outsource to differing extents.
2. Members will assume the companies you choose to partner with are as trustworthy as you. Due diligence is critical.
3. Front-line staff needs to understand the products in order to effectively refer or sell them.
4. Compliance for insurance and investment products differ from NCUA rules and regulations. They all need to be considered.

Peninsula Community's front-line staff, however, is still responsible for meeting certain rules, such as not putting a Peninsula Wealth Management sign next to the NCUA signs about insured accounts. Front-line staff is also responsible for referrals but not much else.

"We don't want a 22-year-old teller taking trade orders, and they can't anyway," Morrell says.

> “Odds are, if it has wheels and needs keys, we can get it insured.”
>
> – DANA CLARK, VP RETAIL SERVICE DELIVERIES, NUTMEG STATE FINANCIAL CREDIT UNION

Morrell is responsible for the CUSO Financial relationship, and he relies on his vice president of marketing and assistant vice president of operations — whom he calls “the other two legs of our three-legged stool” — for administrative support.

Peninsula Wealth Management’s ultimate success also rests on the quality and tone of the service the members get from CUSO Financial Services and the advisor.

“It’s like our other established third-party relationships – including shared branching and insurance,” Morrell says. “Our members will have assumed we’ve done our due diligence, and for regulatory and reputational purposes alike, it’s incumbent on us to ensure these are quality services.”

As for advice to others considering a similar venture, Morrell says senior management must support and promote the program. He also says the credit union must have a good understanding of the third-party relationship.

“There are a lot of things you have to keep in mind,” Morrell says. “For instance, a lot of financial advisors get to take their book of business with them if they leave. If ours does, the credit union retains the book of business. That’s important to us and to our members.”

NUTMEG STATE’S TURNKEY ALIGNMENT

CU QUICK FACTS

Nutmeg State First Credit Union
ROCKY HILL, CT
DATA AS OF 06.30.16

$394.9 *ASSETS*
37,833 *MEMBERS*
9 *BRANCHES*
2.90% *12-MO SHARE GROWTH*
5.07% *12-MO LOAN GROWTH*
0.58% *ROA*

Nutmeg State Financial Credit Union ($394.9.9M, Rocky Hill, CT) has been averaging 20 new policies a month sold since last August, when it began offering personal lines through a turnkey relationship with a Connecticut-based provider of outsourced insurance solutions to dozens of credit unions across the nation.

Insuritas provides the agency and what it calls an “insurance aisle” for its client websites, provides marketing support, and manages the relationship after the sale. Like other credit unions, Nutmeg State works to bundle insurance with loans and offers policies for everything from snowmobiles to workers’ comp.

“Odds are, if it has wheels and needs keys, we can get it insured,” says Dana Clark, Nutmeg State’s vice president of retail service deliveries, adding that auto and homeowner policies have been the most popular.

The credit union builds insurance products into its goals, incentive plans, and training programs. In fact, it asks trainees to obtain a quote themselves so they can help a member walk through it.

Marketing appears on the website and in branches, and call center and retail teams also talk up the offering. The credit union even has special “blitz” days that Clark says focus on encouraging members to get a quote.

“We then funnel the leads centrally to the experts by connecting the member directly to an agent on the phone, via chat, or through the website,” Clark says.

Streamlining the process is critical. That initial call gathers only the most important information and typically takes only five to seven minutes.

“This keeps members from disengaging because the process is too cumbersome,” Clark says.

Indeed, how third-party vendors handle customers can be a sore spot — in insurance, card services, or anything else.

“I’ve heard many times from other executives who have been frustrated with the lack of control over the member experience,” Clark says. “This may simply be attributed to differences in what that experience should look like. There are a lot of options out there, and it’s important to be sure your corporate vision and strategies align with whomever you contract with in order for the partnership to be effective.”

Aside from third-party matters, Clark says credit unions must also commit enough internal resources and be patient while the portfolio builds.

“Listen and collaborate with the experts you partner with,” she says. “They should be able to provide a roadmap to success. Then continuously re-evaluate your program to replicate what is working well and driving results.”

SELF-SUFFICIENT LIFE AT SECU

CU QUICK FACTS

State Employees’ Credit Union
RALEIGH, NC
DATA AS OF 06.30.16

$33.8B *ASSETS*
2,133,547 *MEMBERS*
256 *BRANCHES*
9.56% *12-MO SHARE GROWTH*
10.23% *12-MO LOAN GROWTH*
0.85% *ROA*

State Employees’ Credit Union ($33.8B, Raleigh, NC) has been offering life insurance in an agency

> “We want our members to view us as their primary financial institution. In order to have that honor, we need to offer an array of low-cost products and services that our members need. Insurance is no exception.”
>
> – STACEY WADDELL, SVP MEMBER SERVICES, STATE EMPLOYEES' CREDIT UNION

capacity since 2001 but created its own state-licensed life insurance company in 2013.

Why the switch?

“We wanted the ability to build straightforward insurance products and deliver them in a more convenient and efficient way,” says Stacey Waddell, senior vice president of member insurance services.

SECU Life — a wholly owned subsidiary of the nation's second-largest credit union — now underwrites the whole life and term policies.

Overall, SECU increased insurance production by 66% in the past year. SECU Life's growth largely drove that, Waddell says. SECU Life currently provides coverage to more than 260,000 of the credit union's nearly 2 million members through individual and group policies. Another 18,000 policies are in force through third-party carriers, including home, auto, and health insurance.

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The insurance business at SECU is a group affair spread among the big credit union's network of more than 250 branches and contact centers.

“We have nearly 2,000 licensed agents across North Carolina who are available to discuss insurance planning and products with members,” Waddell says. “These agents hold varied positions in the branch, from tellers to branch managers and every role in between.”

That means nearly 40% of the 5,200 SECU employees are involved. Why the commitment?

“We want our members to view us as their primary financial institution,” Waddell says. “In order to have that honor, we need to offer an array of low-cost products and services that our members need. Insurance is no exception.”

TROJANS' CREDIT UNION RELIES ON FIREFIGHTERS

As president and CEO of USC Credit Union ($448.2M, Los Angeles, CA), Gary Perez is a big fan of the Trojans. He's also big into deepening that affiliation its students, staff, and alumni feel with their storied institution and its credit union.

Three years ago, USCCU began offering auto, homeowners, earthquake, fire, business, and other lines to its members through what Perez calls “a turnkey referral” arrangement with Firefighter Insurance Services, a wholly owned agency of Firefighters First Credit Union.

So far, Trojan Insurance Services has sold 1,426 policies worth $1.45 million, Perez says.

It generated $8,678.66 in non-interest income in its first fiscal year. That grew to $26,992.49 a year later, and this year Perez projects 60% growth to $43,438.47. By year five, he expects that figure to exceed $110,000.

Firefighters and its lineup of well-known insurance companies provide the services after the sale, and so far, costs have primarily been the $71,869.62 paid in commission to the agent, as well as approximately $2,000 for marketing “and minimal expenses for hosting the agent in our branches,” Perez says.

CU QUICK FACTS

USC Credit Union
LOS ANGELES, CA
DATA AS OF 06.30.16

$448.2
ASSETS

65,450
MEMBERS

4
BRANCHES

9.54%
12-MO SHARE GROWTH

16.38%
12-MO LOAN GROWTH

0.22%
ROA

Quotes are available online, and the credit union markets and sells insurance online, over the phone, and by email. Football season is an especially good time for marketing campaigns, Perez says, but the whole team at USCCU contributes year-round.

“Our front-line staff cross-sells products and provides referrals, and our branch managers coach staff to ensure they each meet their minimum of 10 referrals a month,” Perez says. “Our agent conducts monthly sales meetings as well as trains and sells.”

Perez says the income is helping to replace a big hole left in his balance sheet when federal student lending programs were eliminated. Just as important, it is helping to build value for members.

“We see offering insurance along with our automobile and home loans, for instance, as a way to better position ourselves as trusted advisors,” he says. “That adds value to the relationship.”

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