

#### IN THIS ISSUE

#### FIRST PERSON:

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Federal Credit Union

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# the CALLAHAN REPORT

*At the Leading Edge of Credit Unions*



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## UNLEASH THE POWER OF CONSTRAINT

**IF NECESSITY IS THE MOTHER OF INVENTION, THEN LIMITATION JUST MIGHT BE THE FATHER OF INNOVATION.**

BY ALIX PATTERSON

**THE FIVE LARGEST** banks in the United States — JPMorgan Chase, Bank of America, Citigroup, Wells Fargo, and Bank of New York Mellon — have a combined asset base of \$8.2 trillion. By comparison, the top five credit unions in the United States — Navy Federal Credit Union, SECU, Pentagon Federal Credit Union, Federal Credit Union — base of \$126.9 billion. the United States, Bank of than six times larger than Navy Federal, which itself more than double the asset size of the second-largest credit union, SECU.

Yet despite the differences in assets, resources, and regulatory power, credit unions are holding their own against banks on the national stage. The strength of the cooperative model is proving there is power in constraint. Working within their limited means, these Davids are building a better slingshot while their Goliath financial brethren are hampered by a complicated network of processes, procedures, and investor expectations.

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### WHAT CONSTRAINT MEANS FOR CREATIVITY

Examples of how constraint encourages stronger performance abound. In a March 2014 *Fast Company* article, author Barantunde Thurston cites three examples — Snapchat, which destroys pictures after just a few moments; Twitter, which limits communications to 140 characters; and Vine, which gives video producers a mere six second to tell their stories — of popular platforms that constrain their users despite being founded in the era of the limitless Internet. But there just might be a method to their madness.

“For creativity to flourish, we need to embrace constraints,” Thurston says.

#### Hop On Board

In a *Harvard Business Review* blog titled, “Why Innovators Love Constraints,” author Whitney Johnson talks about how constraint leads to faster feedback. She offers skateboarding as a primary example and cites the “incredible fast and useful feedback” skateboarders receive as a contributing factor for why they learn so quickly.

*continued on page 2 »*

# “ Nam deteriores omnes sumu licentiate. ”

(Translation: “With too much freedom, we all deteriorate.”)

Author George Eliot in the novel *Daniel Deronda*.

“There are numerous instances of coaches in various sports shrinking the space their athletes train in to increase reps and improve feedback,” Johnson says. “When there is less of a cushion between oneself and failure, innovation becomes a necessity.”

Legendary skateboarder Rodney Mullen has more than a little insight about constraint and creativity. In addition to the traditional boundaries of skateboarding, Mullen had to contend with a disapproving parent.

“That pressure where I had to fight for it defines me today,” Mullen says in a video produced by Adobe Creative Cloud. “The most creative time I had in skateboarding is when [my father] said ‘this is it’ at the end of the summer.”

Mullen soared to notoriety by inventing more than two dozen tricks and winning nearly every contest he entered for six years. But when the sport changed, Mullen faced another constraint: starting from scratch to build a new style.

“When you think you know something, just change one little bit,” Mullen says. “You realize how crippling that change can be.”

Today, Mullen is back on top. The multimillionaire still skates, but he’s also a business owner, researcher, and developer. In addition to the many awards and accolades he’s received, he joined the Skateboarding Hall of Fame in 2013. Not bad for a skater who as a child had to wear braces to correct his pigeon-toed feet.

“Our perceived limitations may give us direction on where we might play, or want to play,” Johnson offers as parting words in her HBR blog. “Indeed, if we will let them, constraints can (and will)

drive us to disruption.”

## The Right Mix

Nobody, or no business, likes to be told “no.” Our inner id wants what it wants when it wants it. Constraints? No thank you.

Fortunately, that’s not the way the world works, and successful, creative, disruptive companies learn to work — and thrive — within boundaries. Of course, too much constraint can kill creativity, so it’s important to find that balance between too much and too little freedom.

“The key to spurring creativity isn’t the removal of all constraints,” says Adam Richardson in his June 2013 HBR blog “Boosting Creativity Through Constraints.” “Ideally you should impose only those constraints (beyond the truly non-negotiable ones) that move you toward clarity of purpose.”

If you’re working on a project or problem and you’re not sure what constraints to impose, don’t worry. The creative process allows you to add and subtract or rearrange roadblocks depending on what the situation demands, and here, too, Richardson offers some words of wisdom:

- *Get Back To The Basics* — What is the one thing you want your customers to know or do? If you could communicate only via a mobile phone screen, business card, or Vine video (remember, six seconds), what would you say?
- *Break Your Habits* — Changing your habits helps change your perspective and introduces new constraints you must overcome.
- *Step Out Of The Comfort Zone* — “Creativity needs some grit,” Richardson says.

*“An irritant to get the ball rolling and persistence to push through to completion.”*

The importance behind how constraints force individuals and organizations to return to the basics doesn’t belong to Richardson alone. In a September 2013 op-ed that ran in the *Washington Post*, former T.C. Williams High School schoolteacher Patrick Welsh lamented the results of 40 years of education reform. He quotes a young colleague who quickly discovered all the resources in the world does not guarantee success: “I did more with far less at my previous school,” Erika Dietz says. “In part because I had to, but also because I could focus on the basics of good teaching ... at times, having so much [at T.C. Williams] was stunting.”

## Guiding Principles

In his September 2013 article on Good.Is, IDEO systems designer Sina Mossayeb says constraints can be a “great ally” and outlines five constraining principles that help him succeed in his line of work. They include:

- *I can’t imitate forever — and when you stop imitating, you start innovating.*
- *I can’t know everything — and mistakes help you learn, so don’t let mistakes discourage you.*
- *I can’t focus all the time — so take a mental breather to allow new ideas to present themselves.*



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## 4 WAYS TO TURN CONSTRAINT INTO OPPORTUNITY

*These credit unions turned their boundaries into benefits.*

- 1. PRODUCTS AND SERVICES:** You don't need a massive offering to impress members and build loyalty; you just need to find that sweet spot. DFCU Financial intentionally keeps its product lines simple — its one checking account, IRAs, and certificates all offer the same pricing dependent on variables such as terms and balance. Still, the credit union reported an impressive average share balance of \$15,126 as of first quarter 2014.
- 2. MEMBER GROUPS:** Although many credit unions serve a range of member groups or have community charters, plenty — such as Boston Firefighters Credit Union — remain focused on their core sponsor. Despite its smaller membership base of 6,622, its first quarter ROA of 1.06% is stronger than the 0.98% posted by credit unions with more than \$1 billion in assets and the 0.78% of all credit unions nationally.
- 3. EMPLOYEE EXPERTISE:** With all the new regulations taking effect, keeping processes and standards up-to-date can be daunting and expensive, so many credit unions are turning to CUSOs, like COMPASS 4 CUS, or sharing employees to handle compliance without breaking the bank.
- 4. OPERATING EXPENSE:** The Washington, DC, region is an expensive place to operate a brick-and-mortar business, so seven area credit unions are coming together to share resources, technology, talent, and expenses.

- *I can't listen to everyone — so build out those in-person and digital networks and focus on listening to those people who will help you achieve your goal.*
- *I can't be perfect — but you can practice perfection without expecting a perfect outcome.*

If his professional success is any indication, then the constraints American musician Jack White puts on himself are certainly great allies. According to Richardson, the other half of the former duo The White Stripes has been known to use low-grade instruments that force him to try harder to elicit the sounds he wants. He also arranges equipment in a way that forces him to move further to reach it. Such practices ward off laziness and keep creative juices flowing.

“You may think you're making your team's life easier by removing constraints, but forcing a little hustle is good for creativity,” Richardson says.

### HOW CONSTRAINT FOSTERS PROGRESS IN FINANCIAL SERVICES

As within any industry, small financial institutions that have fewer resources must think of new ways to tackle problems. But even large financial institutions are forced to think differently when they enter new markets with different sets of limitations.

In Africa and India, for example, large expenditures on brick-and-mortar locations can yield limited results because poor infrastructure makes it more difficult to move around as much as in more developed countries. The same infrastructure issues also present roadblocks to online banking adoption. The solution? Text banking and mobile banking. Those services are far more developed than what we are accustomed to in the United States because institutions and consumers in those countries live and breathe by their mobile phones. There is no landline dependence to move users away from. In-

stead, consumers have embraced simple, clear, straightforward solutions designed for mobile phones.

### *Good (Enough) Is Great*

Sina Mossayeb's fifth constraining principle that he can't be perfect applies to institutions, too. When you're working with limited resources, sometimes you must settle for good enough. And as hard as it is for those Type A personalities out there to accept, “good enough” means exactly that: GOOD ENOUGH.

So the next time your credit union is struggling to complete those finishing details to take a new product or service to market, try going to market 95% done and take heed of Mossayeb's second principle — you can't know everything.

“Innovation requires not knowing what the right answer is at the outset,” he says. So let your members and the market define what 5% is left to complete.

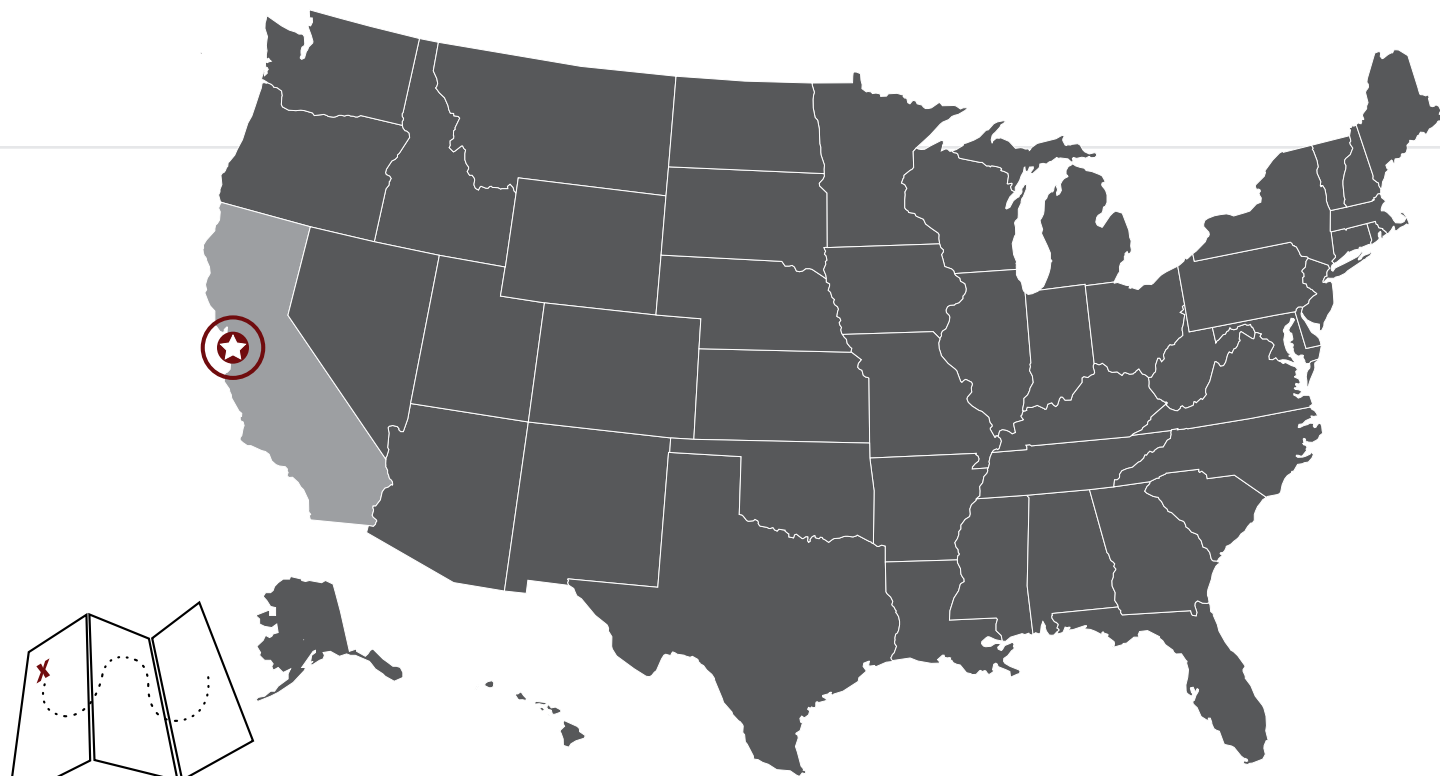
### *Define Your Own Success*

Who says success has to look a certain way? Even established institutional staples such as core products, services, or mission statements offer some flexibility in how you define their success. So look for ways to introduce constraints and redefine achievement within your organization.

Planning season is fast approaching and credit unions across the country will enter fall with excitement and a list of to-dos to accomplish over the next year. Instead of launching that new product in 12 months, though, shoot for three. Or instead of launching five perfect products in 2015, choose one to launch before the end of 2014.

And when you're working on those products or services, embrace the Jack White strategy of limiting the tools at your disposal. This will force you to focus on results and identify those key things you want and can do well. It is these things that will differentiate the credit union in a competitive market in a way mere service won't. 🎸

*Read this article on [creditunions.com](http://creditunions.com)*



## NOTES FROM THE ROAD

### FINOVATESPRING 2014

SAN JOSE, CA

*The Finovate Group hosted its annual spring conference in April. The conference give established vendors and new startups seven minutes to present live demos of their bleeding-edge technology innovations. Callahan writer and editor Aaron Pugh joined this spring's conference attendees, which included U.S. and Canadian credit unions, domestic and international banks, vendors, and even members of the CFPB.*

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Two themes dominated FinovateSpring last year: personal financial management tools and near field communication mobile wallets, both of which require significant hardware upgrades to adopt. Prevalent topics this year included:

#### 1. MOBILE AS A PRIMARY DEVICE FOR THE LOAN PROCESS.

CUNeXus uses financial institution data to create always on, preapproved loan offers based on specific credit scores with rates that change as the consumer modifies their loan terms. Consumer behavior — such as entering an auto dealership — can trigger offers, and because the borrower is prequalified, they don't have to complete an application on a mobile screen. They simply agree to loan terms and conditions with a single click or electronic signature.

#### 2. MOBILE AS A REMOTE TO TURN PHYSICAL CARDS ON AND OFF OR SET CUSTOM PURCHASE THRESHOLDS.

True Link and Red Giant demonstrated mobile solutions that limited card purchases to within specified Google map boundaries, within a certain radius from the phone, or by merchant type. This added security is particularly useful for young cardholders or elderly adults who might be susceptible to scammers.

#### 3. MOBILE WALLETS FOR THE UNDERSERVED.

A company called Wipit partnered with Boost Mobile to create a mobile wallet for the underserved/unbanked. The wallet allows users to deposit checks, pay bills, transfer money to other countries, and more. The wallet replaces the many high-cost services of non-FI retailers.

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**JAY JOHNSON,**  
EXECUTIVE VICE  
PRESIDENT

Jay specializes in credit union strategy and performance, economic trends and drivers, and industry data and trends.



## 4. SIRI-ESQUE VIRTUAL ASSISTANTS.

A company called Interactions demonstrated a product that allowed customers to use natural language responses for complex activities such as sending statements to email addresses not on file, transferring funds, switching between languages, and finding nearby ATM or branch locations.

## 5. RESOURCES TO ENSURE FAIR CONSUMER LENDING COMPLIANCE.

Visible Equity scans through an FI's data and uses variables such as first and last name, address, and zip code to predict demographic factors; organize borrowers into groups based on likely gender, ethnicity, age, etc.; and identify potential disparities, such as group that is too far away from the average expected interest rate.

## 6. MOBILE WALLETS THAT DO NOT INVOLVE A SUBSTANTIAL HARDWARE UPGRADE.

Loop offers magnetic circles that existing POS terminals can read and users can embed in phone cases, watches, or other devices for less than \$1. Quisk requires users to enter a mobile number and pin directly into an existing POS system and then confirm it on their phone for cashless, card-less purchases or withdrawals. Pixeliris uses encrypted sonic noises emitted from one device — such as a computer, smartphone, or dumb phone — to initiate and validate POS, P2P, and other mobile payment activities.

## 7. NEXT GENERATION ATMS.

A Ukrainian company called Privat Bank demonstrated an ATM that had no screen, card reader, buttons, or anything not related to contactless connectivity and cash dispersal. Consumers trigger withdrawals through their mobile device or contactless equipped wearables such as Google Glass or smartwatches. 📱

## HOW TO CONVERT A CARD PORTFOLIO TO EMV

### JUNE 3 | ONLINE

Join Callahan & Associates and Deb Wreden, senior vice president of product development at Virginia Credit Union, for a discussion on how VCU revamped its credit card program, converted its entire card base to EMV, and reissued approximately 60,000 cards. Tuesday, June 3<sup>rd</sup> at 2 p.m. Eastern. This interactive webinar is free for Callahan Leadership clients.

Learn more or register online at [www.creditunions.com/connect/calendar](http://www.creditunions.com/connect/calendar).

## CALLAHAN LEADERSHIP PROGRAM CFO ROUNDTABLE

### JUNE 10 | ORLANDO, FL

Join Jay Johnson, executive vice president of Callahan & Associates, and credit union CFOs for a daylong open roundtable discussion on evolving business strategies for 2014 and beyond. Possible topics for discussion include what the economic and consumer outlook mean for loan and share growth, how the regulatory environment is influencing balance sheet management, investment strategies in a high liquidity environment, and how to mitigate margin compression. Discussion evolves organically as attendees steer the focus.

Learn more or register online at [www.creditunions.com/connect/calendar](http://www.creditunions.com/connect/calendar) or contact [vneeb@callahan.com](mailto:vneeb@callahan.com).

## FUNDAMENTALS OF FIXED INCOME — PART 5

### JUNE 10 | ONLINE

Join Trust for Credit Unions for a complimentary 30-minute webinar on bond basics. Kevin Heal, vice president of sales and business development for Callahan Financial Services, will lead this interactive event. Grab your lunch and learn more about the yield curve.

Learn more or register online at [www.creditunions.com/connect/calendar](http://www.creditunions.com/connect/calendar).

## WHY CREDIT UNIONS SHOULD PREPARE FOR EMV NOW

### JUNE 11 | ONLINE

Join Callahan & Associates and Army Aviation Center FCU to learn how AACFCU partially converted its credit card portfolio to EMV, what preparations credit unions should make now, and why it believes establishing an EMV structure sooner rather than later is important for all credit unions. Wednesday, June 11<sup>th</sup> at 2 p.m. Eastern. This interactive webinar is free for Callahan Leadership clients.

Learn more or register online at [www.creditunions.com/connect/calendar](http://www.creditunions.com/connect/calendar).

## TIPS FOR BECOMING A REALTOR'S GO-TO LENDER

### JUNE 24 | ONLINE

Join Callahan & Associates and Tine Cheung of Re/Max's The Gold Standard Group for firsthand realtor advice about what is important to realtors and how cultivating relationships locally can help both realtors and credit unions. Tuesday, June 24<sup>th</sup> at 2 p.m. Eastern. This interactive webinar is free for Callahan Leadership clients.

Learn more or register online at [www.creditunions.com/connect/calendar](http://www.creditunions.com/connect/calendar).



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BY LINDA BODIE, CEO/CHIEF + INNOVATOR, ELEMENT FEDERAL CREDIT UNION

# HOW TO BEAT “NO WAY” WITH “KNOW HOW”

**BEING A SMALL CREDIT UNIONS HASN'T STOPPED WEST VIRGINIA-BASED ELEMENT FCU FROM DEVELOPING SOLUTIONS TO BETTER SERVE ITS MEMBERS.**

**CHARTERED IN 1978** as the West Virginia Department of Welfare Employees Federal Credit Union, \$26.6 million Element Federal Credit Union was among the first financial services institutions in the nation, bank or credit union, to offer remote capture. The multi-SEG, low-income designated institution has a reputation within the state and the industry as an innovator. This is bolstered by the fact the credit union's CEO, Linda Bodie, prefers the title Chief + Innovator.

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We're a pretty small credit union, but we don't let that stop us from going the extra mile to develop solutions for serving our members better. Cost is an issue, so we gather ideas wherever we can. My inspiration comes largely from companies outside credit unions such as Apple, Google, and Amazon. But those are only examples. I draw inspiration from any place I feel has a new and better way of serving members or that is communicating with members in a new and meaningful way. For example, I've been inspired by restaurants where I've witnessed outstanding service to customers.

But let me go back a bit. I came to Element 16 years ago when it had \$2.3 million in assets and three employees in a small office of a state building. Obviously it was limited in what it could do, and technology was not yet what it is today. Vendors, especially the technology vendors, did not want to deal with us because they were after bigger customers and orders. That got me a bit piqued, so I began to look outside the industry. We looked for ways to go paperless and for better ways of communicating with our members who were living all over the state.

When Check 21 passed we wanted to develop a way of enabling members to make deposits by means of their com-

puters, so we developed an FTP [file transfer protocol] so members could send check images to us. We were one of the first in the nation to make remote check deposit happen.

When smartphones came along, we were already a long way toward being ready to take deposits from member smartphones. For example, we already had the security pretty well in hand. In this case, we happened to be lucky. We had an IT man on staff that was passionate about technology and serving members, not merely managing a network. He learned the Apple iPhone system and developed an app that would deposit checks by smartphone. After that, we went retro and set up deposit from fax machines because lots of our members did not

own a smartphone or scanner but did have access to fax machines. This was a big hit. Now we accept checks by fax, smartphone, and computer, and members do not have to mail in the checks later. We also accept cash by remote deposit.

Other ideas we've pursued over the years include a 5 cent swipe fee donation to one of four charities, round up credit and debit card totals donated to charities, remote deposit and financial services through our Facebook page, and artificial intelligence

online chat on our website.

I tell people to break away from the notion that you have to take your ideas from a traditional and large credit union vendor. Instead, look at more ideas and vendors, talk to people, play with solutions for a while, and go with the ones members will like. This is basically what we have done. I search for solutions and take the ones that are affordable, easy and secure, and fit what we are looking for.

It's too easy to get caught up in the idea that we run credit unions, that we run our business trying as best we can to accommodate laws and regulations. That kind of thinking is inside the industry. You have to get outside your own environment and see what's happening, how other people are innovating and creating. Then you have to ask yourself: "How can I innovate? How can I create? How can I differentiate from every other bank or credit union?"

Credit unions can make the best financial services segment in America, but if we are not creative thinkers, we will not be able to meet the needs of people a few years from now. You have to get outside. Putting yourself in a place where you are a bit uncomfortable is critical to this process — I make myself uncomfortable every day.

Of course, there will be times when you get ahead of members. It's happened to me a number of times. But generally in a year or so they've caught up. We've found



FIRSTPERSON  
LINDA BODIE

CEO/Chief + Innovator, Element FCU

## CU QUICK FACTS

### ELEMENT FCU

HQ: CHARLESTON, WV  
ASSETS: \$26.6M  
MEMBERS: 4,621  
EMPLOYEES: 13  
BRANCHES: 3  
ROA: 0.85%

“Credit unions can make the best financial services segment in America, but if we are not creative thinkers, we will not be able to meet the needs of people a few years from now.”

Linda Bodie, CEO/Chief + Innovator, Element Federal Credit Union

we had a proper product or service, we just introduced it a bit early. For example, our card-swipe charity donations were a bit early for our members but have now caught on. And we've suspended our artificial intelligence chat until the technology gets better.

It's an educational experience to fail because then you keep trying until you find something that fits. And it's not just technology; it's product innovation. You can't be afraid to fail. More things will probably fail than succeed. If you think you have a good idea, never give up.

Anytime you are trying to innovate or roll out a product or service, you are making a set of assumptions. results, you often see assumptions were drop the incorrect ones with more appropriate we use a debit card People were slow to thought it was more an an ease of entry problem than a philosophical one, so we worked on communicating what this product does and making entry easier. This made the program successful.

If something doesn't work right away, look for the barriers to communication, understanding, and usage. Tweak. The solution is probably not throwing more money at it but rather understanding the problems and tweaking to resolve them.

When we have a product we think will benefit our membership, I normally play with it first, and it usually takes a bit of time for me to feel comfortable with it. Then I take it to the staff. Sometimes they tell me they think it is stupid, but generally I insist they work with it for a while. Sometimes they go for it and sometimes they don't. If the idea gets past this stage, then we send it to a group of members who like to test things for us. We tweak it until we think it's ready to go and then it's out to the full membership.

When we roll out a product we try for rapid feedback. We have an informal process for feedback, the better to perfect the product out there. We don't want to lose the speed to market.

Of course, we absorb ideas from within the credit union industry as well from without. We have a reputation for innovation, so I get calls from people wanting to pick my brain. That's fine, and in the process I pick theirs, too. Ideas spring from that. One idea begets another and is a nice demonstration of the collaborative nature of credit unions. 🤖

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When you see the that some of those wrong. You have to and replace them ones. For example, round up program. embrace it, but we understanding and



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