

THE CALLAHAN REPORT

OCTOBER 2012

At the Leading Edge of Credit Unions

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LOOK FORWARD TO THE FUTURE

The country is pulling out of the crisis, and credit unions are thriving.
Now where do we go from here?

The strategic planning season is upon many credit unions, and the discussions taking place across the country this fall should be like none of the preceding five. Today's climate offers an opportunity for credit unions to take action, to look far into the future and begin to shape *where* they are going to be and *what* they are going to be in five, 10, and 15 years.

In 2008, the industry confronted a once-in-a-generation emergency that required nearly all its attention. It had to concentrate on dampening delinquencies and boosting ROA to power through. The country is pulling out of the crisis now, and credit unions are thriving. Continuing to focus solely on present problems — such as too few loans and too much liquidity — will set the industry behind in system advancement and improvement. Now's the time for the industry to step out of the weeds, look ahead, and set a course for how to get where it wants to be.

“Continuing to focus solely on present problems will set the industry behind the curve of system advancement and improvement.”

MOVE ON FROM THE RECENT PAST

Credit unions are in the proper shape to take bold steps and new initiatives. Midyear results are impressive. The industry posted the highest ROA since 2005 and will generate the largest bottom line in its history. It has captured its highest-ever market share in first mortgages, credit cards, and more. The most troubled regions during the recession

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Q&A

Tom Dorety
CEO of Suncoast Schools FCU

are bouncing back to health, and some are even outperforming the industry in key ratios. For example, the Sand States lead the country in improved loan originations, asset quality, and ROA.

Qualitative measures look as good as quantitative ones. More CEOs are retiring, indicating credit union leaders are confident they have weathered the worst of the storm and can pass the helm to younger executives. More credit unions are moving to larger headquarters, again, displaying confidence in their growth prospects.

Even NCUA is seemingly brushing itself off and looking further out. It is pressing to raise the member business lending cap and for access to alternative capital. It also is looking at using derivatives for balance sheet hedging.

BUILD FOR THE LONG-TERM

The Rockefeller Foundation, a 100-year-old philanthropic institution dedicated to promoting the well-being of humanity, has set a centennial goal to uncover and address the challenges facing the world's poor and vulnerable people for the next 100 years, according to its website www.rockefellerfoundation.org.

Judith Rodin, president of the Rockefeller Foundation said in May, "We have the advantage ... of being able to take risks. We're not driving to the next quarterly earnings like businesses. We're not worrying about the next election. We have tax-advantaged risk capital, but that doesn't mean we should be less disciplined. It means we should be more nimble, more risk-taking, more innova-

and reach the younger generation. They should avail themselves of conveniences like mobile banking apps and remote deposit capture. The entry point for these services is dropping as vendors and CUSOs, such as CO-OP Financial Services and CU*Answers, strive to support credit union adoption.

Now is the time to increase member value. Banks have been raising fees and changing account terms to increase revenues at the expense of customers. This gives credit unions the opportunity to score impressive good will among members—and gain positive PR through word-of-mouth—by rewarding members with better loan and share rates or bonus dividends tied to their credit union activity. Members need more money in their wallets, and if credit unions are actively helping those members improve family finances, credit unions are going to reap the benefits.

Technology and member value are short-term considerations. Longer term, now might be the time to plan for core system upgrades. Or what about expanding into new sources of revenue such as student and member business lending? The latter could encompass lending for community and social investment as well as merchant point-of-sale lending.

Some credit unions are starting CUSOs to provide technology services or compliance assistance. Some credit unions are purchasing realty firms, others insurance brokerages. These are serious investments that require significant planning and capital. The credit unions involved in such activities believe the time is right to make these strategic and game-chang-

would bring its full-service branch total to 52 across 15 Florida counties. It also added four in-school branches in September to its growing network. [Turn to page 4 to read a Q&A with Suncoast Schools CEO Tom Dorety.]

Now is a great time for any credit union to examine how it might better reach members and potential members, the better not to be caught flat-footed as the economy picks up and consumers increase their demand for financial services.

Finally, take a look at the system's new charters. Some new institutions are the result of support and cooperation from existing credit unions or CUSOs. This is a testament to the health of the American credit union system. By contrast, there have been no new bank charters for 18 months.

HOW TO MEASURE SUCCESS

As credit unions set a forward-looking course and start thinking, planning, and acting for the long term, it is a good time to assess how the industry measures success. The hard numbers on the balance sheet and bottom line are no doubt important, but credit unions would do well also to think about how they are impacting people and communities. Traditional metrics understate and under-value things like helpfulness and impact, so how can the industry fully measure the important work it is accomplishing?

For example, total assets is a common and important metric to monitor. However, total assets does not take into consideration assets under management, which include approximately \$45 billion in off balance sheet investment programs and \$130 billion in mortgage servicing portfolios. These two components combined exceed approximately \$180 billion, based on our data.

Additionally, how does the industry think about and measure the ways in which credit unions reach into and help the communities in which they operate? It's easy to measure the dollar value of loans to members, but it's not so simple to measure how those loan dollars empower member-borrowers and build better communities. Credit unions have an excellent reputation for providing high-quality, low-cost financial transactions. Now is a great time for the industry to focus on building a reputation for providing high-quality financial advising and guidance at a reasonable cost.

"For better or worse, we live in a Steve Jobs age where even temporarily diverting your attention can easily put you behind the curve."

tive to get to the goals that we're trying to achieve."

The credit union industry is kicking off this era in a firm position, so how might it begin to shape the kind of future it wants? There are both shorter-term and longer-term measures to consider. For the shorter-term, credit unions should embrace the technologies that are currently available, or coming soon, to satisfy present members, attract new ones,

ing efforts. We do as well.

More credit unions are expanding their branch footprint via new stand-alone locations as well as alternative branch solutions. Suncoast Schools Federal Credit Union in Tampa, FL, is a notable example. The \$5.2 billion credit union recently opened its first new branch in five years and plans to bring another one online before the end of the year, which

THE AGE OF STEVE JOBS

This new way of thinking about what's ahead for our cooperative financial services industry means credit unions must plan less for operations and more for strategy. Institutions must be willing to put operations into the hands of people skilled in operations, those who can keep a firm, steady hand on the tiller. Strategic personnel, then, must stretch their imaginations in the quest for fresh methods and lofty goals.

Past credit union leaders did not build this industry into the trusted, cooperative financial services provider it is today solely by thinking about the present. If they had, credit unions would still be working with paper ledgers and attending credit committee meetings once a

“Now's the time for the industry to step out of the weeds, look ahead, and set a course for how to get where it wants to be.”

week. Likewise, today's leaders must not shrink from their own rendezvous with destiny. It's time to stretch and imagine. Today's world requires this.

Ten years ago few people expected to be reading emails while walking down the street, watching movies during a morning commute, or shooting quality video with mobile phones. For better or worse, we live in a Steve Jobs age where even temporarily diverting your attention can easily put you behind the curve. Credit unions have pulled through an economic hard patch with extraordinary momentum. Now is the time to look into the territory in front of the curve as well as the territory way out in front. It's time to think about where you want to be in 10 years and start planning how you'll get there. ✕

—THE CALLAHAN EXECUTIVE TEAM

IN PERSON & ONLINE

WHERE YOU'LL FIND CALLAHAN

BAI RETAIL DELIVERY

October 9–11 | Washington, DC

Callahan's media team goes on-site at BAI to cover three days of new ideas and best practices in sales, operations, technology, and marketing. Follow coverage on Twitter @Creditunionscom, #retaildelivery.

FILENE RESEARCH INSTITUTE'S BIG. BRIGHT. MINDS 2012

October 9–11 | Ann Arbor, MI

Callahan COO Alix Patterson will join researchers, board members, benefactors, and invited guests to talk about credit union trends, ideas, solutions, and the next “big, bright” things during this annual event.

CALLAHAN PAYMENTS SUMMIT

October 19 | Chicago, Ill

CUFSLP, a collaborative partnership focused on industry innovation and thought leadership, will meet to discuss strategy in the mobile payments space and consider the need for a credit union investment in the market.

CREDIT UNIONS AND INTEREST RATE RISK MANAGEMENT

October 23 | Online

Callahan Financial Services welcomes Jeremy Taylor, NCUA senior capital markets specialist, as he clarifies the agency's formal policy on IRR management. Credit union reaction will also be addressed.

HOW MEMBERS 1ST DEVELOPED A SALES CULTURE

October 24 | Online

Callahan's Leadership Program welcomes Members 1st Federal Credit Union for a discussion on how it implemented a sales culture using a systematic, steady strategy.

CREDIT CARD MARKETING: WHAT WORKS, WHAT DOESN'T

October 25 | Online

Callahan welcomes TRK Advisors for a review of credit card program segmentation and marketing approaches that work on a credit union scale. Example campaigns included.

2012 BRANCH-LEVEL ANALYSIS: STAY COMPETITIVE IN YOUR LOCAL MARKET

November 1 | Online

Join Callahan Analytics for tips on how to better understand the marketplace and prepare for growth in 2013.

CUES' CEO/EXECUTIVE TEAM NETWORK

November 4–7 | Manalapan, FL

Callahan & Associates co-founder and board chairman, Chip Filson, will join the CUES Hall of Fame during the executive society's annual educational and networking event.

CALLAHAN & ASSOCIATES EXECUTIVE TEAM

SEAN HESSION CEO, **JON JEFFREYS** VP, Callahan Financial Services, **JAY JOHNSON** EVP, **ALIX PATTERSON** COO, **SCOTT PATTERSON** VP of New Business Innovation

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A PERFECT TIME TO MAKE INVESTMENTS

Armed with the knowledge and experience gained from the past few years, credit unions have never had a greater opportunity to build business for the future.

Suncoast Schools Federal Credit Union (\$5.2B) is the largest credit union in Florida and the thirteenth largest in the nation. The Tampa-based credit union serves education communities as well as numerous SEGs and communities along the Gulf Coast of Florida. The real estate collapse in Florida, and specifically Fort Myers, hit Suncoast hard from 2008 to 2010. The credit union lost money for three straight years but has since returned to an ROA of more than 1%. Tom Dorety has been the CEO for 16 years.

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YOU HAD A ROUGH PATCH FROM 2008 TO 2010. WHAT IS YOUR STRATEGY NOW?

Tom Dorety: We had a very hard patch, and we did a lot of things we did not like to do. We had to confront problems, but we never took our eye off the long term. We did not lay off employees; we did not close branches; and we did not drop core services. Because of that, we have a stronger base from which to launch ourselves into this strengthening economy.

WHAT KINDS OF THINGS ARE YOU DOING NOW?

TD: We are working to improve our products. We are aggressively going after adjustable rate mortgages. We have improved our checking account along with our credit card rewards program and the companion program of donating to schools. In general, during the lean years of 2008-10 we could not be generous with our products and services, specifically with rates and fees. We are making up for that now.

Our members suffered a lot through the recession and now we want to give back to them. We have returned to paying better-than-market rates and we are more aggressively promoting our products and services to connect with more members.

We are starting a credit card participation program for smaller credit unions. This has taken some time to set up — because of regulatory clearance and so forth — but we know the credit card business well and owing to the past few years are pretty well-versed on how to collect on them. So we think this is going to be a good long-term effort for us as well as a benefit to other credit unions who want to offer their members a quality credit card program with a trusted partner.

We have increased our efforts to support public education. Our core membership has always been public education: the children, the employers, the teachers, and the community. We are now putting nearly \$2 million a year into public education and are the largest nongovernmental contributor to public education in our region. We feel this is not only the right thing to do but also



Q&A Tom Dorety
CEO of Suncoast Schools
Federal Credit Union

CU QUICK FACTS

SUNCOAST SCHOOLS FEDERAL CREDIT UNION

HQ: Tampa, FL
Assets: \$5.2B
Members: 536,000
12-MO Share Growth: 3.61%
12-MO Loan Growth: -5.14%
ROA: 1.00%

that it is the right thing for the long-term benefit of our credit union. We work with school administrators and education foundations and make sure the story of what we are doing with the schools gets out into the Gulf Coast communities.

But our work is not solely with schools. We also support children's health initiatives. One of our biggest efforts has been to join with other local credit unions to raise \$3 million to sponsor the Pediatric Intensive Care Unit and Autism Center at All Children's Hospital.

Another area we've been focused on is employee development. Although we avoided layoffs during the recession, we reduced staff through attrition, trimmed employee benefits and salaries, and cut back on some training programs. We have done a pretty good job with employee compensation over the past 18 months, but when you're not growing you create fewer advancement

opportunities and ways to develop new leaders. Now we're focused on training efforts at all levels of the organization. We are catching up with a more formal mentoring program and actively engaging younger managers in internal planning and external activities.

We also have launched a core conversion effort. Obviously, this is a massive project for us and is going to take another year or more to finish. But it is going to give us increased speed and flexibility. We'll have more options than we have now and a greater ease of operation. We'll be able to add products and code quicker than we can with our old system. No one can say what new sorts of technology-based products we'll want to embrace two and three years from now, but we are laying the foundation for a system that will be more adaptable to accommodating those products when they will be welcomed by our membership.

THE YOUNGER GENERATION IS IMPORTANT TO ANY CREDIT UNION'S LONG-TERM HEALTH. HOW IS SUNCOAST SCHOOLS REACHING OUT TO YOUNGER PEOPLE?

TD: We want to be where they are, get their attention, and be transparent. We have more than 30 in-school branches, mostly in high schools, that are run by students. We actively support financial literacy programs and sponsor many student events. We are getting more comfortable with social media and have had success with several contests on Facebook. Mobile access is a priority, and we are in the process of completely redesigning our website [www.suncoastfcu.org]. We're seeing results — the number of new members younger than 18 has increased 28% over the past two years.

In addition to K-12, we are forging stronger relationships with our community colleges. They represent an incredible opportunity for future growth. Not only do they have a solid employee base, they also have students who are mostly young adults living in the community and are likely to stay here after earning their degree.

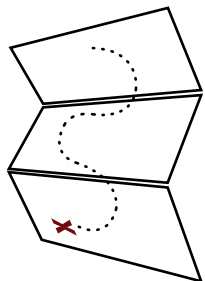
ANY THOUGHTS FOR CREDIT UNIONS MOVING FORWARD?

TD: I've been in credit unions a long time and I've never seen a time with greater opportunities. It's easy to get caught up in the issues of the day or even those of the past few years. But

we have to look ahead. We have to be smarter on account of what we have been through over the past few years. But with the knowledge and experience we have gained — plus some confidence, effort, and fortitude — we can make tremendous strides. This is the perfect time to make the investments that are going to build business for the future. ✕

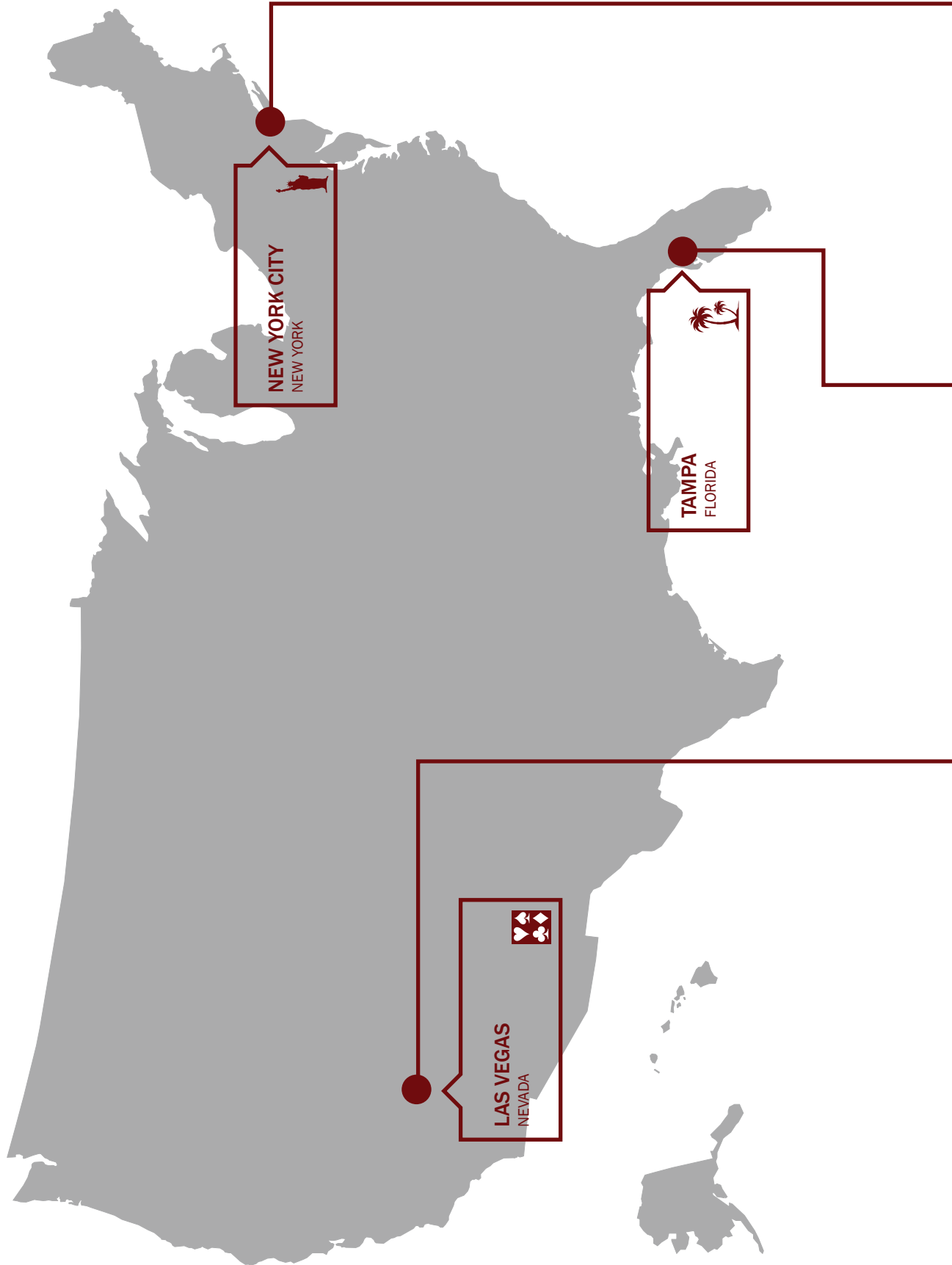
“No one can say what new sorts of technology-based products we'll want to embrace two and three years from now, but we are laying the foundation for a system that will be more adaptable to accommodating those products.”

Tim Dorety, CEO, Suncoast Schools Federal Credit Union



NOTES FROM THE ROAD

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



CALLAHAN PLANNING SESSION & SPEAKING ENGAGEMENTS



Throughout the year, Callahan staff attends speaking engagements and participates in strategic planning sessions with credit union boards and management. Here, Callahan's executive vice president, Jay Johnson, outlines trending topics and concerns he's hearing about in board rooms and conference halls.

- Growth Strategies — How can credit unions continue today's momentum into tomorrow and beyond?
- Member Service Channels—Where to invest? Many credit unions are redesigning existing branches and expanding their current physical network while also investing in mobile and online channels.
- Collaboration — 2012 is the year of the cooperative and the message is resonating. Credit unions are exploring ways to partner within and across the industry to gain strategic advantages via efficiencies and growth opportunities
- Tomorrow's Leaders—After focusing on survival for the past few years, credit unions are now looking forward. Succession planning for management teams as well as boards is a hot topic of discussion.
- Board Oversight—As credit unions expand the size and scope of their membership, employees, products, and services, many are also taking steps to move the board from an operational to a governance model.

AMERICAN CREDIT UNION MORTGAGE ASSOCIATION FALL CONFERENCE



Rebecca McClay, CreditUnions.com managing editor, headed west for the ACUMA Fall Conference. The venue, Cosmopolitan of Las Vegas, was a big hit with attendees, as was the networking and learning opportunities the event provided.

- This year's ACUMA conference was ripe with enthusiasm and informative sessions on the latest mortgage lending trends. Hot topics included how to deal with new regulations, how to identify trends in Gen Y's mortgage borrowing, and how to deliver an outstanding member experience.
- After one session on the Consumer Financial Protection Bureau's latest mortgage disclosure rules and regulations, I caught up with Scott Credit Union's vice president of lending, Marna Asbury. According to Asbury, while the credit union gets ready to sort through the details of new mortgage requirements, it is relishing in a new program that offers shorter term, fixed-rate mortgages.
- Scott Credit Union ran a program last year that offered a five-year and seven-year fixed-rate. This year, it elected to expand the terms to 10- and 15-year options. This appealed specifically to individuals whose children would be in college during that time frame.
- "It took off faster than we thought," Asbury told us. "The biggest challenge we faced was keeping a fixed closing cost because, with our competition, you can get the rate wars going."

ONSITE WITH SUNCOAST SCHOOLS FEDERAL CREDIT UNION



Sean Hession, CEO of Callahan & Associates, visited Suncoast Schools in Tampa, FL, to learn more about the credit union's member solutions department.

- Suncoast Schools formed its member solutions department (MSD) more than four years ago to help members preserve homeownership. What began as a program with a staff of eight grew to include 18 employees with expertise in mortgage, consumer lending, and loss mitigation. Because of the improving economy in Florida, the credit union has been able to reduce staffing back to eight.
- The credit union houses the department under lending rather than loss mitigation, underscoring its lending solutions-centric approach. For example, just because a member is working with the MSD or even in forbearance doesn't mean the credit union would not grant additional loans. Advisors work one-on-one with members to ensure the credit union understands individual situations and then discusses options to help them get through the hardship and provides solutions that meet their needs.

FINOVATE



Callahan's COO, Alix Patterson, and Technology@CU managing editor, Aaron Pugh, traveled to New York to attend Finovate 2012. This annual financial technology conference highlights new innovations via live, town hall-like demonstrations wherein presenters have seven minutes to make a lasting impression.

- More than 60 presenters gathered in New York this year to vet new ideas in front of an audience of banks, credit unions, and venture capitalists. Finovate presenters braved a judgmental Twittersphere as well as technical issues, all with the hope of sharing their dreams with potential business partners.
- After two whirlwind days of learning where people are investing their time and energy, we came away with a better understanding of the top priorities for financial institutions in 2012 and beyond. Although the field was awash with specific solutions, each with their own strengths, here's a rundown of the overarching trends that emerged:
 - Visual, Actionable PFM
 - Mobile Marketing
 - Small Business Solutions
 - Security And Fraud Prevention
 - Payments, Payments, Payments

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