



*Anatomy of*

# MECU OF BALTIMORE, INC.





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“ This was one of the **most effective professional development events** that I have ever attended. The roundtable was supremely organized so that the entire meeting was **participant-centric**. The setting and format optimized focus and discussion on the most relevant issues important to our industry and discipline. The **sharing and collaboration was incredible** – you walked away with a greater gauge of what is moving and shaping Credit Unions around the country and – most importantly – **established meaningful network connections** of diverse expertise that you can draw upon. ”

*Joy Wilson, VP, Talent Management, ORNL Federal Credit Union*

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ANATOMY OF

# MECU OF BALTIMORE, INC.

BY TAKING SMART RISKS, BEING AGGRESSIVE WHEN OPPORTUNITY PRESENTS ITSELF, AND STAYING TRUE TO ITS VALUES AND PURPOSE, MECU IS PROVING THAT COOPERATIVES OF ANY SIZE CAN EFFECTIVELY DEFINE THEIR OWN FATE, RATHER THAN WAITING FOR IT TO BE IMPOSED UPON THEM.



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## 5 THINGS TO MASTER TO BECOME A BILLION- DOLLAR INSTITUTION

Now at a turning point in its history, MECU looks back at a transformation that has been 20 years in the making.

## ADVANCE AND SURVIVE

How one state-chartered institution joined forces with a bank, opened the doors to a new generation of business acquisitions, and preserved an important Baltimore tradition.

## CREATE A CULTURE OF CARING

An award-winning cooperative shares its formula for making community service an integral part of the workplace.

## WITH GRATITUDE

# THRIVING IN A TROUBLED CITY

*How MECU embraced Baltimore's demographic challenges, increased its members' financial stability, and provided a beacon of hope where others fell short.*

BY ERIK PAYNE





## “ I SAW THE ANGEL IN THE MARBLE AND CARVED UNTIL I SET HIM FREE. ”

MICHELANGELO

Most people who visit Baltimore don't pay much attention to the elegant stone doorsteps that grace the entrances of so many city buildings. Constructed from white marble from nearby Cockeysville, this same type of material was used for all 555 feet of the Washington Monument as well as 108 pillars of the US Capitol building.

Instead, visitors focus on the marred formstone, the warped wood, and the peeling paint of these aging structures. They judge the foundational stone for its cracks, not for its resilience.

And there certainly are cracks. But the Baltimore of drugs and crime made infamous through TV is only one side of reality in an impoverished city struggling to get back on its feet. According to 2011 US Census Bureau data, 23% of Baltimore residents live below the poverty line, compared to 15% nationally and 9% statewide. Not surprisingly, Baltimore's median annual household income also trails national and state figures at \$38,731 versus \$50,502 and \$70,004 respectively.

A steadily shrinking population has further added to these difficulties; Baltimore had 35% fewer people in 2010 compared to its post-World War II high in 1950.

MECU of Baltimore, Inc. (\$1.2B, Baltimore, MD) understands the city's woes first-hand because of the parallels between the cooperative and the residents it serves. While the city struggled with poverty, education, and drug-related crime, MECU contended with its own challenges, including a small asset size, outdated technology, limited services, and understaffed branches. The city and credit union both sought to grow and become financially solid, but only one of them — MECU — has succeeded so far.

In fact, MECU has managed to thrive in recent years despite serving a community that often requires taking on risky investments. Currently Maryland's fourth largest credit union, MECU has grown from around \$400 million 17 years ago, when the now retired former CEO Bert Hash first came aboard, to more than \$1.2 billion today, effectively tripling its size in less than two decades. That transformation is living proof that demography, which forms a large part of any credit union's identity, does not

determine destiny.

### A MISSION TO IMPROVE FINANCIAL LIVES

From the beginning, Baltimore's troubles were also MECU's. At the height of the Great Depression in 1936, Baltimore City mayor Howard Jackson and payroll director Elmer Bernhardt established MECU to help the city's municipal employees cope with the economic difficulties of the day. Today, headquartered just blocks away from the city's Inner Harbor and its iconic Camden Yards baseball stadium, MECU serves anyone

who lives, works, or attends school in Baltimore City in addition to many local select employee groups.

MECU has 11 full-service branches throughout Baltimore City and County along with thousands of fee-free ATMs thanks to partnerships with the CO-OP ATM network and M&T Bank. Consequently, MECU's footprint extends well into neighboring Baltimore

#### CU QUICK FACTS

**MECU of  
Baltimore, Inc.**  
BALTIMORE, MD

**\$1.2B**  
ASSETS

**110,312**  
MEMBERS

**3.82%**  
12-MO SHARE GROWTH

**8.46%**  
12-MO LOAN GROWTH

**0.80%**  
ROA

suburbs. But because two-thirds of its more than 110,000 members live in the city, MECU sees itself primarily as Baltimore City's credit union, with a mission that can be summarized in just three words: improving financial lives.

"We believe in supporting the city," Hash says. "If the city is successful, MECU will be successful."

One recent example of this symbiotic relationship was the credit union's acquisition of Advance Bank, the city's second African American-owned bank and a venerable Baltimore institution. As only the fifth credit union purchase of a bank and the first by a state-chartered cooperative, the acquisition broke new ground for the institution while also helping to preserve a slice of Baltimore's history.

### A CHALLENGING MEMBERSHIP

No cooperative survives on good deeds alone and Baltimore doesn't suffer from a lack of competition for financial services. Despite MECU's low-income membership and designation as a community development financial institution, the credit union competes against financial behemoths like Bank of America and M&T Bank for market share as well as countless payday lenders and check cashers. All are considered direct competitors because the credit union's membership runs the gamut of Baltimore's socio-economic strata.

"We have sanitation workers as our members, right up through to the mayor," Hash says. Even the state governor is a member.

As a result, MECU must offer products and services that appeal to a broad spectrum of individuals. These products include everything from first mortgages and used car loans — which

as of 1Q 2014 make up 46.42% and 18.62% of the cooperative's loan portfolio (both exceeding state and peer averages) — to riskier unsecured loans, which currently account for 12.70% of the portfolio, according to Callahan & Associates' Peer-to-Peer analytics. Those percentages represent a significant shift from 17 years ago, when unsecured loans dominated nearly 80% of the credit union's portfolio.

Given the economics of a large slice of MECU's membership, unsecured lending will always be an essential piece of the credit union's product offerings and it has been proven a remarkably stable one in terms of risk. During his 17-year tenure as CEO, Hash has seen little change in the quality of unsecured loans that MECU approves. In 1997, 55% of MECU's loan paper was either A or B class while the remaining 45% was C, D, and E. Today, these percentages are roughly the same.

The reality is the credit union must take on risk to serve its membership, Hash says.

In many cases, MECU loans represent a low-income borrower's best, if not only, option. For MECU, accepting risk and investing in its membership are just the costs of doing business and this philosophy manifests itself financially in many different ways. With \$101 in operating expenses per member, compared to \$89 and \$85 per member for state and asset-based peers, MECU cuts no corners in the quality of its business operations.

Higher than average delinquent loans and charge-offs also accompany the credit union's balance sheet. MECU's 1.77% delinquency rate tops those of its state and asset-based peers, which average 0.91% and 0.77%. And

at 1.07%, MECU's net charge-offs also exceed the 0.61% and 0.44% averages of those same cooperatives.

To manage these risks, the credit union places a lot of faith in its underwriters, who must be discerning about which loans to approve. MECU also offers borrowers the option of having a co-signer for different types of loans. This flexibility has made a world of difference to MECU members, many of whom struggled to get financing from traditional banks in the past.

"For many people, MECU was it," Hash says, repeating an adage once heard from a particular member. "We didn't grow up on welfare,' the member said, 'we grew up on MECU care.'"

### A LOYAL FOLLOWING

The gratitude of its members is one reason why MECU's average member relationship (the average value of an individual's share accounts and outstanding loan balances combined) dwarfs that of its state and asset-based peers — at \$16,066 versus a puny \$5,915 and \$8,227 respectively.

Once members join the credit union, MECU wants to eventually transition them beyond an unsecured loan to a car loan, mortgage, or even tuition payments.

"We try to graduate them to other products and services, helping them manage their finances throughout that process," Hash says.

Besides offering financial services, MECU invests heavily to improve education and financial literacy in Baltimore, an important task for a city that has struggled in the past with school dropout rates. To help educate Baltimore schoolchildren, MECU adopted nine city elementary schools



where employees volunteer time, labor, or materials in various ways. For instance, MECU sponsors field trips for the students and runs a large book drive where employees typically collect between 5,000 and 6,000 books to donate to the schools.

On alternate months, the credit union also educates members about their personal finances by running workshops on topics like repairing credit and buying homes.

But the institution's outreach doesn't end there. Through partnerships with the city government as well as fundraising campaigns and events, the credit union further invests time, money, and sweat equity into its hometown. According to MECU, between 2003 and 2013, credit union employees contributed approximately \$667,300 toward community redevelopment while also volunteering more than 33,500 volunteer hours to local projects.

"We're not M&T or Bank of America, where their focus is New York," says chief lending officer Gary Martin. As a Baltimore-based financial institution, we are invested in the city where our members live, work, and do business, he adds.

MECU isn't just offering the city financial services; it's offering a future. By traveling down the long road from a modest credit union to a billion-dollar institution, MECU has not only given Baltimore hope that it can revive its fortunes but has also provided a solid foundation for the city to build on in the future. ▶

## WHO? WHAT? WHERE? WHEN? WHY?

*As one of the country's oldest cities, Baltimore offers no shortage of culture or personality. Here, we provide a look beyond the credit union to key events and happenings in this history-rich city.*

### WHO?

James "Eubie" Blake was a composer and pianist, famous for his ragtime and jazz music. Born in Baltimore in 1887 (though Blake cites his birth as 1883), he composed such hits as "Bandana Days" and "Charleston Rag." He also wrote *Shuffle Along*, one of the first Broadway musicals to be both directed and performed by African Americans.

### WHAT?

Although still debated in some circles, Baltimore is largely credited as the birthplace of duckpin bowling. Legend has it that the game was first played in 1900 at a Baltimore bowling and pool hall owned by Hall of Famers and Baltimore Orioles John McGraw and Wilbert Robinson. Duckpin is a form of bowling that uses softball-sized balls and shorter, smaller, lighter pins than its ten-pin bowling equivalent. The game is played principally in parts of New England, Baltimore, suburban Washington D.C., and Virginia.

### WHERE?

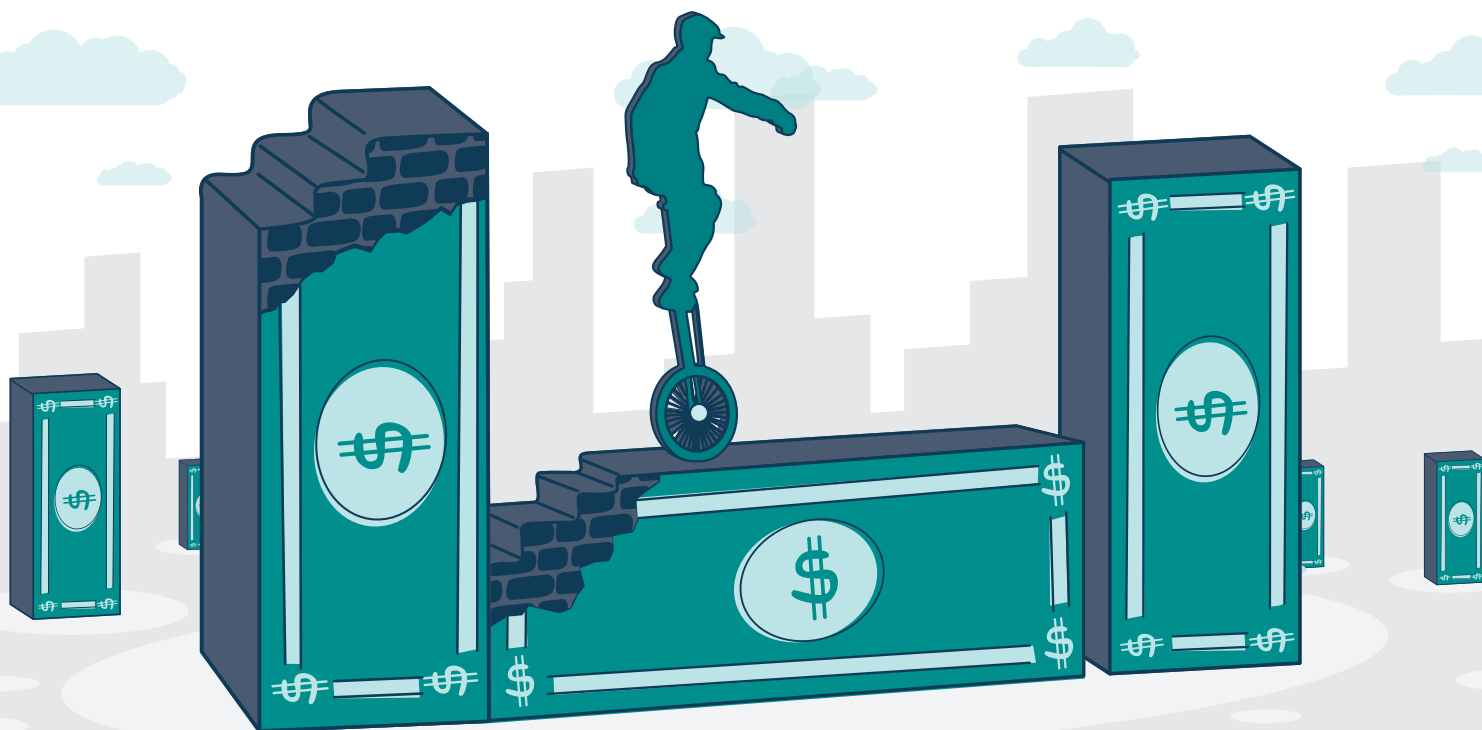
Fort McHenry in Baltimore Harbor was built on the site of the former Fort Whetstone, which was constructed around 1800 to protect the city's port from enemy attacks. Fort McHenry is best known for its defensive stand against a bombardment from the British navy in 1814, inspiring Francis Scott Key to write "The Star-Spangled Banner."

### WHEN?

Between February 7 and 8, 1904, the Great Baltimore Fire ripped through the city, prompting officials to call in 1,231 firefighters from cities as far away as New York to combat the blaze. The fire destroyed 70 blocks and 1,526 buildings downtown and led to a modernization of public works infrastructures as well as national standardization of firefighting equipment.

### WHY?

Down in front! In Baltimore, it is illegal to take a lion into a movie theater. Selling chicks or ducklings to a minor within one week of Easter also violates city code.



## 5 THINGS TO MASTER TO BECOME A BILLION-DOLLAR INSTITUTION

*Now at a turning point in its history, MECU looks back at a transformation that has been 20 years in the making.*

BY ERIK PAYNE

Two decades ago, MECU of Baltimore, Inc. (\$1.2B, Baltimore, MD) had just \$300 million in assets and was only a quarter of its current size. Now the fourth largest credit union in Maryland by assets, MECU recently said goodbye to the man considered to be the chief architect of this phenomenal growth, former president and CEO Bert Hash, who retired in June after a 17-year tenure. His successor is the cooperative's Chief Lending Officer Gary Martin.

The change in leadership is significant and marks a turning point in the credit union's history. Under Hash's guidance, MECU's policies and culture evolved to help the credit union become the thriving-billion institution it is today. No segment of MECU's structure, from operations to finan-

cial to governance, was left untouched. Even plans for Hash's succession weren't left to chance but were mapped out years ago. This is the story of one credit union's journey to becoming a billion-dollar institution and what it had to master along the way.

### MODERNIZING OPERATIONS

Seventeen years ago when Hash took the helm, MECU had more than its share of shortcomings. Although it had 50,000 members, the cooperative — which originally began in 1936 serving Baltimore City employees and retirees — had just one branch with seven tellers.

Some basic services also were missing. The lone branch, for instance, did not issue cash. Withdrawals were done by check, forcing members who needed cash to visit a bank or a check cash-

ing service across the street. Member deposits were limited to just \$500 in the branch per month. MECU also had no ATMs and just one computer, which the marketing department used.

"We're talking about 1996, 1997," Hash says. "Most children were playing with better computers than what we had at the office."

Besides the dearth of technology, MECU also had few loan products to choose from. At that time, 80% of its loan portfolio was in unsecured loans, with limited mortgage or auto lending.

"We sort of shot ourselves in the foot in that we only provided certain services," Martin says.

Clearly, the credit union had to modernize. Six months after Hash came aboard, MECU began offering cash



transactions to members, putting the check casher across the street out of business. That same month the credit union added ATMs and computers, and started hiring more employees. A few years later, the institution added a second branch.

“We had a committed membership, 50,000 people waiting for us to make changes, and they wanted us to stay,” Hash says.

One priority involved training employees to give better service, a process greatly streamlined by the new computers the credit union brought on site. At the same time, Hash began growing and diversifying the credit union’s loan portfolio to the point that real estate loans, which accounted for only a small piece of the pie in 1997, now make up its largest portion today. More recently, MECU also expanded its member business loan footprint after purchasing Advance Bank in early 2013.

Today, the credit union continues to improve its banking and technological capabilities, including enhanced features like offering remote deposit capture on mobile devices. Nevertheless, Hash says, most members still prefer to use the telephone or speak with an employee in person.

As a result, MECU strives for the right balance of modernization, adopting just enough new technology to keep pace with an evolving financial industry but avoiding options that its members do not necessarily want or need.

Ultimately, members “expect you to provide them with the products and services that best benefit whichever stage of their lives they are in,” says Chris Lumley, the credit union’s vice president of information systems.

### DIVERSIFYING A PORTFOLIO

In some ways, MECU’s small size and limited products were assets for Hash, allowing him to gradually grow the institution by choosing how he

wanted to expand. The credit union was also willing to take smart risks, especially when opportunities presented themselves.

One area targeted for expansion was its mortgage portfolio, whose uninspiring balance sheet fell far short for an urban institution in the 26th largest US city. Hash points to a lack of convenience as well as limited product offerings as the reason.

“People need convenience; they need access,” he says. “So we had to start shifting our thoughts about how we were going to deliver our services and products.”

Although its real estate lineup already included fixed and adjustable rate mortgages, Hash chose to add balloon and other hybrid loans, to help diversify the credit union’s lending portfolio.

In the first quarter of 1998, the oldest data available in Callahan & Associates’ Peer-to-Peer analytics, adjustable rate loans accounted for 97% of MECU’s real estate lending. In 2014, that figure was just 15%, with 80% of the portfolio spread out among fixed first mortgages and balloon or hybrid loans.

To make more loans, MECU also needed to attract more deposits, so the cooperative began adding money market and share certificates to the regular shares, share drafts, IRA, and Keogh accounts it already offered. The resulting increase in deposits eventually helped MECU’s total shares grow from \$421 million to \$1.06 billion today.

Working together, these strategies allowed MECU to fundamentally transform its lending approach. In 1998, when MECU held just north of \$225 million in loans, its portfolio was distributed with 51% in noncredit card unsecured, 24% in autos, 17% in first mortgage and other real estate, and nearly 6% in credit cards. Today, the credit union’s loan portfolio breaks down much differently with 58% in first mortgage and other real estate, 25% in autos, 12% in noncredit card unsecured, and 4% in credit cards.

Growth this significant doesn’t come without some risk, and in fact, delinquent loans grew steadily from 1998’s 1.26% to the current 1.77%. That risk, however, was necessary. For years MECU had a below-average loan-to-share ratio, limiting the potential for what the institution could lend or earn. In 1998, this metric was just 53.37%. Now, it is at 67.78% and rapidly approaching the national average of 69.2%.

### FOSTERING PROFESSIONAL GROWTH

An organization is only as good as its weakest link, and as credit unions get larger — adding more employees and new levels of management — the potential for weak links grows. Part of what differentiates MECU today from other large credit unions is that it invests heavily in developing employees from all levels.

Executives and lower-ranking employees alike are trained in leadership culture and institutional processes. In addition, MECU encourages and often provides financial help through its tuition assistance program, which allows employees to develop their careers by earning master’s degrees, attending workshops, or joining committees and associations.

The program provides reimbursement for up to 100% of the cost for business-related classes, with a cap of \$3,000 for full-time employees and \$1,500 for part-timers.

At MECU’s encouragement, three senior-level employees even attended the CUES CEO Institute. And as a result, these executive team members are well-prepared to advance within the credit union, says chief branch officer Patricia Roberts.

Best of all for employees, they can take that education with them, says chief financial officer Adrian Johnson, who has taught at University

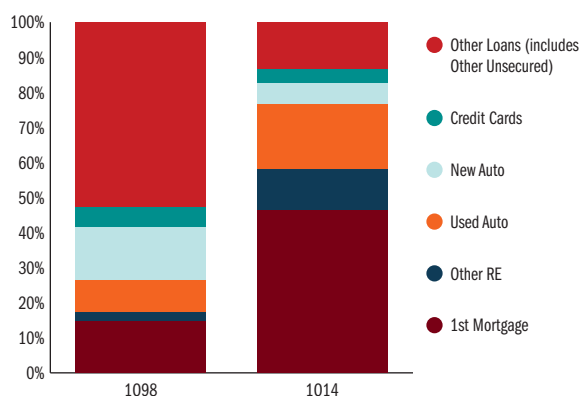




5 THINGS TO MASTER TO BECOME A BILLION-DOLLAR INSTITUTION

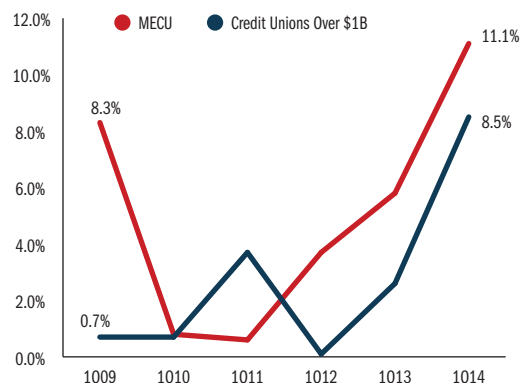
**LOAN COMPOSITION** | DATA AS OF MARCH 31, 2014

MECU's loan portfolio changed significantly during former CEO Bert Hash's tenure, with nearly half the current portfolio now in first mortgages.

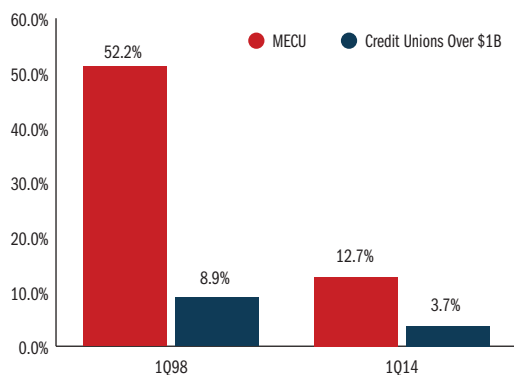


**12-MONTH LOAN GROWTH** | DATA AS OF MARCH 31, 2014

Loan balances have grown at a quicker pace beginning in 2013.

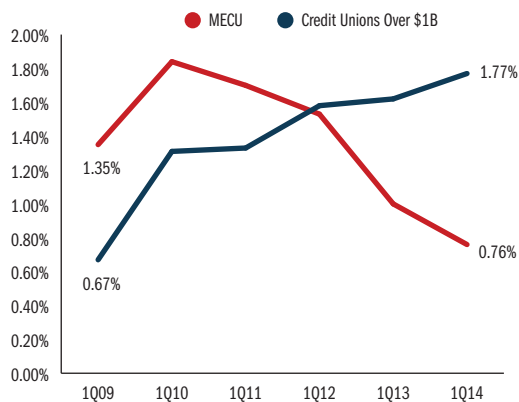


**UNSECURED LOANS (EXCLUDING CREDIT CARDS)/TOTAL LOANS** | DATA AS OF MARCH 31, 2014 | Despite making up a smaller percentage of the loan portfolio than in the past, the current number of unsecured loans at MECU is still nearly 3.5 times the average for similar-sized credit unions.



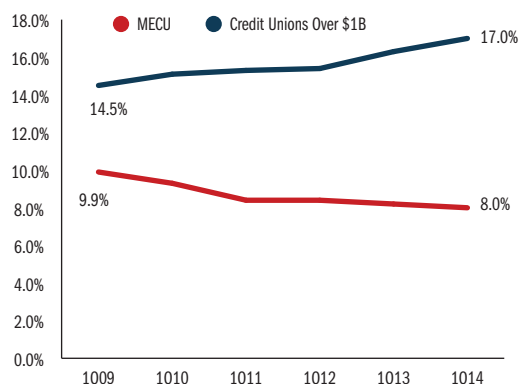
**DELINQUENCY RATIO** | DATA AS OF MARCH 31, 2014

Having more unsecured loans has resulted in a higher delinquency ratio compared to similar-sized credit unions.



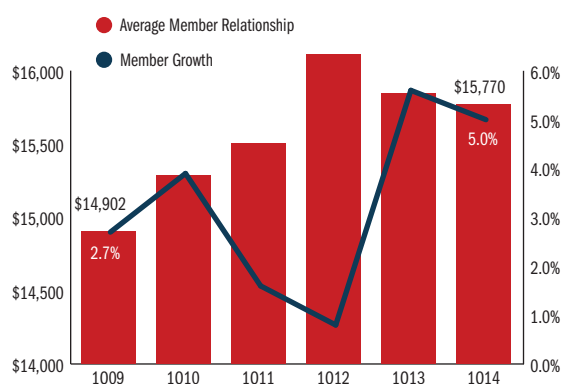
**MEMBERSHIP PENETRATION** | DATA AS OF MARCH 31, 2014

MECU has done a good job of recruiting potential members, with a penetration rate double that of its peers.



**AVERAGE MEMBER RELATIONSHIP** | DATA AS OF MARCH 31, 2014

As membership increases at MECU, the average member relationship is growing as well.



SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS

of Phoenix and the University of Baltimore in his spare time. “It’s portable because it’s yours.”

The downside of this investment is that some employees may leave for new opportunities elsewhere, but that’s a price MECU is willing to pay.

“We would rather educate you and have you leave than not educate you and have you stay,” Hash says. “We’ve lost some good people, but we’ve also retained a lot of good people because of the opportunity to advance their career.”

This employee-oriented philosophy is hardly surprising, given that Hash knows the first names of every one of his nearly 300 employees and even finds the time to eat lunch with them.

Employees, too, will take the time to recognize each other’s good work by bestowing an informal Whatever It Takes award to a colleague who goes the extra mile in the name of member service. MECU also hands out a series of more formal awards for outstanding service at its annual meeting.

### INCREASING TRANSPARENCY AT ALL LEVELS

MECU would not have become what it is today had it not been for an especially warm relationship between Hash and “Chief” Herman Williams, a former fire chief and commissioner of transportation for Baltimore City. Williams became chairman of the board in 1991, six years before Hash arrived, but the two men soon discovered they shared a similar vision for the credit union and worked together to make it happen.

Their relationship led to a culture of low board turnover and increased transparency between the board and senior management. Twice a month, MECU’s leadership team meets with the board to discuss strategy, products, and finances as a way to keep everyone up to date and on the same page.

“You could talk to hundreds of credit unions and I don’t think you would

see the cooperation between the staff and the board that we have here at MECU,” Williams says.

That cooperation and mutual trust has enabled MECU to make some bold moves over the years, including its recent acquisition of Advance Bank, which significantly expanded the cooperative’s Baltimore presence.

MECU has since been able to reach 16.99% of its potential membership compared to 10.66% and 10.62% for its state and asset-based peers. Over the past year alone, the credit union has also achieved a membership, share, and loan growth rate of 5%, 3.82%, and 8.46% respectively.

Another nonfinancial barometer of MECU’s success has been smaller attendance at its annual meetings, an indication that members are satisfied with the credit union’s direction. When Hash first arrived, members regarded his banking background with suspicion, fearing he would try to convert the credit union into a bank. As a result, they attended annual meetings in far greater numbers to keep a wary eye on him.

“They were the most outspoken in the first two years,” Hash says. Today, however, the 100-person average turnout is considered a vote of confidence.

### PLANNING FOR A REPLACEMENT

Credit unions don’t easily replace long-standing CEOs who have had as transformative an effect as Hash did, and his decision to retire left many employees anxious about his replacement.

“Employees have a personal relationship with him,” says Michelle Williams, vice president of human resources. “He set the tone and we appreciate the culture that he helped establish.”

Although board members felt confident they would find a successor at MECU, they weren’t opposed to looking outside the organization. After hiring a consultant who conducted a nationwide search, the board whittled



**WE WOULD RATHER EDUCATE YOU AND HAVE YOU LEAVE THAN NOT EDUCATE YOU AND HAVE YOU STAY. WE’VE LOST SOME GOOD PEOPLE, BUT WE’VE ALSO RETAINED A LOT OF GOOD PEOPLE BECAUSE OF THE OPPORTUNITY TO ADVANCE THEIR CAREER.”**

BERT HASH, FORMER CEO,  
MECU OF BALTIMORE, INC.

a list of 60 candidates down to 10, four of whom were MECU employees.

A committee of six board members met weekly, reviewing and discussing candidates before calling them in for an interview. The internal candidates especially impressed board chair Herman Williams, who attributed their preparedness to the fostered culture of professional growth that Hash had established.

“When we interviewed them you could really see the results of the training that [Hash] had put into their success,” he says.

In the end, the committee selected chief lending officer Gary Martin as the new CEO. Martin first began working at MECU as a part-time loan reviewer 42 years ago. Back then, the credit union was only \$100 million in assets, which means Martin knows first-hand what went into MECU’s transformation.

More importantly, he is someone who will maintain MECU’s corporate culture, an important factor that figured heavily in the committee’s decision.

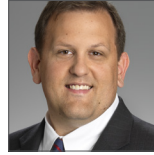
“MECU is a well-oiled machine and our culture is second to none,” says Williams, who as board chairman is optimistic that the transition in leadership will be a simple one. “It’s not as if someone has to come in and start making changes.”



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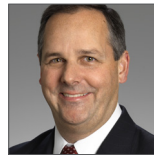
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## ADVANCE AND SURVIVE

*How one state-chartered institution joined forces with a bank, opened the doors to a new generation of business acquisitions, and preserved an important Baltimore tradition.*

BY ERIK PAYNE

**B**efore last year, no state-chartered credit union and only four federally chartered credit unions in the history of the cooperative movement had ever acquired a bank. Yet that all changed in December 2013, when MECU of Baltimore, Inc. (\$1.2B, Baltimore, MD) — under the guidance of now retired CEO Bert Hash — successfully completed the purchase and assumption of Advance Bank, a local mutual savings institution. A purchase and assumption agreement meant MECU assumed the bank's liabilities along with its assets.

With three credit union acquisitions under his belt already, Hash was no

stranger to the advantages a good strategic partnership could provide.

But when John Hamilton, Advance's CEO, phoned him out of the blue in 2010 to ask about a possible merger between the two institutions, Hash and his team needed to do some serious soul searching to determine whether or not MECU had the will and wherewithal to seize the opportunity and make cooperative history in the process.

Even after deciding to move forward, it took both institutions three years to hit on the best way to structure the actual transaction and sign an agreement.

Getting approval from regulators

took another eight months, during which the deal morphed from a straightforward merger into a purchase and assumption that has already boosted MECU's performance.

Below, the credit union shares the specific strategies and best practices that saw it through this monumental accomplishment.

### ENSURING A GOOD FIT

For Hash, the first step in weighing a potential merger or acquisition was to identify any shared traits or similarities between the two businesses that could signal a good match.

Though smaller and younger, Advance was in many ways a kindred spirit to MECU. Established in 1957 to primarily serve Baltimore's African American community, the bank was successful in this endeavor for decades until the economic downturn forced it to seek out new ways to meet the growing needs of its customer base.

Both institutions also had a personal connection: Advance's founder had been one of Hesh's college professors.

And as a mutual savings bank, Advance answered to members rather than shareholders, just like a credit union. This meant there were no shares of stock that would have to be bought out. With \$60 million in assets, the bank was also well capitalized for its size, and it had only two branches, 3,500 members, and roughly 20 employees, making it both affordable and easy for MECU to absorb.

Even the people that both organizations served were similar. For example, about 25% of MECU's members are designated as low income, according to the market research firm Raddon, so purchasing a community development bank like Advance would clearly fit in with MECU's mission to help the city's underserved. Many of Advance's customers were also very familiar with the MECU brand, and some were

already members, greatly increasing the odds that the credit union would be able to retain these individuals after the two groups joined forces.

### BUILDING A BUSINESS CASE

Although compatibility is crucial, merging institutions also need to be sure they are not so similar that they cannot complement one another from a business perspective. To fully assess the value of this deal, MECU decided it needed a full accounting and understanding of how Advance's operational resources and book of business could enhance its own portfolio priorities.

For example, a merger or acquisition with this particular institution would offer MECU the opportunity to expand its presence and product offerings in Baltimore, the city that both financial institutions called home. And because both the credit union and the small community bank were facing an increasingly complex and costly regulatory burden, this approach would allow them to share that burden in a cost-effective way.

Advance also had an attractive FHA product and a number of faith-based loans that were enticing to MECU. And because the bank offered few retail loan products, which were essentially MECU's specialty, a partnership here would provide a new, captive audience for the cooperative to pitch these products to.

"We saw so much growth potential because a lot of Advance's customers didn't have car loans, unsecured loans, or credit cards," says Adrian Johnson, MECU's chief financial officer. "They may have had them somewhere else, but they didn't have them with Advance."

Lastly, the credit union paid close attention to the amount and type of employee talent that it could gain from the bank.

"They had commercial lending expertise that we didn't have," Hash

says. "So potentially bringing that expertise over to help us on the commercial side was a huge attraction."

As it turned out, 17 of the 20 Advance employees eventually acquired by MECU chose to stay on with the cooperative. This included Hamilton, the bank's former CEO, who became MECU's vice president of lending.

Post completion, the impact of this new expertise has been well documented in MECU's performance data. According to Callahan & Associates' Peer-to-Peer analytics, as of March 2013, just before the purchase was announced, the credit union held \$4.9 million in member business loans out of a \$715 million total loan portfolio. Today, six months after the acquisition, member business loans at MECU total \$6.8 million.

### ROLLING WITH THE PUNCHES

Assessing potential and agreeing to a deal is often the easy part, MECU advises. The real hurdle with any merger or acquisition — particularly of a type that has never been seen before — is securing regulator approval.

Although confident the deal was possible, both institutions knew they were entering an unknown regulatory quagmire, where their lack of experience with the legalities posed a potential risk. In an attempt to minimize those risks, each organization found respective counsel that specialized in mergers and purchase agreements, and while Advance Bank's lawyers tackled the Office of the Comptroller of the Currency (OCC), the credit union's attorney consulted the National Credit Union Administration (NCUA) before drafting an initial agreement.

Despite their preparations, the plan quickly encountered a significant roadblock once submitted for approval. That's because even though shared cultural, financial, and commu-

nity values abounded between the two organizations, when it came to their regulatory structure "nothing was a neat fit," Hamilton says.

Because of their different charters, a merger would have ultimately presented too many regulatory hoops to jump through. Instead, both sides opted for a purchase and assumption agreement, which posed far fewer issues.

Even with this compromise, the process was not quite a cakewalk. Because the transaction wasn't a straight merger, "it had to be structured within the appropriate regulatory context," Hamilton adds.

Four regulatory bodies — the OCC, the NCUA, the Federal Deposit Insurance Corp., and the Department of Labor, Licensing, and Regulation — ultimately needed to approve the purchase agreement. Had MECU been a federally chartered credit union, it would have avoided an extra layer regulation.

The acquisition also required the approval of members, yet this proved a much easier process.

Members on both sides were extremely open to the idea, says Herman Williams, MECU's board chairman. And after eight months, regulators also finally gave the green light.

With Advance's two branches now rebranded in MECU's colors and the bank's former employees fully trained in the credit union's products, services, and internal processes, the final melding of these two institutions is complete. And despite the many seemingly insurmountable obstacles faced, when reflecting back on the approval process, Hamilton describes it as relatively painless.

Best of all, an important part of Baltimore's culture was preserved in the process. In a sense, Williams says, this acquisition "saved the tradition that we have here in Baltimore of people helping people." ▴



## CREATE A CULTURE OF CARING

*An award-winning cooperative shares its formula for making community service an integral part of the workplace.*

BY ERIK PAYNE

**H**ow much can one financial institution do for a community that struggles with unemployment, crime, drugs, and other issues on the level that Baltimore does? Can one credit union really make a difference in a city of 600,000, where 23% of residents live below the poverty line?

These challenges may seem insurmountable, yet MECU of Baltimore, Inc. (\$1.2B, Baltimore, MD) believes it has a responsibility to try.

Those efforts haven't gone unnoticed by the public, and MECU has won several awards — including CUNA's Dora Maxwell Social Responsibility Community Service Award and the Louise Herring Philosophy-in-Action Member Service Award — as a result of its proactive outreach.

But with more than 280 employees constantly engaged in so many different causes, including feeding the hungry and homeless, raising money for cystic fibrosis and other diseases, and running an annual book drive for local schools, MECU has also had to invest in some important tools and resources in order to filter and focus these efforts, confirm that the desired impacts are actually occurring, and ensure that no additional opportunities are being overlooked in the shuffle.

"We try to put it down on paper because these activities add up to thousands of hours and we don't want to lose track of what is taking place," says Gary Martin, CEO and the credit union's former chief lending officer.

Today, two charts now serve to effectively encapsulate and catalogue all of these many efforts.

The first, referred to internally as the culture of caring chart, focuses on direct boots-on-the-ground philanthropy and has five main branches: community, financial literacy, partnerships, education, and fundraising events. From there, each branch separates into specific programs and events the credit union is involved in, 42 in all.

A second chart captures MECU's corporate contributions — i.e., those efforts where the credit union must rely on or work with third parties in order to deliver resources and assistance. This chart includes another 56 programs, only a few of which overlap with those listed in the culture of caring visualization.

Looking at both charts together, it can seem like a very complex formula. But according to former CEO Bert Hash, who retired this summer after a 17-year tenure, all any cooperative really needs in order to mimic MECU's effectiveness in this area are the following ingredients.

**PUT A FACE ON CHARITABLE GIVING**

Anyone can write a check, but donating hours of free labor is much more personal. Because all employees — from senior executives to tellers — are expected to physically volunteer in some way, MECU has been able to put a very human face to its formidable community-building efforts.

"We have fewer than 300 employees but we are in the community all the time," says Kathy Day Shelton, MECU's chief operating officer.

Between 2003 and 2013, MECU employees directly contributed approximately \$667,300 toward community redevelopment while also volunteering 33,542 hours of their time, valued at more than \$977,000. This investment of both time and money is a crucial differentiator that helps set MECU apart from other businesses in the community. For example, when working with Habitat for Humanity, the credit union not only buys the nails but also swings the hammer.

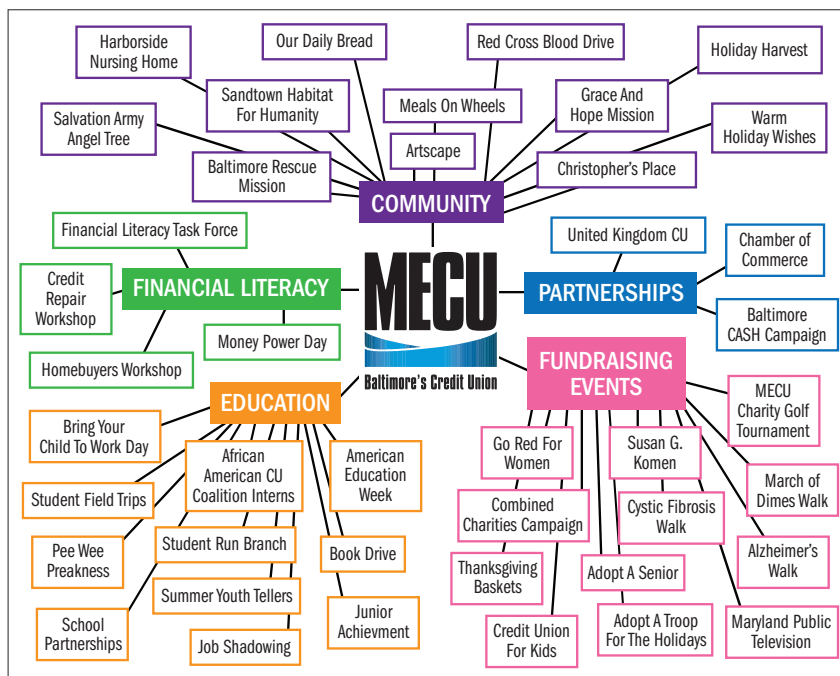
"I don't even paint in my own house," says chief financial officer Adrian Johnson. Yet this hasn't stopped him from directly donating many hours of his time and labor to the Habitat program.

**LEAD BY EXAMPLE**

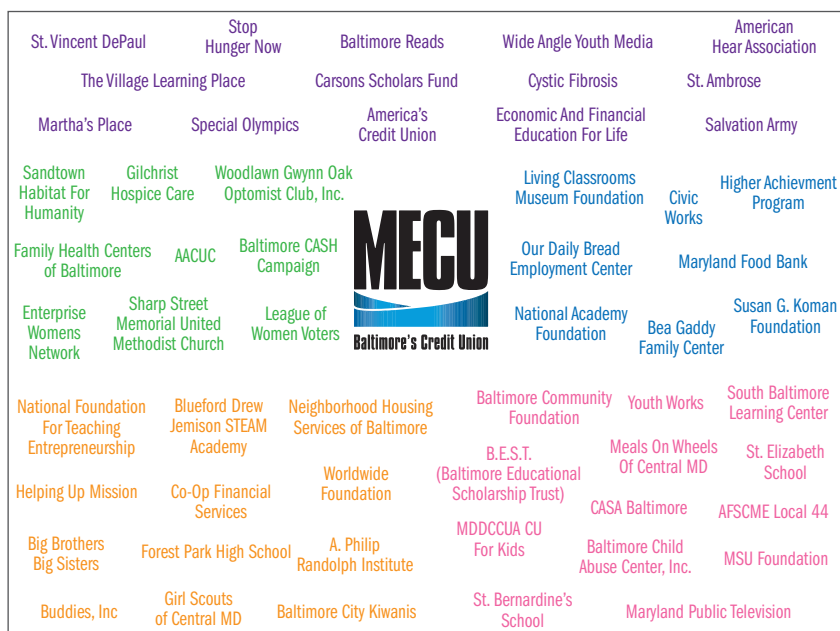
The credit union encourages all its employees to volunteer in the community, but residents do tend to take more notice when busy senior executives show up along with everyone else.

A lot of business leaders write checks, but far fewer choose to actu

**MECU'S CULTURE OF CARING**



**MECU'S CORPORATE CONTRIBUTIONS**



**LEFT:**

*Local students reap the benefits of MECU's Book Drive delivery.*

**MIDDLE AND RIGHT:**

*MECU participates in Money Power Day, a financial literacy event that tackles important topics for parents as well as for youth.*



ally go out and roll their sleeves up, Johnson says. "Residents in the community will say to our executives, 'Wow, you came out here to do this?' And they'll realize that if these individuals can do it, they can do it too."

In fact, many MECU employees today choose to volunteer because of the on-deck example Hash set during his time as CEO. After 44 years of working for Baltimore-based financial institutions, Hash had a Rolodex full of contacts that has allowed him to bring countless charitable efforts together. His involvement could easily have ended there, but it didn't.

"He is just one of a kind and a great role model," says chief branch officer Patricia Roberts, adding that while CEO, Hash would roll up his sleeves, help build homes, and even pick up trash off the floor just like anybody else.

Partly because of this former leader's infectious enthusiasm, the number of volunteer hours that MECU staff devoted actually grew more than 16 fold from 2003 to 2013.

Employees also have another very powerful incentive for volunteering. Because so many either grew up in or currently live in Baltimore City, they tend to have a vested, personal interest in the region's well-being.

"They enjoy being out in the community," Shelton says. "This is who we are."

## MIX BUSINESS WITH PHILANTHROPY

Although giving back to the community is its first priority, MECU isn't averse to combining business and charitable interests when it makes sense to do so. Take, for example, its partnership with two local Habitat for Humanity affiliates, Chesapeake and Sandtown. In addition to volunteering hours of labor to construct houses for low-income families, MECU also provides zero-interest-rate loans to those homeowners.

During the credit union's 17-year partnership with Habitat, Martin estimates MECU has assisted the Sandtown affiliate with more than 150 houses, either by offering financing or





by helping with the actual construction. And through its work with both affiliates, Martin says the credit union has financed about 120 loans.

### INVEST IN STUDENTS

A large percentage of MECU's membership comes from school employees and students, so it makes sense that an equally large part of its community outreach focuses on financial literacy programs, as well as foundations and scholarships to help support Baltimore's college-bound population.

At the nine elementary schools that MECU adopted in Baltimore City, employees devote volunteer hours for running events like the annual book drive while also directly contributing school supplies.

MECU even has two student-run branches at local high schools and these locations fulfill two goals: First, they bring in new accounts, about one a week at each institution on average. Second, they give Baltimore's youth an alternative to check cashers that charge a fee for their services.

"We don't want them to have to go to the liquor store or the check cashing corner," Roberts says. "We want them to have a financial institution so they can learn the benefits of being part of a credit union."

Instilling those lessons at a young age not only helps these teenagers develop better financial habits but also develops lifelong members of the credit union.

### SEED NEIGHBORHOOD EVENTS

By partnering with the Baltimore Office of Promotion and Arts, MECU gives grants of between \$750 and \$1,000 to city neighborhoods to be used as seed money for community events. In the past, such funds have paid for back-to-school events, health fairs, farmers markets, and even neighborhood block parties. In 2014 alone, MECU expects to award 79 neighborhood grants, totaling approximately \$70,000, Hash says.

These events are "an opportunity for these young kids to have something to do on a Saturday or Sunday," says

Herman Williams, MECU's board chairman. At the same time, there's also a real-world marketing benefit that results from sponsoring these get-togethers.

"There's no way we can effectively reach out in person to all the different neighborhoods where our members and potential members live," Martin says. This is why MECU staff prefers to focus on hosting these centralized events that help bring the community to them.

### FOCUS ON MEMBERS, NOT RETURNS

Apart from getting the word out about MECU and attempting to demonstrate the value of becoming a member, the credit union doesn't look for a hard-dollar return from its charitable efforts. Rather, it uses member feedback — typically collected from the business development team, representatives from MECU's SEG groups, or board members themselves — to determine whether or not particular investments have been successful and worthwhile.

Of all the ways the credit union gives back to its community, there's one that members obviously love the most — bonus dividends and rebates. In fact, MECU has paid a bonus dividend and loan rebate every year since 1981 — half in June and half in December — and according to its 2013 Annual Report, it gave out \$3 million in such funds last year alone.

At a time when so many businesses are taking resources out of this hard-hit community, MECU is using every possible opportunity to do the opposite and put resources back in. And the power of that difference continues to amaze, even for those individuals who have been aware of it all along.

"Sometimes it's strange to know that you are a financial institution and people are happy with what you do," Williams says. "It makes you feel good." ▲

## A SINCERE THANK YOU TO MECU OF BALTIMORE, INC. EXECUTIVES, BOARD, AND STAFF.

Serving a community as socially, economically, and culturally diverse as Baltimore City presents its share of challenges, but also opportunities. Through your determined effort to improve the financial lives of your primarily urban field of membership, you have positively affected countless generations, past and future, of Baltimoreans. It is our hope that credit unions can learn from your example to progress and develop the communities in which they reside.



**HERMAN WILLIAMS**



### **BERT HASH, FORMER CEO (NOW RETIRED)** — seated, third from left

“My legacy is really the people and their roles. I’m not downplaying our accomplishments, but when we started we were all growing, including me. We get a lot of recognition 17 years later for what we accomplished, but it was really a team effort in what we put together.”

### **HERMAN WILLIAMS, CHAIRMAN OF THE BOARD** — pictured separately

“I joined the credit union back in 1954. I’ve seen this city evolve, but I’ve also seen the credit union evolve from \$100,000 in assets. I’ve been chairman of the board for 23 years. I didn’t do this singlehandedly at all. But there were some visions that I had that I put into MECU and I’ve seen them all happen.”

### **GARY MARTIN, CEO (FORMER CHIEF LENDING OFFICER)** — seated, fourth from left

“I graduated high school and started working at the credit union part-time. My life has been Baltimore City and the credit union. I am very fortunate to have that opportunity. Not that many people have a 42-year career at one institution. I’ve always been given that opportunity to grow and to be challenged, and this is really just the final chapter.”

### **KATHY DAY SHELTON, CHIEF OPERATING OFFICER** — standing, second from right

“It’s no secret that Baltimore City has a high unemployment rate or that it has its challenges with crime,

with dropout rates. But that’s certainly gotten a lot better, so it gives us an opportunity to expand financial literacy and to offer home-buying classes.”

### **ADRIAN JOHNSON, CHIEF FINANCIAL OFFICER** — seated, second from left

“It’s about changing some mindsets, one member at a time, one community at a time. There are people who believe in Baltimore, but it’s not all about believing; it’s about making an impact. You can believe, but as long as you don’t do anything it doesn’t matter. You’ve got to take that belief a few steps further into how can I make a difference today?”

### **PATRICIA ROBERTS, CHIEF BRANCHING OFFICER** — seated, first on right

“I love working for MECU, and I’ve thrived on coming to work every day. I look forward to it. I look forward to the products and services that we provide our membership to make Baltimore better and to make their financial lives better.”

### **JOHN HAMILTON, VICE PRESIDENT OF LENDING (FORMER CEO, ADVANCE BANK)** — seated, second from right

“People believe in their credit unions; they believe in what credit unions do. It’s a movement that cares about and takes ownership of financial institutions, but ensures that those financial institutions give back their earnings in significant ways to their membership. It’s been rewarding. In many cases it’s a whole new perspective.”

### **MICHELLE WILLIAMS, VICE PRESIDENT OF HUMAN RESOURCES** — standing, third from left

“There are a lot of people who do need help who don’t have access to financial resources. And I know from being on the banking side, that banks could be rigid in terms of who got approved and who didn’t. If you didn’t fit a particular credit score, you didn’t get the loan, whereas here the relationships are a lot deeper.”

### **Laurie Rush, Vice President of Marketing** — standing, fourth from left

“From a culture perspective, I think every organization has its own culture for sure, but the one here is just so nice. It sounds very clichéd and kind of corny to say that it’s a family, but it really is. It’s exactly like that.”

### **CHRISTOPHER LUMLEY, VICE PRESIDENT OF INFORMATION SERVICES** — standing, second from left

“Going forward we definitely want to deal more with mobile. We also have to be conscious of the regulations that are coming down and information security is also critical. Those are the things that we are really focused on, making sure that we not only protect the institution but specifically the member and provide them with the services that allow them to improve their financial lives and continue to be successful.”