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CREDIT UNION STRATEGY & PERFORMANCE

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ROM

[RETURN OF THE MEMBER]

ROM EDITION | PROVIDING DATA-BASED INSIGHTS THAT MOVE CREDIT UNIONS TO TAKE ACTION

CALLAHAN
ASSOCIATES



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PUBLISHED BY

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ROM COLLECTION

Credit unions have different goals than for-profit financial institutions. Instead of solely examining financial data, credit unions must also quantify the value they provide to members to accurately understand their performance.

Callahan's Return Of The Member [ROM] score is built just for that. Midyear 2012 ROM rankings provide an opportunity to examine the leaders and borrow from their success strategies. This collection examines how smaller institutions, those in the \$20-\$50M peer group, are succeeding at providing exceptional member value.

WHAT YOU WILL LEARN:

- How Callahan uses 5300 Call Report data to calculate ROM, an index that measures the value credit unions provide their members.
- What three smaller credit unions do to encourage members to take advantage of their products and make a credit union their primary financial institution.
- How the credit unions overcame a size disadvantage to still post significantly better than average efficiency ratios and growth metrics.
- Why a focus on member service is still the core strategic advantage for credit unions of any size.



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“ **ROM** PROVIDES A COMPREHENSIVE SCORING SYSTEM OF MEMBER VALUE THAT LOOKS **BEYOND** THE TRADITIONAL SAFETY AND SOUNDNESS ISSUES COVERED BY **NCUA'S CAMEL SCORING** AND OTHER REGULATOR EXAMINATIONS.”

CALLAHAN'S RETURN OF THE MEMBER [ROM] INDEX QUANTIFIES MEMBER VALUE

THE ABILITY TO CREATE SHARED MEMBER VALUE DIFFERENTIATES CREDIT UNIONS FROM OTHER FINANCIAL SERVICES PROVIDERS.

BY CALLAHAN & ASSOCIATES

CREDIT UNIONS ARE financial organizations that serve their member-owners as opposed to shareholders. They are not profit-driven and as such can maximize member value at the expense of the bottom line (keeping in mind some net income is necessary for future product and capital investments). The industry prides itself on offering superior rates, products, and services. But how can credit unions quantify such member value? »

Because credit unions continually strive to improve their member service — whether by offering new products, competitive rates, or more services — Callahan's Return of the Member (ROM) measure attempts to capture a more comprehensive view of member value and weighs aspects such as:

- Are the credit union's loan rates lower or deposit rates higher than its competitors?
- How many products and services does the credit union offer?
- How many members are using these products?



THE HISTORY OF ROM

Credit unions serve more than 92.5 million members. That's more than 30% of the U.S. population. As credit unions continue to grow in membership and gain in popularity as an alternative to for-profit financial services providers, they need a way to demonstrate the tangible benefits of credit union ownership.

The (ROM) index came about when a credit union board of directors asked its CEO to explain a \$1 million drop in net income over a year. The drop is the result of the credit union increasing its dividend payments to its members, the CEO explained. The net operating results were distributed differently — the members, not the credit union, received the earnings — but the year was still satisfactory. The board continued to stress, "How do you measure member return?" Enter the Return of the Member index.

In 1996, Callahan & Associates, a credit union research and consulting firm based in Washington, DC, developed a holistic scoring system that looks beyond the traditional safety and soundness issues covered by NCUA's CAMEL scoring and other examinations. ROM scoring uses data from the 5300 Call Report to provide an assessment of member value.

THE CORE COMPONENTS OF ROM

ROM attempts to capture all aspects of a member's relationship with the credit union, and Callahan has altered and reweighed this member-value metric over the years to reflect the evolution of the credit union industry and the ever-changing Call Report. ROM calculation considers three core credit union functions: savings (via the return to the savers metric), lending (via the return to the borrowers metric), and product usage (via the member service usage metric). ROM rank takes into account a credit union's performance in comparison to its asset-sized peer group.

RETURN TO THE SAVERS [ROS]

The first component of the Return of the Member analysis is Return to the Savers. It measures how well a credit union is providing deposit services to its members. In addition to measuring the average dividends paid, this number also takes into account the change in average share balance, the number of share accounts per member, and the three-year share growth of the credit union. The change in average share balance highlights credit unions that are attracting shares.

Individual weights of each component include:

- **Dividends / Income (30%)** –
What portion of income does a credit union pay back to its members? This is generally referred to as the payout ratio.
- **Average Dividends Paid (30%)** –
What is the average dividend at the credit union? This is calculated by taking the total dividends and interest paid on deposits paid by the credit union divided by total shares at the credit union.
- **Change In Average Share Balance Per Member (15%)** –
Are members increasing their savings balance at their credit union? A greater increase yields a higher score.
- **Three-Year Compound Share Growth (15%)** –
What is the member response to savings offerings over the last three years? The three-year window provides a longer-term view of saving trends at the credit union and can smooth any aberrant results caused by one-time events.
- **Number Of Share Accounts Per Member (10%)** –
How are members responding to the savings products that the credit unions offers? Not only is this a measure of how many products offered, but also whether each of them are attractive for the member to use at the credit union and not go elsewhere.

RETURN TO THE BORROWERS [ROB]

The lending component, Return to the Borrowers, recognizes credit unions were created to provide credit to their members at a reasonable cost. The index rewards those credit unions that offer a lower rate on loans, but it also considers the historical growth in lending and the variety of products offered to its members. In recent years, credit unions have started to sell more loans to the secondary market. To accommodate credit unions becoming more involved in the secondary market, Callahan added the loan servicing portfolio as a component of the score. By retaining servicing, credit unions are able to maintain closer relationships with their members. To ensure this activity is reflected in the member relationship, each credit

union's mortgage servicing portfolio is added to outstanding loans when calculating the loan-to-share ratio.

Individual weights of each component include:

- **Loans + Servicing Portfolio / Shares Ratio (includes mortgage servicing) (30%)** –
How well is the credit union converting savings back into loans? With this also being a measure of liquidity, this can also measure the credit union's capacity to provide more loans.
- **Yield On Average Loans (20%)** –
Which credit unions are offering the lowest overall yield? Lower loan rates can drive product growth and increase value to the members.
- **Number Of Loan Accounts Per Member (10%)** –
Is the credit union providing a variety of loan services? Are these services attractive enough to gain usage by the membership?
- **Three-Year Compound Loan Growth (15%)** –
What is the member response to the lending programs at the credit union over the past three years? Trends seen here provide a longer-term view of loan growth at the credit union and not solely a snapshot of a quarterly or annual result.
- **Amount Of Loans Granted In Past 12 Months (15%)** –
How much in loans did the credit union distribute during the past year? As a major gauge of loan activity, this can provide a key view of current lending trends at the credit union.
- **Growth In Average Loan Balance Per Member (10%)** –
How are the members using the credit union's consumer lending programs? Increased balances indicate more product usage and can be a metric of how members are valuing loan products.

MEMBER SERVICE USAGE [MSU]

The final component is Member Service Usage. This component measures how efficiently a credit union provides and promotes services to its members. The leaders in this category are those credit unions that have a high number of core account relationships with their members. The penetration rates are a key metric as to how members value the credit union's product offerings. Do members consider the credit union their primary financial institution (PFI) or are they looking elsewhere for their other financial needs? Moreover, measuring productivity of employees by calculating the amount of revenue generated per dollar of salary and benefit expense helps to capture the staff involvement in member activity. There is a positive correlation between member activity and the amount of income generated per employee as credit unions with a more active membership base are more likely to use the credit union as their PFI and generate more revenue.

Individual weights of each component included:

- **Number Of Share Draft Accounts / Members (20%)** – Do members consider the credit union to be the primary financial institution? The PFI is most often defined as the institution the member has their checking account with.
- **Number Of Auto Loan Accounts / Members (15%)** – Auto lending is traditionally a core expertise of credit unions and accounts for approximately 40% of the average credit unions loan portfolio. Are members using the credit union to finance their auto purchases?
- **Number Of Credit Card Accounts / Members (15%)** – How much has the credit union penetrated the membership for credit cards? Rates and reward programs generally drive this metric.
- **Total Loan and Savings Accounts / Members (15%)** – Does the credit union provide a large variety of savings and lending services that are used by members?
- **Fee Income / Members (10%)** – What amount of fees does the average member incur at the credit union? High levels of fee income generally decrease member value.
- **Three-Year Compound Member Growth (15%)** – Is the credit union bringing in new members? Attractive rates and products attract new members.

- **\$ Total Income/\$ Salary and Benefit (10%)** – How effective is the credit union staff at generating income from member activity? The higher the ratio, the more effective the credit union is at generating revenue with its current staff level. This often reflects deeper member relationships.

HOW TO CALCULATE ROM

A value between 1 and 100 is assigned to each credit union, depending on its performance in the three core ROM areas. The primary credit union's final score is a combination of the weighted average of the percentile ranking for each ratio. Credit unions with a score of 100 are considered leaders in providing services to their members, as seen below (**TABLE #1**).

AN EXAMPLE: ABC CREDIT UNION

The first ratio in the savings component of ROM is dividends to income. ABC Credit Union, a \$75 million institution, has a dividends-to-income ratio of 40.6%. Rather than use that ratio, we take the percentile rank of this number within ABC's peer group. Below (**TABLE #2**) is an example using ABC's Return to the Savers (ROS).

The raw score of 84.6 represents ABC Credit Union's weighted score in the first of the three core areas. This weighted score is then ranked as a percentile versus all

#1 – SAMPLE ROM SCORE METRICS

COMPONENTS	PERCENTILE RANK	WEIGHT	FINAL SCORE
RETURN TO SAVERS	100	40%	40
RETURN TO BORROWERS	100	35%	35
MEMBER SERVICE USAGE	100	25%	25
TOTAL RAW ROM SCORE			100

#2 – RETURN TO THE SAVERS CALCULATION

	ABC'S VALUES	% RANK IN PEER GROUP	ASSIGNED WEIGHT	WEIGHTED SCORE
DIVIDENDS/INCOME	40.6%	98.1%	x 30%	= 29.4
AVERAGE DIVIDENDS PAID	2.0%	93.3%	x 30%	= 28.0
CHANGE IN AVERAGE SHARE BALANCE	4.3%	63.5%	x 15%	= 9.5
NUMBER OF SHARE ACCOUNTS/MEMBER	1.6	45.4%	x 10%	= 4.5
3-YEAR SHARE GROWTH	12.6%	88.0%	x 15%	= 13.2
ROM RAW SCORE				84.6

*Final Score Of 84.6 Equates To Percentile Rank Of 98.23

#3 — TOTAL RETURN OF THE MEMBER: ABC CREDIT UNION

	PERCENTILE RANK		ASSIGNED WEIGHT		FINAL SCORE
RETURN TO SAVERS	98.23	x	40%	=	39.29
RETURN TO BORROWERS	66.50	x	35%	=	23.28
MEMBER SERVICE USAGE	77.24	x	25%	=	19.31
ROM RAW SCORE					75.58

*Final Score Of 75.58 Equates To Percentile Rank Of 85.39

#4 — EXAMPLE ROM LEADER COMPARISON

	12-MONTH LOAN GROWTH	12-MONTH SHARE GROWTH	NET INTEREST MARGIN	ROA	OPERATING EXP/AVG. ASSETS	DELINQUENCY RATIO
TOP 10 PERCENTILE	13.80%	13.00%	2.25%	0.92%	1.86%	0.53%
MIDDLE 10 PERCENTILE	8.80%	9.40%	2.59%	0.57%	2.78%	0.87%
DIFFERENCE	5.00%	3.60%	-0.34%	0.35%	-0.92%	-0.34%
PERCENTAGE DIFFERENCE	43.20%	38.30%	15.10%	38.60%	33.10%	39.10%

other peer credit unions for a final ROS score of 98.2. The same kind of calculation is used to determine ABC's scores in the Return to the Borrowers and the Member Service Usage components. After running through similar calculations with those, an example of the total ROM score calculation is now provided above (TABLE #3).

WHAT DOES A 75.58 RAW SCORE MEAN?

The raw score of 75.58 represents ABC Credit Union's weighted score for ROM. This raw score is then ranked as a percentile versus all other peer credit unions for a final ROM score of 85.39. ABC Credit Union's ROM score indicates it is performing well above the average score of 50. Therefore, ABC is performing better than 85% of the credit unions in its peer group.

There are still areas for improvement, however. ABC received a 66.5 Return to Borrowers. This might indicate ABC is offering less competitive loans rates to its members, leading to lower penetration rates. On the other hand, ABC performed much better than its peers in Return to Savers, scoring a 98.23.

The drive for increasing member value is generally to promote growth, leading to the ability to add more products and services while giving more back to the members in the form of better rates. This cycle benefits both the member and the credit union.

DOES HIGHER MEMBER VALUE YIELD GREATER CREDIT UNION PERFORMANCE?

Do credit unions with higher Return of the Member scores perform better than those with lower scores? When analyzing the top performers in Return of the Member, it is safe to assume the credit unions at the top of the list will be strong performers in the metrics included in the various ROM components. How do they fare when looking at other criteria? The group above (TABLE #4) was formed using a group of credit unions with \$1 billion plus in assets.

Within that asset group, those credit unions that scored in the top 10 percentile of ROM were compared to those who were in the 45 to 55 percentile range. For all categories but one, the top credit unions in ROM had a value that was at least one-third better than the mid-range percentile group. Why is the group ranked higher in ROM performing much better in other areas? Providing high member value creates a virtuous cycle of performance as credit unions provide products and services that maximize member welfare while increasing the probability that members fully use the offerings of the financial institution.

Callahan's ROM scoring system was not designed to be the final word on credit union performance. However, it is intended to be an important measure of the economic return created for individual members relative to other credit unions of similar size given available public data. ▶



ROM CASE STUDIES

CREDIT UNIONS HAVE different goals than for-profit financial institutions. Instead of solely examining financial data, credit unions must also quantify the value they provide to members to accurately understand their performance. Callahan's Return Of The Member (ROM) score is built just for that. At midyear 2012, Callahan took the opportunity to examine the leaders and borrow from their success strategies.

For example, Janet Lintin, CEO of Des Moines Police Officers' Credit Union, says the key to her No. 1 ROM ranking is having the right people on staff. "Making sure they give each member the kind of service they want, which might be different for every member, is critical. Assuring the member they will take care of it, whatever "it" is, makes for loyal members."

On the following pages you will find in three case studies of ROM leaders from the \$20-\$50M peer group.

Special features in this collection include:

- Turn Borrowers And Savers Into Full-Fledged Members
- Increase Wallet Share In A Competitive Market
- Top-Notch Growth For A Top Shelf Credit Union

TOP 25 RETURN OF THE MEMBER \$20M - \$50M PEER GROUP | DATA AS OF JUNE 30, 2012

RK	ST	CREDIT UNION	OVERALL RETURN OF THE MEMBER	RETURN TO SAVERS	RETURN TO BORROWERS	MEMBER SERVICE USAGE
1	IA	DES MOINES POLICE OFFICERS	100.00	97.18	99.53	99.53
2	SD	MED5	99.92	95.92	99.45	99.92
3	MN	ST. FRANCIS CAMPUS EMPLOYEES	99.84	99.92	97.41	96.24
4	IA	CAPITOL VIEW	99.76	95.30	98.67	99.37
5	ND	RIVERFORK	99.67	94.67	95.22	99.61
6	IL	SERVICE PLUS	99.59	92.71	98.35	98.04
7	ND	AFFINITY FIRST	99.51	97.26	98.12	90.91
8	WI	GUNDERSEN LUTHERAN	99.43	92.08	98.04	97.88
9	OR	SUNSET SCIENCE PARK	99.35	90.60	97.73	98.98
10	KS	KANSAS BLUE CROSS BLUE SHIELD	99.27	97.81	98.51	84.40
11	SD	HEALTHCARE PLUS	99.19	96.32	97.18	88.56
12	TN	JACK DANIEL EMPLOYEES	99.10	97.34	89.50	96.87
13	VT	CREDIT UNION OF VERMONT	99.02	85.66	99.84	99.22
14	FL	FLORIDA STATE EMPLOYEES	98.94	95.14	98.20	85.82
15	ME	CHANGING SEASONS	98.86	96.87	96.00	86.05
16	AL	ENERGEN	98.78	92.32	98.28	89.97
17	WA	SPOKANE FIREFIGHTERS	98.70	86.60	96.71	100.00
18	ME	LINCOLN MAINE	98.61	88.87	97.96	93.65
19	NE	FAMILY FOCUS	98.53	91.93	96.16	88.09
20	MI	LIMESTONE	98.45	94.28	96.87	82.60
21	IL	MOLINE MUNICIPAL	98.37	85.34	95.77	96.39
22	KS	MCPHERSON CO-OP	98.29	98.75	89.03	83.86
23	WV	ELEMENT	98.21	93.97	92.48	86.21
24	TX	BAYCEL	98.13	96.79	83.31	93.97
25	WI	CONE	98.04	98.90	90.99	77.12

Turn Borrowers And Savers Into Full-Fledged Members

BY REBECCA WESSLER

HOW DES MOINES POLICE OFFICERS' CREDIT UNION DIGS DEEP WITHIN ITS CLOSED FIELD OF MEMBERSHIP TO FIND OPPORTUNITIES AND RANKS NO. 1 IN CALLAHAN'S ROM INDEX.

DES MOINES POLICE Officers' Credit Union (\$39.0M, Des Moines, IA) knows how to treat its members while still earning revenue. The SEG-based institution's third quarter financial performance makes it an example to credit unions across the country. As of September 2012, its 12-month member growth was more than twice that of its state peers — 8.16% versus 3.85%, respectively — it captured more than three times its potential member market share than credit unions with \$20-50 million in assets — 15.91% versus 4.98% — and its average member relationship was more than three-and-a-half times that of all credit unions nationally — \$23,825 versus \$6,302.

Nearly 42% of members had a share draft account with the credit union, 31.52% had an auto loan, 15.30% had a credit card, and 3.35% had a first mortgage. Its loan-to-share ratio of 72.95% stacked up well against its asset-based peers' ratio of 56.21%, and its 0.34% delinquency was significantly lower than that of its asset-based peers' 1.41%.

The credit union was able to post such impressive numbers while keeping its expenses in check. As of September 30, 2012, it had one branch, six FTEs, and a 69.9% efficiency ratio compared to 10 FTEs and a 92% efficiency ratio for its asset-based peer group and 23 FTEs and 73.7% efficiency ratio for credit unions in Iowa (note: the efficiency ratio quantifies how well a credit union is using its expenses by measuring how much the credit union has to spend in order to generate \$1 of revenue; a lower value is better).

Des Moines Police Officers' Credit Union ranked No. 1 for third quarter 2012 in Callahan's Return of the Member [ROM] Index, which provides a comprehensive scoring system of member value that looks beyond the traditional safety and soundness issues covered by NCUA's CAMEL scoring and other regulator examinations. ROM calculation uses 5300 Call Report data to capture a holistic view of a member's relationship with the credit union and focuses on three core functions: savings, lending, and product usage.

ROM ranks credit union

performance according to asset-sized peer groups, and the Hawkeye State credit union consistently ranks in the top tenth percentile for its asset base.

Here, Janet Lintin, CEO of Des Moines Police Officers' Credit Union, talks about deposits, loans, and member engagement.

HOW ARE YOU ENGAGING MEMBERS?

JANET LINTIN: Having the right people on staff is the key. Making sure they give each member the kind of service they want, which might be different for every member, is critical. Assuring the member they will take care of it, whatever "it" is, makes for loyal members.

We have been more intentional about connecting with our members by sending cards for life events, sending communication when loans are paid, and handwriting thank you notes for new accounts.

We visit worksites regularly. When we attend roll call for a particular department, invariably one of our members will speak up and advocate for our credit union. What can be more engaging than that?

ARE YOU FOCUSING MORE ON THE LOAN SIDE OR DEPOSIT SIDE?

JL: We want the full relationship so we ask for it all. Helping our members

understand how we can benefit them with our products is only a part of our focus. Helping members understand how we can make their lives easier by fully explaining our electronic services and communicating our commitment to take care of them is perhaps more important.

Like all credit unions, we could use more loans to offset deposits. We have to work hard at this since we have a closed field of membership and our opportunities are limited. When we take the loan application, we look at their full financial picture and make recommendations on how we can save them money. If another guy's deal is better, we are not afraid to say so and ask them to come back next time around.

TELL ME ABOUT YOUR PHILOSOPHY ON PRICING: ARE YOU FOCUSING MORE ON OFFERING COMPETITIVE RATES FOR SAVERS OR BORROWERS?

JL: Again, we believe we have to be competitive with both savings and loans rates. How can you possibly develop deep long-term relationships if you don't take care of the full relationship? My borrowers won't always be borrowers. As many age, they become savers. My savers will likely need a loan down the line. It is important that we give them a reason to do business with us, no matter what their needs or financial leanings.

HOW ARE YOU ENCOURAGING MEMBERS TO MAKE YOUR CREDIT UNION THEIR PFI?

JL: Lots of people don't understand the breadth of service our little credit union can offer. We provide education that doesn't necessarily push a particular product or service or pay-off immediately. We send a monthly electronic newsletter that offers general financial education, and we offer

financial education videos on our website. Neither vehicle pushes our products or services directly, but they help establish us as financial experts. We hope this education will encourage members, and potential members, to think of us first when they need a financial service.

Beyond that, we build trust by greeting members by name and doing the right thing with regard to their accounts.

HAVE YOU LAUNCHED A PRODUCT TO ENTICE MEMBERS TO OPEN A CHECKING ACCOUNT?

JL: We have just one checking account. It has all the bells and whistles and it pays a decent dividend. We can adjust it to fit almost any member's needs. We offer all of the companion services for free, including electronic bill pay, ATM transactions, eStatements, mobile banking, and debit card round-up. Our growth in checking is mostly due to our staff consistently asking members why their checking account isn't with us.

HAVE YOU LAUNCHED A MARKETING CAMPAIGN THAT PROMOTES YOUR CREDIT UNION?

JL: Our marketing is heavily word-of-mouth. We are fortunate to have a great group of ambassadors who spread the word to their co-workers about the credit union. Other members also do a great job of selling their credit union. Our board of directors has been active in recruiting members at special events; they even flip burgers at our member appreciation days.

The responsibility for coordinating activities falls to our part-time business development specialist. Bringing her on board was one of the best strategic decisions our organization made. It assures the business development has someone's full attention at our small credit union.

DO YOU OFFER A PATRONAGE DIVIDEND OR OTHER TYPE OF DIVIDEND SHARING?

JL: No. We try to provide a consistent return to our members by offering them excellent rates all year long. We hope they are not compelled to shop when they have a need because they know we are market leaders.

IN TODAY'S ENVIRONMENT, LOTS OF CREDIT UNIONS HAVE STRONG SHARE GROWTH BUT MATCHING THAT WITH STRONG LOAN GROWTH IS CHALLENGING. HOW DO YOU ENCOURAGE MEMBERS TO TAKE OUT LOANS?

JL: This is a challenge for every credit union, ours included. We must dig deep with our closed membership to find opportunities. We expect lenders to use a loan request as an opportunity to talk about how we might be able to save the member money by refinancing other loans. We use our data processing system [from CU*Answers] to target loan promotions (read more about the credit union's Free in 3 and Free and Clear promos).

WHY DO YOU THINK YOU'VE HAD SUCH SUCCESS IN GROWING BOTH YOUR SHARES AND LOANS?

JL: Our members trust us. Being from the public safety sector, they are comfortable doing business with a credit union that serves people they work with daily. The guy or gal who's got your back on the street will likely have your back at the credit union. This resonates with them. We don't get every deal, but we are at least given an opportunity for most all of our members' needs.

HOW ARE YOU ONBOARDING NEW MEMBERS?

JL: We have people on staff who present the information members need to establish a new relationship. We walk

them through home banking, mobile banking, and other convenience services, including shared branching. We understand convenience is a primary consideration for all consumers. If we don't take time to do this, our single location becomes a limiting factor in growing that relationship.

We follow up right away with a welcome card or email. After a couple of weeks we call to make sure they've received their cards or payroll has kicked in, which gives the new member an opportunity to ask questions. We take time to discuss any needs we uncovered during the initial meeting. The members seem better able to absorb product details at that time than during that initial meeting, and after three points of contact, we are a friend instead of a stranger discussing their needs.

HOW DO YOU ENCOURAGE MEMBERS, ESPECIALLY NEW MEMBERS, TO TAKE FULL ADVANTAGE OF THE CREDIT UNION'S PRODUCTS AND SERVICES?

JL: Let's face it ... members are bombarded by communication so emailing, sending marketing pieces, or posting something to the website is not always fruitful. We need to be ready with solutions when the member has the need. Our staff persons are light on their feet when it comes to uncovering

needs and offering solutions. Beyond that, they like the services we offer and they use them. They frequently relate their own experiences to members. Personal testimonials go a long way in assuring members our product is right for them. As I said before, a great staff is the key.

DO YOU HAVE A SALES CULTURE?

JL: We have a helping culture, but then again, that is a sales culture, isn't it? It is often impossible to help a member without offering a product or service solution.

We do not have sales quotas but we do spend time helping our staff understand that our budget and their compensation require that we generate a defined loan volume and generate a defined membership growth and checking penetration while assuring low delinquencies and healthy ROAA. If we meet our budgeted targets, they share in a corporate incentive plan. If we don't, they don't.

WE HEAR A LOT FROM SMALLER CREDIT UNIONS THAT IT'S DIFFICULT TO COMPETE TODAY, BUT YOU'RE SHOWING THAT IT CAN BE DONE. WHAT IS YOUR SECRET?

JL: We run efficiently and every staff person must be a heavy lifter, so we are picky about whom we hire.



We keep up with technology. We have a culture of continuous improvement and forward movement. Without these three things, it is tough to motivate members to stay with you and, more importantly, to motivate potential members to join your ranks.

We want the biggest bang for the buck when we choose vendors. That does not mean being cheap, rather it requires finding vendors for which there won't be a financial barrier to upgrading services to our members in the future. Our chosen vendors must exhibit energy and growth so we can assure we are partnering with organizations that will be an asset rather than a barrier to our success. [The credit union's vendors include CU*Answers, TMG, and IPay, LLC.]

I'd be remiss, though, if I didn't point out that we have a great membership base. Its loyalty has made us prosper. Any small credit union would benefit from engaging with targeted groups the way we used to in the days when SEG development was king. Building relationships means everything when you are the little guy. ▽



Top-Notch Growth For A Top Shelf Credit Union

JACK DANIEL EMPLOYEES' CREDIT UNION HELPS MEMBERS COMPARE ITS PRODUCTS AGAINST COMPETITORS TO ACHIEVE DOUBLE-DIGIT SHARE AND LOAN GROWTH.

BY REBECCA WESSLER

JACK DANIELS ISN'T just an iconic American whiskey. The distillery that produces the best-selling U.S. whiskey in the world also is home to a credit union that outperforms its asset-based and state peers in nearly every performance metric.

Jack Daniel Employees' Credit Union (\$22.0M, Lynchburg, TN) ranked No. 11 for second quarter 2012 in Callahan's Return of the Member [ROM] Index, which provides a comprehensive scoring system of member value that looks beyond the traditional safety and soundness issues covered by NCUA's CAMEL scoring and other regulator examinations. ROM calculation uses 5300 Call Report data to capture a holistic view of a member's relationship with the credit union and focuses on three core functions: savings, lending, and product usage. ROM ranks credit union performance according to asset-sized peer groups.

Its 10.32% 12-month member growth trumped that of its state peers' 4.91% and its asset-based peer group's 0.17%. During third quarter 2012, it captured 33.56% of its potential member market share. Credit unions in Tennessee captured 8.56% and credit unions with \$20-50 million in assets captured 4.98%. Its average share balance topped \$11,000, besting credit unions in Tennessee by more than \$3,000 and credit unions with \$20-50 million in assets by nearly \$5,000.

Although credit unions in Tennessee did post a slightly higher average loan balance — \$12,339 versus Jack Daniel Employees' \$11,183 — Jack Daniel Employees' average member relationship fell just shy of \$20,000 versus \$5,654 for state credit

unions, \$6,302 for all credit unions in the United States, and \$3,590 for credit unions of a similar asset size.

As of third quarter, 44.3% of members had a share draft account with the credit union, 18.36% had an auto loan, 13.11% had a credit card, and 4.29% had a first mortgage. Its loan-to-share ratio of 66.77% stacked up well against its asset-based peers' ratio of 56.21%, and its 0.47% delinquency was significantly lower than that of its asset-based peers, 1.40%, or state peers, 0.68%.

As of September 2012, it had only five FTEs and posted a 76.48% efficiency ratio compared to 29 FTEs and 80.95% efficiency ratio for credit unions in Tennessee and 10 FTEs and a 92.11% efficiency ratio for its asset-based peer group (note: the efficiency ratio quantifies how well a credit union is using its expenses by measuring how much the credit union has to spend in order to generate \$1 of revenue; a lower value is better).

Here, Pamela Case, CEO of Jack Daniel Employees' Credit Union, talks about how to turn member confidence into solid performance.

IN TODAY'S ENVIRONMENT, LOTS OF CREDIT UNIONS HAVE STRONG SHARE GROWTH BUT MATCHING THAT WITH STRONG LOAN GROWTH IS CHALLENGING. HOW DO YOU ENCOURAGE MEMBERS TO TAKE OUT LOANS?

PAMELA CASE: We have been extremely fortunate in our loan volume. Our loan and total asset growth have both been above 12% for 2012. Our members have confidence in us is the best description I can give. We

help members compare our products to competitors' products to allow them to make an informed decision. We do this on an individual basis. Some members come in and tell us they have been shopping around for the best deal, normally on auto loans, and we compare the information they have to our products. We compare the overall interest they will pay and the monthly payments. We also tell them to bring information back from other places they want to check or we tell them the questions to ask to compare the total picture.

Once we have all the information we show them the comparisons and let them decide. In some cases the other option is cheaper and we tell them that. Even if they don't use us for that transaction, in most cases they come back to us for the next one. Some will see the difference and stay with us for the convenience and trust. We started this when the auto dealers began their 0% financing years ago. Our members didn't realize that 0% included an upfront cost that, when factored into the deal, wasn't always the best overall package.

We also promote loan products with reduced rates, cash back on our credit cards, and a quick turnaround times on loan requests.

WHY DO YOU THINK YOU'VE HAD SUCH SUCCESS IN GROWING BOTH YOUR SHARES AND LOANS?

PC: Member confidence. We know members by name, have a stable workforce, and have minimal turnover. We understand the members are our priority and we treat them as such.

HOW DO YOU ENTICE MEMBERS TO OPEN A CHECKING ACCOUNT?

PC: If we make the account opening process simple and member-friendly, members advertise for us. We appreciate their willingness to tell their friends and family about the services we have available.

HOW ARE YOU ONBOARDING MEMBERS? HOW DO YOU ENCOURAGE MEMBERS, ESPECIALLY NEW MEMBERS, TO TAKE FULL ADVANTAGE OF THE CREDIT UNION'S PRODUCTS AND SERVICES?

PC: All of our employees are trained to explain our services to the members as they open accounts. We provide information about the credit union and its products and services, offer a tour of the credit union, introduce new members to other employees, and ask members what financial services they enjoyed at their prior institution that they would like to continue.

Then we explain how we can fill those needs. If we see credit cards or auto loans on their credit report, then we tell them what products we have that fill that need and help them determine if what we offer will save them money or be more convenient.

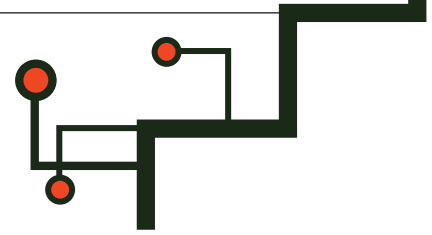
DO YOU HAVE A SALES CULTURE?

PC: In a small institution, every

employee must take on the role of information provider to the membership. Our employees are trained in several areas of the credit union and cross-trained as back-up employees in several other areas. Once employees see our products help members reach their goal, a sales culture becomes contagious. Because all of our employees interact with members during account opening, teller functions, or phone calls, all our employees gain a better understanding and connection with our membership. That helps focus the sales culture on the member and not just on reaching goals. To me, that's when a sales culture becomes valuable and operates at the best level for the members.

DO YOU SHARE YOUR PERFORMANCE GOALS WITH YOUR STAFF OR EDUCATE YOUR STAFF ABOUT YOUR PERFORMANCE GOALS TO ENSURE EVERYONE IN THE CREDIT UNION IS ON THE SAME PAGE?

PC: We encourage all of our employees to participate in the determination of our strategic goals. We give all employees the strategic plan and ask for input based on what members request. Our employees have direct contact with the membership, so they are the best source for suggesting service requests and assessing the overall needs of our members. This gives our employees a



direct impact on the future and direction of the credit union.

All employees also have personal career goals and performance goals tied to the credit union's strategy. Allowing and encouraging them to participate in the overall strategic direction of the credit union helps them set those yearly and career goals for themselves.

Their input is the most valuable resource for continued growth. Their willingness to keep us moving forward helps with employee turnover and morale.

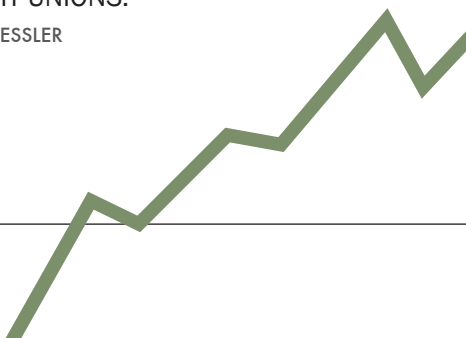
WE HEAR A LOT FROM SMALLER CREDIT UNIONS THAT IT'S VERY DIFFICULT FOR SMALL CREDIT UNIONS TO COMPETE TODAY, BUT YOU'RE SHOWING THAT IT CAN BE DONE. WHAT IS YOUR SECRET?

PC: Our secret is a stable field of membership that has an extreme pride in the credit union they have created and developed. We know who we serve and our goal is to provide the best products we can to that membership. I believe we have remained focused on our core; although we have grown, we have not outgrown our ability to serve with a personal connection to the membership. ▴

Increase Wallet Share In A Competitive Market

SUNSET SCIENCE PARK FCU'S AVERAGE MEMBER RELATIONSHIP IS DOUBLE, EVEN TRIPLE, THAT OF PEER CREDIT UNIONS.

BY REBECCA WESSLER



SUNSET SCIENCE PARK Federal Credit Union (\$35.3M, Portland, OR) might be a smaller credit union, but it achieves impressive financial success by sticking to the core values of cooperative financial services. In doing so, it has established a valuable role in not only its core SEG membership but also in the greater community in which it operates.

"We started small 52 years ago and steadily grew through word-of-mouth of our sponsor company, co-workers, and families," says Rhonda Baggarley, CEO of the \$35 million institution. "We've never had the philosophy to grow for growth's sake. We grow so we don't remain stagnant."

The credit union ranked No. 8 for second quarter 2012 in Callahan's Return of the Member [ROM] Index. The ROM index provides a comprehensive scoring system of member value that looks beyond the traditional safety and soundness issues covered by NCUA's CAMEL scoring and other regulator examinations. ROM calculation uses 5300 Call Report data to capture a holistic view of a member's relationship with the credit union and focuses on three core functions: savings, lending, and product usage. ROM ranks credit union performance according to asset-sized peer groups.

Its 12-month member growth of 0.47% bested the 0.17% of other credit unions in its \$20-50 million asset base but fell short of the 4.89% posted by its state peers. Although that growth might appear low at first glance, the credit union pulls from a small Portland suburb with a population below 15,000. During third quarter 2012, the credit union captured 28.31% of its potential member market share. Comparatively, credit unions in Oregon captured 3.87% of their potential member market share while credit unions in Sunset Science's asset-based peer group captured 4.98%.

As an industry, credit unions are growing members at a phenomenal rate, helped in part by consumer awareness and grass-roots initiatives such as Bank Transfer Day. Now it must consider a larger issue: How to capture greater wallet share. In this regard, Sunset Science's 12-month member growth belies its success at creating holistic, dedicated members. Such success is evident, however, in its loan and share growth, accounts per member, and average member relationship.

The credit union's average share balance topped \$15,000; that's 50% higher than the average share balance of credit unions in Oregon and more than two times the average share balance of credit unions of a similar asset size.

"Our shares and loans are both growing on a parallel trajectory," Baggarley says. "But we're more focused on the loan side."

Sunset Science tilts heavily toward mortgages — nearly 80% of its loan portfolio is concentrated in first mortgages, which the credit union holds in-house — so it is exploring other areas of growth, such as in vehicle and RV loans and credit cards.

That focus appears to be paying off. This quarter, members at Sunset Science not only held more loan accounts per member — 0.66 — than the credit union's state or asset-based peers — 0.57 and 0.56, respectively — but also held a higher average loan balance — \$19,000 — versus Sunset Science's state and asset-based peers — \$13,000 and \$6,000.

Although the credit union is focusing on growing and diversifying its loan portfolio, it understands the important role sticky deposit offerings — such as direct deposit, automatic withdrawals, home banking, and PFM — play in retaining members and building a loyal base. For that reason, Sunset Science is strategically targeting new members during the onboarding period to offer its breadth of services and clarify questions.

The credit union's average member relationship topped \$27,500 versus \$13,000 for state credit unions, \$6,300 for all credit unions in the United States, and \$3,600 for credit unions of a similar asset size. As of third quarter, 65.0% of members had a share draft account with the credit union, 12.29% had an auto loan,

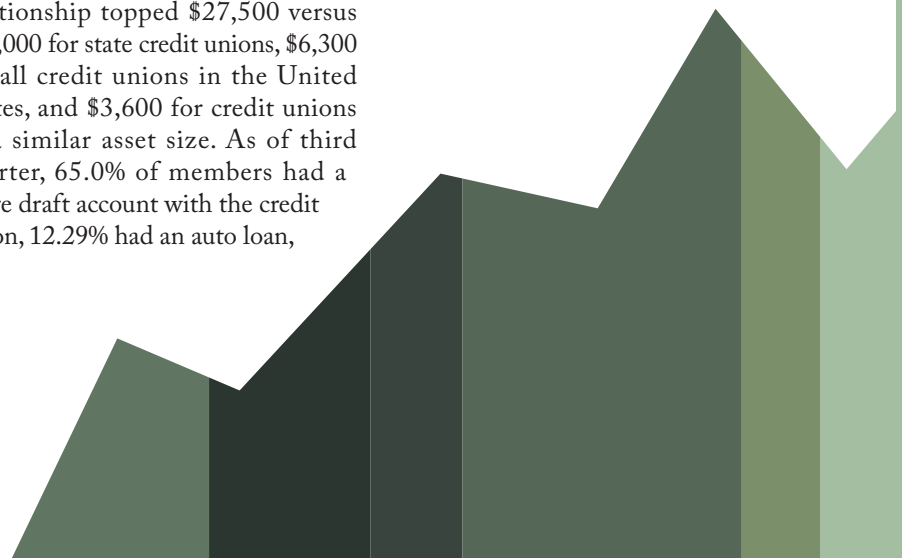
18.28% had a credit card, and 7.68% had a first mortgage. Its loan-to-share ratio of 84.28% stacked up well against its asset-based peers' ratio of 56.21%, and its 0.07% delinquency was significantly lower than that of its asset-based peers' 1.40%.

"We've only had one foreclosure in the past 25 years," Baggarley notes.

As of September 2012, Sunset Science had only eight FTEs and posted a 67.08% efficiency ratio compared to 63 FTEs and 77.61% efficiency ratio for credit unions in Oregon and 10 FTEs and a 92.11% efficiency ratio for its asset-based peer group (note: the efficiency ratio quantifies how well a credit union is using its expenses by measuring how much the credit union has to spend in order to generate \$1 of revenue; a lower value is better).

"Over the years we've been adding new technology, products, and services as they come about instead of pulling back and playing catch-up later," Baggarley says. "And we recently completed cross-training so employees are comfortable talking across our product line."

It is tried-and-true techniques such as this that have helped Sunset Science engage its members and establish a solid foundation that a credit union of any size would be happy to build upon. ▴



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