

# INNOVATIONS FEDERAL CREDIT UNION

## ON THE ROAD TO RESILIENCE

*Innovations Federal Credit Union is a story of success and survival. Despite bearing the brunt of three disasters this past decade, the beach-based credit union has come out all the stronger for it.*

BY ERIK PAYNE

In 2004, a sleepy little credit union on the white, sandy shores of the Gulf of Mexico woke up.

The two preceding years were hard for the then \$80 million NCSC Federal Credit Union, which was experiencing negative loan and membership growth, as well as declining employee morale. The credit union's name at the time — in reference to its founding sponsor, the Naval Coastal Systems Center — did it no favors in attracting new members. Overall, a lack of strategic vision left the credit union in a bad place financially.

"You could see it on the horizon," says current CEO David Southall. "This credit union was not going to survive."

Southall would know. He joined the credit union in 1987 as a teller and had worked his way up to the head of lending. In 2000, he'd read the writing on the wall and took a position with CUNA Mutual, a post he'd hold for the next four years. Then his phone rang with a call from the credit union's board chair who asked if he was interested in taking the reins of the credit union he knew well.

He was. On four conditions.

1. It needed a new name.
2. Its branch footprint had to expand.
3. It would institute a sales and service culture.
4. The work environment would improve.

A new direction set, the rebranded Innovations Federal Credit Union (\$272.5M, Panama City, FL) was primed for positive change.



### BEST PRACTICE

#### DITCH THE NAME. KEEP THE COMMUNITY FOCUS.

Innovations FCU was granted a community charter for Bay County, FL, in 2003. To reflect its new community-wide openness, finding a modern, progressive name was a priority for the credit union. "It doesn't suggest any specific location, group, or place," CEO Southall says. "It also challenges us to remain 'innovative.'"

"Over my first few years we made a lot of changes," Southall says. In the years since, those changes have borne fruit in the form of healthier finances, more efficient internal processes, and increased technological and operational capacity. But there have been bumps along the way.

In the past decade, the Florida credit union has faced three disasters that have altered its sense of normalcy as well as the fabric of the community it serves: the Great Recession; the 2010 BP oil spill; and, most recently, 2018's Hurricane Michael, an epic blow from which the region is still recovering.

"It's changed our community," Southall says. "It's changed lives."

But the credit union and its people are resilient. It was built that way.

### BUILDING A NEW CREDIT UNION

Once Southall took over as CEO, change happened fast.

He hired Scott Gladden and Karen Hurst in 2005, who've since become chief operations officer and chief marketing officer, respectively, and comprise half the senior team — along with Southall and 2012 hire CFO Jeremy Hinton. That same year, Southall removed teller lines from its

### CU QUICK FACTS

#### INNOVATIONS FCU

DATA AS OF 03.31.19

PANAMA CITY, FL

**\$272.5M**

ASSETS

**20,259**

MEMBERS

**6**

BRANCHES

**39.0%**

12-MO SHARE GROWTH

**8.2%**

12-MO LOAN GROWTH

**0.96%**

ROA



branches entirely; instead, opting for a dialog banking approach that continues today. In possibly the hardest change, the move to a sales and service culture caused approximately 50% of front-line staff to self-select out in a short timeframe, which, while difficult, allowed the credit union to bring in new employees who more closely aligned to the credit union's culture.

"We were a sleepy little credit union with an order-taker culture," says CMO Hurst. "We had all worked in other places before this and we knew we wanted to build something different at Innovations."

"It was a challenge," Southall says. "But it also needed to happen."



### WHO WEARS THE HATS?

Innovations FCU is a small credit union. And as a small credit union, its executives must wear a number of hats to ensure smooth sailing. Not including CEO David Southall, who helps make business lending decisions, here's the responsibilities each of its senior team members holds:

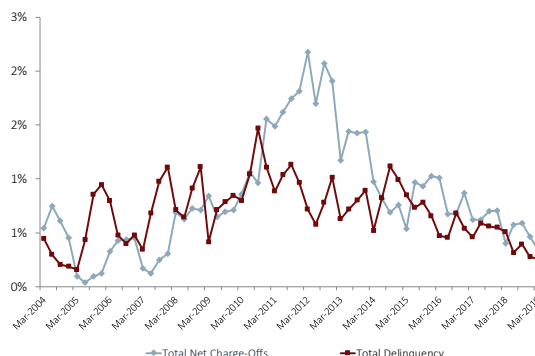
- Scott Gladden, COO: Lending, Branches, BSA/Compliance
- Jeremy Hinton, CFO: Accounting, IT, eServices, Projects
- Karen Hurst, CMO: Marketing, HR, Training, Branding

In October 2005, Innovations merged with Gulf Coast Postal FCU, adding nearly 1,000 members (and one branch) to the fold. For the next several years, the credit union grew well. Between 2005 and 2010, total loans grew more than 150% and total members by more than 80%, both rates far outstripping asset-based peer performance over the same period. The credit union also added three additional branches to its network, for a total of five.

Like many a Sand State financial institution, Innovations felt the force of the Great Recession. By late 2008, its loan growth had peaked and begun a descent into what was eventually two years of negative growth in the early 2010s. In addition, net worth fell from a high of nearly 10% to 7.30% in late 2010. Asset quality worsened, as well, and took an even greater hit when, in April 2010, the Deepwater Horizon oil drilling rig exploded 40 miles southeast of the Louisiana coast. The result was the largest marine oil spill in history, and the impact was felt across the Florida Panhandle.

"It decimated our tourist season," says CFO Hinton. "Everyone who works and supports that industry lost income, and it affected us. Charge-offs spiked."

**TOTAL DELINQUENCY & NET CHARGE-OFFS**  
FOR INNOVATIONS FCU | DATA AS OF 03.31.2019



In the wake of the Deepwater Horizon oil spill in 2010, Innovations' net charge-offs peaked at 2.2% in the first quarter of 2012 before tapering off well below peer average.

As the credit union regained a sense of normalcy in the wake of both events, it recognized the need for additional operational changes, each made with an eye toward improving efficiency and increasing Innovations' essentialness to its community.

First and foremost, COO Gladden and CFO Hinton helped oversee a change to the credit union's loan portfolio monitoring. In the wake of the recession and oil spill, Innovations changed its TDR accounting methods, implemented branch-level tracking, and dialed into the granular details of its loan portfolio.

"Which products were doing well for us? What credit tiers? Which ones were giving us the most heartache?" Hinton asks.

One product the credit union felt could provide even greater benefit to its members: business loans.

In the wake of the recession many community banks in Bay County closed, leaving with them a population of potential Innovations members in need of business services. The credit union recognized this, and in late 2013 hired a community development officer, David Powell, specifically to drive awareness and usage toward its full suite of business products, which is branded as Octane Business Solutions,



“We’re always pushing for efficiency and doing something better than we did before.”

— JEREMY HINTON, CFO, INNOVATIONS FCU

powered by Innovations. And if the need was apparent, the interest was actualized: In its nearly six years actively promoting its business services, Innovations’ member business and commercial lending portfolios have grown some \$30 million — or 1,000%. This, despite a reclassification in the reporting standards for single-family residential properties.

*To learn more about Innovations’ business lending success, flip to page 39.*

After modernizing loan monitoring standards, Hinton helped the credit union turn its eye toward updating several internal processes, including converting their card processor and online and mobile banking providers.

“We’re always pushing for efficiency and doing something better than we did before,” the Innovations CFO says.

Recently, that’s meant researching ways to outsource where it can. In early May, Innovations finalized outsourcing its check processing software, and by 2020 it hopes to have both its core processor and its network outsourced.

Today, both systems live on-site at the credit union’s headquarters with business continuity backups off-site — in the case of its core processor, at an out-of-state hot site in Birmingham, AL. While doing its due diligence on possibly changing this arrangement in early 2018, Innovations leaned toward bringing on-site backup generators (which run on natural gas) to power its systems in case of emergency rather than relying on a hot site.

“Thankfully we never made a decision,” Hinton says.

Why? Because on Oct. 10, 2018, Hurricane Michael, a Category 5 storm, slammed into the Florida Panhandle, destroying houses, power lines, and disrupting all sense of normalcy in Bay County and its neighboring communities. Water, thankfully, was never an issue for those affected. The real problem was gas.

“When we thought about making the change, we talked with the gas company, and they said that even in the storms they don’t cut off the gas lines because so many people run off generator power,” Hinton remembers. “Well, you live through the storm and guess what? They shut off the gas.”

## OF RECOVERY AND RUN OFF

Hurricane Michael was a catastrophe from which Bay County is still recovering.

“It’s changed lives, it’s changed our community,” says CEO Southall. “Since October, everything has been focused on recovery.”

The hurricane caused 49 deaths and an estimated \$25 billion in damage. By early April, work crews had removed an estimated 31 million cubic yards of debris in Florida, yet the October event remains overshadowed in the popular conscience by other recent storms.

According to an April report in *The Washington Post*, the American Red Cross counted donations totaling \$35 million for Hurricane Michael victims through the end of March. Hurricane Florence, which hit the Carolinas in September 2018, drew \$64.3 million; 2017 storms Hurricane Irma in Florida and the Caribbean and Hurricane Harvey in Texas drew \$97 million and \$522.7 million, respectively.

For Innovations employees and many Bay County residents, the total is disappointing. FEMA has provided more than \$1 billion in Michael-related relief, but the need is significant and continues to grow.

More than one-third of Tyndall Air Force Base, Bay County’s largest employer, was destroyed, according to the *Wall Street Journal*, and its future remains in flux. In addition, many community residents continue to live in temporary housing, destabilizing thousands of families.

“I don’t know a single person who didn’t have some damage to their home, most of it significant,” COO Gladden says.

“It’s hard to imagine,” CMO Hurst says. “It was apocalyptic, really.”

CEO Southall, who was displaced by the storm, has been moved into four different temporary housing situations since October. “My family have become ‘nomads,’” he says. “And it’s starting to feel normal.”

The hurricane displaced many, and the damage has created a domino effect. Families lost houses, mobile homes, and apartments, driving rent up at those residences that sustained less damage. That resulted in families leaving the area entirely, not to mention others who remain effectively homeless in temporary housing. With a smaller student



population, three area schools haven't reopened, and the Bay School District has lost or laid off approximately 450 employees and teachers since October.

Innovations felt the impact, as well.

Each of the credit union's branches was hit, with varying degrees of severity: from a few shingles blown off one location's roof, to another that still hasn't reopened nearly eight months later. With damage comes insurance claims, however, and CFO Hinton reports Innovations has collected some \$956,000 on four locations; as of mid-May, the credit union is still assessing damage to two other branches, which means it may collect additional insurance payments in the coming months.

"We've all become insurance experts," CEO Southall says.

The biggest balance sheet impact, however, has been to deposits. Innovations added approximately \$70 million in shares between third quarter 2018 and first quarter 2019, turning a \$200 million credit union into a \$270 million credit union almost overnight.

"Deposits go up, assets go up, but your net worth stays the same because we're not making money that fast," Hinton says. "So, all our ratios hurt."

To wit, net worth dropped 2 percentage points, while the credit union suddenly became extremely liquid with funds it wasn't sure how long would remain on its balance sheet. Operationally, the storm's timing did the credit union no favors — it was budget season. To project how this influx of funds would eventually run off, Hinton looked west.

Hurricane Katrina hit New Orleans and environs in August 2005. To predict Michael's impact in 2019, Hinton analyzed what happened with deposits at Katrina-affected institutions. He found that seven months after that storm deposits had spiked and plateaued — nine months after that, they had run off entirely. For Innovations, this meant deposit activity was likely to return to normal in the first few months of 2020, which helped set the plan for 2019.

"We had to make sure we had the liquidity to support withdrawals," Hinton says.

To that end, Innovations has put these deposits to work, investing funds in short-term products to match maturities with projected withdrawals. At first quarter, Innovations' investment portfolio totals more than \$90 million, a 325% increase from two quarters ago, the vast majority of which are set to mature in the short-term. Income from investments has jumped 77% over that same timeframe.

"We have \$5 million a week that's maturing," Hinton says. "Our plan is to watch for the first signs of run-off, and we'll adjust our investment strategy accordingly."

Beyond its balance sheet, Innovations is working to take care of its affected members. The hurricane disrupted things for many, and the credit union is working to be part of the solution.

"It's going to take time for this community to get back to where we were," Hurst says. "But we want to do whatever we can to help bring it back."



#### BEST PRACTICE

#### BECOME THE EMPLOYER OF CHOICE

Before the storm, one of Innovations' areas of strategic focus was to become an employer of choice for Bay County residents. In the years leading up to the storm, Innovations improved its benefits package: it now matches 5% of an employee's salary as a 401(k) contribution, and employees can earn an additional 10% of their salary with a discretionary profit-sharing program. Innovations also introduced four levels of financial service representative with escalating responsibility and pay to encourage retention. In the wake of the storm, meanwhile, to keep pace with tighter job market, the credit union raised its entry-level hourly wage.

Innovations has tackled local recovery in three ways: products and services, community donations, and employee benefits.

Before the storm, Innovations had implemented DocuSign for loan eSignatures, so when the credit union introduced hurricane relief products, members could apply and complete the process from the safety of their own homes.

Innovations offered a \$3,000 Hurricane Assistance Loan at 5% interest; 90-day loan deferments on any portfolioed loan, including credit cards and mortgages; and a waiver on certain fees, including overdrafts. It also suspended reporting to its two credit bureaus, TransUnion and Equifax. Its overflow call center partner, LSI in Chicago, pitched in by fielding every incoming member call, but the credit union's senior team also published their personal cell phone numbers online and on social media to handle any pressing member questions that arose.

The goal was to get members the services they needed, with as little disruption as possible. That worked. Michael made landfall on Wednesday, Oct. 10; the credit union was back up and running — in a limited capacity — by Oct. 14, the first financial institution in the area to do so.

*To learn more about the credit union's business continuity and disaster recovery efforts in week after the storm, flip to page 33.*

In the aftermath of the storm, member needs were immense. As the months progress, and the credit union recognizes areas of continuous need, its donation dollars have become more targeted. Before the storm, Innovations would donate charitable funds to large organizations with a local presence, such as the United Way and the American Heart Association, among others. After the storm, Innovations focused its efforts on larger one-time donations to local schools, universities, and food banks, as well as supporting additional educational fundraisers.

“It’s a new normal down here,” Hurst says. “We’ve given more money to the schools than we did before, but there are still many children in our community in need.”

Employees, too; after all, they live in the same affected communities. But a balance must be struck. Because the credit union provides financial services, it needs to make every effort to open in an emergency scenario. That said, because it employs local people, it needs to alleviate human-level concerns. That second can’t point can’t be overstated.

“Make sure everyone is fine, everyone is safe, and that we’re willing to support them however they need,” CFO Hinton says. “And then have them check with us and see what we need them to do.”

Innovations guaranteed every employee a job after the storm and provided each with two weeks’ pay, whether they were able to work in that period or not. The hurricane created further uncertainty in its local job market, however, which required the credit union to more fully focus on its hiring and retention strategies. At first quarter, Innovations’ average salary and benefits now rank highest among the four credit unions with a local presence.

As Bay County continues to heal, the credit union has its sights set on the future. CEO Southall estimates recovery efforts lasting another six to 12 months, after which Innovations hopes to reach a sense of normalcy financially and within its community. Southall has set several goals for his institution, as well. Operationally, he’d like to introduce a formal succession plan, guarantee his shop’s relevancy for the next generation of member, and ensure the credit union’s brand remains strong. On the financial side, he’d like to continue to grow the organization. Whether that requires a merger or community expansion, he’s not sure, but it’s a question worth asking.

It’s been 15 years since that sleepy little credit union on the Gulf of Mexico woke up, and in that time, Innovations has seen the good and the bad; hit some highs and felt the lows. But it’s still standing on those same sandy shores, stronger for the experience.

“I’m proud of what we’ve done. The people here are strong and resilient,” Southall says. “Time heals all, so life is good.”

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

### WHO?

Founding member, guitarist, and co-songwriter of the band Tom Petty and the Heartbreakers, Mike Campbell, was born in Panama City, FL. His songwriting credits include “Refugee,” “Here Comes My Girl,” “You Got Lucky,” and, of course, “Runnin’ Down A Dream.” He now tours as a member of Fleetwood Mac.

### WHAT?

Founded in the early 1900s, Panama City, FL drew its name for an odd reason: a straight line drawn from Chicago to the other Panama City in Panama passes directly through the port town. As the closest developed port to the Panama Canal at the time, locals hoped the name would spur real estate development and international trade.



SOURCES: COASTAL LIVING

### WHERE?

Within Panama City’s city limits, approximately 17.4%, or 6.2 square miles, is water.

### WHEN?

On June 3, 1961, a famous burglary occurred at the Bay Harbor Pool Room in Panama City. Clarence Earl Gideon’s petty theft resulted in the landmark U.S. Supreme Court decision *Gideon v. Wainwright*, holding that a criminal defendant who cannot afford to hire a lawyer must be provided one at no cost.

### WHY?

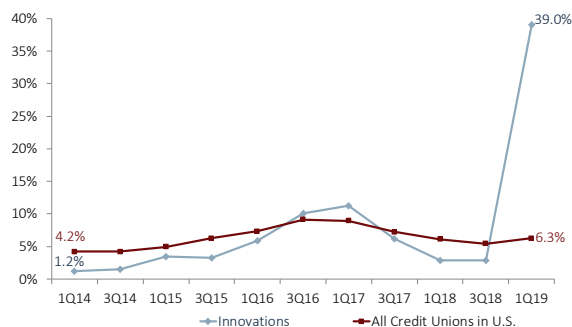
Thirteen states are split between time zones, including Florida. Panama City, where Innovations FCU calls home, is in Central time, while Tallahassee, two hours to the east, is in the Eastern time zone.



**DEPOSIT GROWTH**

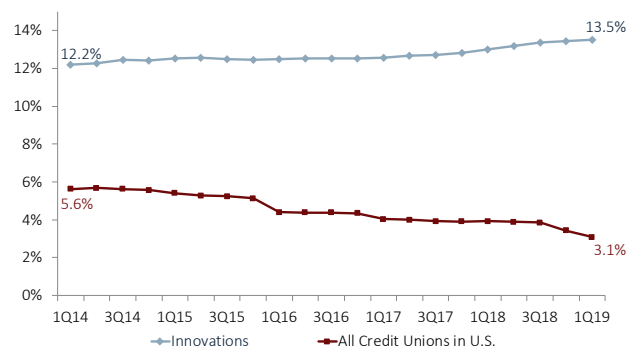
FOR ALL U.S. CREDIT UNIONS | DATA AS OF 03.31.19

After a natural disaster, members look to put their funds in a safe place: at the credit union. In the aftermath of Hurricane Michael, Innovations has seen two quarters of nearly 40% deposit growth. Based on analysis run by its CFO, however, hurricane-related deposits will have peaked by late May/early June – a gradual runoff should occur over the next seven months.

**MEMBERS PER POTENTIAL MEMBERS**

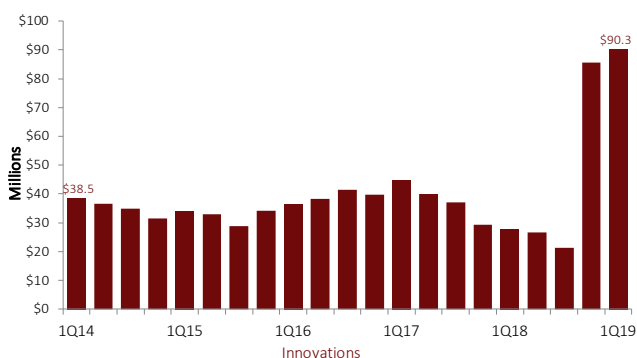
FOR ALL U.S. CREDIT UNIONS | DATA AS OF 03.31.19

Innovations' members per potential members percentage of 13.5% sits well above national average. In the coming years, the credit union will look to expand its potential membership base with an eye toward growth.

**TOTAL INVESTMENTS**

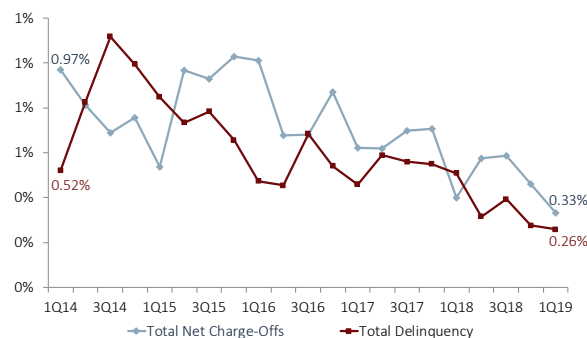
FOR INNOVATIONS FCU | DATA AS OF 03.31.19

With its influx of deposits, Innovations is working to manage its liquidity as it prepares for the eventual runoff. How? By investing funds in short-term investment products.

**TOTAL DELINQUENCY AND NET CHARGE-OFFS**

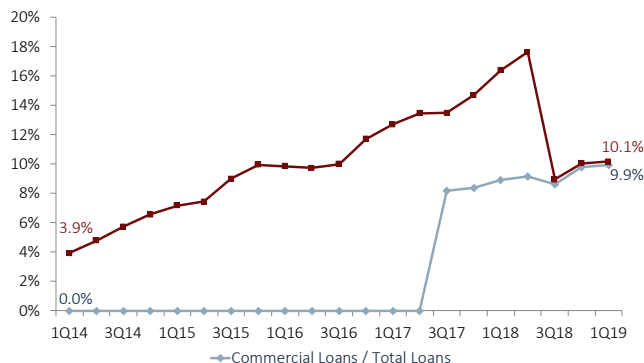
FOR INNOVATIONS FCU | DATA AS OF 03.31.19

In the past five years, Innovations' credit quality has steadily improved. And even after October's storm, the cooperative's total delinquency and net charge-offs represent a post-recession best.

**COMMERCIAL & MEMBER BUSINESS LOANS / TOTAL LOANS**

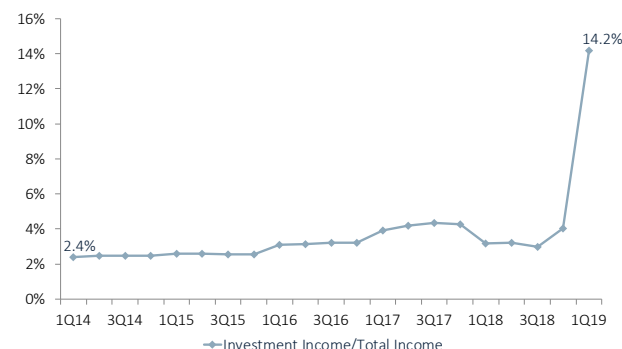
FOR INNOVATIONS FCU | DATA AS OF 03.31.19

To fill a perceived service gap, Innovations ramped up its business services starting in late 2013. In the years since, the portfolio has grown well, and may provide added benefit as Bay County looks to rebuild.

**INVESTMENT INCOME/TOTAL INCOME**

FOR INNOVATIONS FCU | DATA AS OF 03.31.19

Innovations is putting its members' deposits to work - in the form of short-term investment products - and being rewarded for it. As a percentage of total income, investment income has grown more than 10 percentage points in two quarters.



SOURCE: CALLAHAN &amp; ASSOCIATES

## A NEW NORMAL

*Hurricane Michael made landfall on Oct. 10, 2018, and quickly became one of the most destructive storms in U.S. history. Innovations Federal Credit Union lived through it, and discusses the business continuity, disaster recovery, and teamwork efforts required to be the first financial institution in its community back online.*

BY ERIK PAYNE

Down in the Florida Panhandle, folks tend not to get spooked by hurricanes that easily.

More storms hit Florida than any other state, and since 1851 only 18 hurricane seasons (which runs from June 1 – Nov. 30 each year) have passed without a known storm impacting the state. When Hurricane Michael, a Category 5 storm, made landfall on Mexico Beach, some 25 miles southeast of Panama City, it was the seventh hurricane of the 2018 season.

It was also a slow-moving storm. Formed Oct. 1 in the Caribbean Sea, Hurricane Michael wasn't a hurricane until Monday, Oct. 8 — when its average sustained wind speeds surpassed 74 mph.

"It was supposed to be a water event," says Karen Hurst, the chief marketing officer of Innovations Federal Credit Union (\$272.5M, Panama City, FL), a community-chartered cooperative that only serves Bay County, FL.

"That's not going to scare off many locals," says CFO Jeremy Hinton.

From there, the storm continued to intensify. On Oct. 8, Florida's governor ordered mandatory evacuations in Bay, Gulf, and Wakulla counties; in total, some 375,000 Floridians were asked to flee before Michael struck.

On Oct. 10, Hurricane Michael hit Florida with maximum sustained winds of 160 mph. It was the first Category 5 storm to hit the Panhandle, and the fourth strongest landfalling hurricane in the contiguous U.S. The hurricane caused 49 deaths and an estimated \$25 billion in damage, making it one of the worst natural disasters in U.S. history. Hundreds of thousands of people had their lives impacted in one way or another: lives were lost, houses destroyed, businesses disrupted. On the ground, the affected communities lost electricity and cell service; fuel to power backup generators and vehicles was scarce; tires were easily damaged as people drove through town in the wake of the storm to begin a clean-up process that continues to this day.

When disaster strikes, one thing that everyone needs is access to their money. Innovations knew what it had to do:

re-open and provide financial services to members in need. When it did open, four days later, it was the first financial institution to do so. Here, Innovations' senior team shares the disaster recovery (and teamwork) efforts that made it happen.

### OCT. 6 - OCT. 9

For Innovations, the story started the weekend before the storm. Michael began as a tropical depression, brewing in the southern Gulf of Mexico, and local newscasters and talking heads believed it would result in a direct hit on Panama City. That's how Hinton knew not to panic.

"When it's that far away and they say it's going to hit us, it never does," the Innovations CFO says. "It never has."

But the storm was worth monitoring.

As the weekend progressed, the depression grew in strength and the community started to prepare; gas tanks were filled, windows were boarded, residents stocked up on batteries and water bottles. The credit union prepared, too. If things got bad, it was ready to switch to its disaster recovery phone line, handled by LSI in Chicago, as well as spool up its core processor to a Jack Henry hot site in Birmingham, AL. And if the core moved, all the systems that fed into the core — including online and mobile banking and check processing, among others — needed to change their line of communication from Panama City to Birmingham, as well.

While facing the possibility of a storm, the credit union increased its cash order, stocking its ATMs as full as they could get. It also communicated with other area cooperatives to ensure everyone had the cash they needed, and they knew who to ask if more was required.

"You never know what's going to happen," Hinton says. "But if the power goes down, they're going to need access to cash. So it has to be as accessible as possible."

Monday was Columbus Day, so the credit union didn't open. But when mandatory evacuations were announced that day, Innovations made the decision to open on Tuesday



“It’s going to take a long time for people to forget this. I think it’s left us all more prepared.”

— DAVID SOUTHALL, CEO, INNOVATIONS FCU

until noon. Members could withdraw cash and hit the roads early, while employees spent a few extra hours after the doors closed preparing its six branches for the storm. That included covering equipment, powering down its server room, and processing its last files for the Federal Reserve.

Some employees chose to weather the storm from their homes. Others, like Hinton, drove late-night to meet their families who had previously evacuated. Innovations’ director of IT drove to Birmingham so he could work near the hot site should problems arise.

“I left my house on Tuesday night with a cat, a dog, five dwarf hamsters, and everything else I’m taking with me,” Hinton says. “There was a zoo in the back of my car.”

For those who did evacuate, the expectation was they’d wait the storm out and drive back when the weather was clear to resume business as usual. That didn’t happen.

#### OCT. 10 - OCT. 11

Hurricane Michael hit Bay County on Wednesday around noon, with the eyewall of the storm soon passing directly over Panama City, leveling buildings, forests, and decimating Tyndall Air Force Base as it moved northeast. On the beach, a 14-foot storm surge and Category 5 winds created catastrophic, apocalyptic damage.

“I couldn’t walk down my street,” CMO Hurst says. “Trees, telephone poles — they weren’t just broken and tossed, they were shattered.”

“It’s going to take me 10 years to clear everything that fell on my property,” COO Scott Gladden adds.

By Wednesday morning, Innovations had initiated its disaster recovery plan. Panama City and its surrounding communities had lost power and Wi-Fi, and Verizon Wireless service — which Innovations uses for its primary branch communications and internet access — was down. The fiber link between its headquarters building and the four branches to the east was severed, as well. For those who didn’t evacuate, communication was impossible.

“There was little to no communication with anyone who was down there,” Hinton says. “That was the biggest concern at the time. Because if you can’t talk with someone you always think the worst.”

Of the senior team, only Hinton evacuated. From his hotel room in Troy, AL, he called who he could to make sure employees were OK and systems were up and running. Quickly, the credit union began processing files to the Federal Reserve to post member deposits; however, it made the strategic decision to delay posting debits for five days to better serve members.

“We felt it made the most sense to keep members’ money available to them,” Hinton says.

“We would have refunded them anyway, but it kept them from worrying about it,” Gladden adds.

In Panama City, the credit union took stock of the communication channels available to them. There were two radio stations broadcasting from Bay County’s emergency operations center, one of which soon became the primary channel for news dissemination, but without phones Innovations had to get creative.

## SAFFIR-SIMPSON HURRICANE WIND SCALE



The SSHWS classifies hurricanes into five categories based on the intensity of their sustained wind speeds:

Category 5: > 157 mph

Category 4: 130-156 mph

Category 3: 111-129 mph

Category 2: 96-110 mph

Category 1: 74-95 mph





In the wake of the storm, Innovations communicated through the channels at its disposal, including this Facebook post from Sunday, Oct. 14.



By the Sunday after Hurricane Michael, Innovations had set up two "war rooms" in its headquarters building, where the team was able to process transactions through AT&T cell phone hotspots with tethered laptops.



Pen Air provided Innovations a temporary mobile branch to serve members in the days after the storm.



The credit union's Harrison Ave. branch is back online, though as a temporary trailer as it assesses damages to its affected location.



When Innovations first re-opened, branch lines were long. Some employees stepped up by noting withdrawal amounts on clipboards so they could be processed and prepared by the time members reached the window.



**DAY - 0**

- Hurricane Michael makes landfall.
- Innovations' banking services are brought back online through its disaster recovery company, though without electricity, affected communities become cash economies.
- Online banking, mobile banking, and debit/credit card transactions begin processing at its disaster recovery location.

Knowing one of the first things his executive team would do was check the physical state of the credit union's branch locations, CEO David Southall went old-school, leaving Post-It notes on each of the brick-and-mortar locations with when and where to meet. The first employees who made it back met at Southall's condo on Thursday morning, hatching an early game plan.

"We did everything possible to get up by Sunday," Hurst says.

**OCT. 12 - OCT. 13**

Verizon Wireless service runs on Verizon's fiber optic cables; if those cables are cut, there's no service. But not all cellphone networks work that way.

On the radio, Southall and Hinton listened as Bay County's superintendent of schools advised residents to use Cricket Wireless, a prepaid service that works by buying extra wireless capacity from the major providers, such as Sprint, T-Mobile, and AT&T. Though Verizon's fiberoptic capability was down, other networks that ran on towers were more quickly able to re-establish service.

"We told people, if you can, get a prepaid phone — it'll work," Hinton says. "Everyone had a burner phone with a different number, so when you saw anyone the first thing you did was give them your new phone number."

With working phones, Innovations was able to get updates from staff, whether through calls, texts, or social media messages, to learn who was affected and to what degree. From an operational standpoint, phones allowed Innovations to post its own updates to social media and its website, which included publishing its Cricket numbers in case concerned members needed to get in touch.

"I was talking to members at 10 p.m. who were worried about a loan payment that was due two days ago," Gladden says. "I had to reassure them not to worry about it. We're going to take care of it."

**DAY - 4**

- Credit union's main office location begins processing transactions on tethered laptops through AT&T cell phone hotspots.
- Laptops connect back to Innovations' disaster recovery site through a secured VPN connection.

**TIRE TROUBLE**

Vehicles are necessary after a storm, but with poor road conditions drivers had a rash of tire issues. Local service stations, tire centers, and car dealerships offered free repairs. Everyone lent a hand. "I did a tire repair for an IT employee," CFO Jeremy Hinton says. "Without a car you can't accomplish anything."

As the week progressed, internet and electricity became available, albeit spotty. Clean up had begun, though roads remained treacherous with the amount of debris that remained. Still, Innovations was able to assess branch impact, finding two severely damaged while its other four were relatively unscathed.

"In fact, one that had no damage was in the middle of one of the hardest-hit areas," Gladden says.

On Saturday morning, seven credit union employees met, including the four-person senior team, to finalize its go-live plan. It rolled out its 5%, \$3,000 Hurricane Assistance Loan, introduced 90-day loan deferments, and waived fees. It decided which branches to open, and in what order, starting with its headquarters location, closest to Panama City Beach.

By then, neighboring (but less affected) credit unions and business partners had delivered aid. Pen Air FCU provided a mobile branch; Gulf Winds FCU brought in generators; Route 66 Warranty also brought in generators, as well as Cricket phones and other essentials; Heckman Law Group provided other necessary supplies.

"We had truckloads of generators for our team members," Gladden says. "Our partners provided the generator, the gas, the electrical connections, everything, so our employees could have power and come serve our members."

**DAY - 22**

- Main office's primary internet service returns.
- RDC, email communications, and telephone services come back online.

**DAY - 52**

- Fiber services are restored at the credit union's Lynn Haven branch.
- Until then, the branch used AT&T hotspot devices and pre-paid cell phones.

**DAY - 57**

- Fiber services are restored at the credit union's Callaway branch.
- Until then, the branch used AT&T hotspot devices and pre-paid cell phones.

**OCT. 14 - TODAY**

By Sunday, Innovations' headquarters had power, but for security reasons, only its drive-thru windows could open for members in need of cash, disbursing the funds through a functioning drive-thru tube and deal-drawer system.

As lines were long, employees were stationed outside at the drive-thru, taking down member withdrawal requests on a clipboard so they could be processed and prepared by the time members reached the window. When other branch locations came back online, the same process occurred.

Also by Sunday, Innovations had set up two "war rooms" in its headquarters building, where the team was able to process transactions through AT&T cell phone hotspots with tethered laptops, including handling the paperwork for emergency loans over email and DocuSign.

ATMs were another question, entirely. Innovations ATM communications are run through independent Verizon wireless devices, which meant that while Verizon service was unavailable, ATMs were offline. It wasn't until AT&T allowed Verizon customers to roam on their towers that its ATMs came back online.

For two weeks after the storm, Innovations used its disaster recovery hot site in Birmingham as the base of its operations. On Oct. 22, internet service returned to its main office, which allowed it (and a second branch) to open with near-full operations. Remote deposit service, as well as primary email communication and telephone service, came back online, too.

In the following weeks, additional branches re-opened, and service returned to its previous capacity. As of late May, five of the credit union's six branch locations were open — with the sixth running out of a temporary trailer for the time being. At that time, Innovations recouped approximately \$956,000 in insurance for the damage at four of its branches and is currently working to determine the impairment on its two remaining locations.

"We still don't have a value yet on what it'll cost to fix," Hinton says.

Innovations is slowly regaining its sense of normalcy in the aftermath of the storm. The event changed everything for Bay County and its surrounding communities, and the credit union has effectively remained in recovery mode — putting other strategic initiatives on the backburner.


"We're ready for a more positive shift," says CEO Southall. "And I think it's coming."

There's years of construction and repair ahead, and billions of dollars required for the effort, but progress (and promises) are being made. Some 31 million cubic yards of debris has been removed, and in mid-May, President Trump surveyed the damage to Tyndall Air Force Base, promising officials it will be rebuilt "better than ever."

Innovations has learned several lessons as well, perhaps none so striking as to thank the strength and resiliency of its friends and family: the folks who provided its disaster recovery systems and its employees.

"For our disaster recovery folks, this is what they do on the day-to-day," Hinton says. "For us, it's an apocalyptic event that's never happened before."

From its people, the credit union saw a willingness to pitch in and help those more disadvantaged and helped many recognize what's important — both personally and from an operational standpoint. After all, the 2019 Atlantic hurricane season is underway.

"It's going to take a long time for people to forget this," Southall says. "I think it's left us all more prepared." 

## 5 DATA POINTS THAT EXPLAIN INNOVATIONS FEDERAL CREDIT UNION

*A credit union is more than the sum of its numbers, but these five data points help illustrate the strategies and opportunities facing the cooperative today.*

BY ERIK PAYNE

# 75%

That's the approximate count of the credit union's membership that lives paycheck-to-paycheck, according to CFO Jeremy Hinton. Innovations serves an area that relies heavily on tourism dollars and its military presence, and credit quality has steadily improved in the years since the Great Recession and the 2010 BP oil spill.

# 2010

That was the year Northwest Florida Beaches International Airport (ECP) opened. Located in Bay County, the airport has since attracted businesses development from established national and international companies, especially technology and aviation firms such as GKN Aerospace and Butterfly Training. Continued development will broaden the area's economic base and attract new residents in need of financial services.

# \$67,426,935

Between third quarter 2018 and first quarter 2019, Innovations' deposit portfolio grew by almost \$67.5 million, or nearly 40%. In large part as a response to the uncertainty surrounding Hurricane Michael, the Category 5 storm that made landfall in October 2018, the \$272.5 million credit union is working to manage these funds (and its own liquidity) by investing in short-term maturity products. By early 2020, Innovations expects most of its hurricane-related deposits to have run off.

# 2004

That's the year CEO David Southall took the reins of Innovations. The next year CMO Karen Hurst and COO Scott Gladden join, and the three now count a combined 45 years of tenure on the credit union's executive team. When this generation of leaders retires, Southall and his team want a new generation of credit union leaders, including 2012 hire CFO Jeremy Hinton, in place and ready to guide Innovations on its next 15 years.

# 146,000

That's the number of insurance claims filed by Florida property and business owners related to damage caused by Hurricane Michael. Insured losses total nearly \$6 billion. On its own claims, related to damage to four of its six branches, the credit union recouped \$956,000, which has helped cover the costs of repairs. The credit union has yet to file claims for two of its branches and expects more payout then.

# HOW TO BUILD BUSINESSES AND RE-BUILD FENCES

*Since 2013, Innovations FCU has worked to serve the full business services needs of its low-income membership. In the wake of Hurricane Michael, the need may be greater than ever.*

BY ERIK PAYNE

Prior to 2013, business lending was never an area of strategic emphasis for Innovations Federal Credit Union (\$272.5M, Panama City, FL), says chief operations officer Scott Gladden, who's been at the Florida cooperative since 2005.

"We made some business loans here or there," he says. "But it was never our focus."

Then the Great Recession hit. In the three years following the economic shock, the financial institution market in Bay County — the only county the community-chartered cooperative serves — changed entirely. Many community banks closed their doors; when that happened, the community lost its only source of business loans.

"There was a void in our market," Gladden says. "The big banks didn't want to offer loans and other services to the small business owners in our market, and the community banks who traditionally served these populations were gone."

Located in Panama City, an economic market dominated by tourism and the service jobs that support it, Innovations serves a predominately low-income membership. To more fully support their business needs, the credit union made a choice to fill the business services gap.

In the fall of 2013, Innovations hired commercial banker David Powell as its new business development officer to jumpstart interest and activity in its business services, which includes a full suite of loans, fee-free accounts, and cards. In the years since, the credit union's member business and commercial lending portfolios have grown well, with the potential to grow larger as the community rebuilds in the aftermath of Hurricane Michael, the Category 5 hurricane that ravaged the Florida Panhandle in October 2018.

In this Q&A, Gladden discusses growth, team-building, and rebuilding in the wake of environmental disaster.

## WHY DID YOU DECIDE TO OFFER A FULL SUITE OF SERVICES?

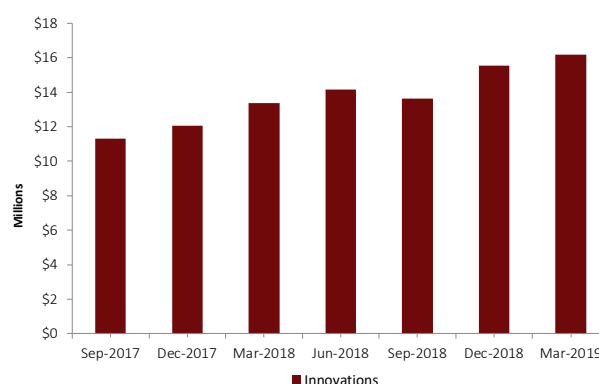
**SG:** We asked ourselves, if we were small businesspeople what services would we need? We realized the need for business accounts — from checking and savings to money markets and certificates — that we wouldn't charge for. We can do anything. We can handle your account, and if you need a small loan, we've got that for you, too.

## A NOTE ABOUT BUSINESS LOANS

In third quarter 2017, the NCUA changed how credit unions report member business loans, creating a category for commercial loans that are not subject to the cap. Despite the category distinction, there are several loan types that are classified as both "member business" and "commercial" loans, making a like-for-like comparison difficult.

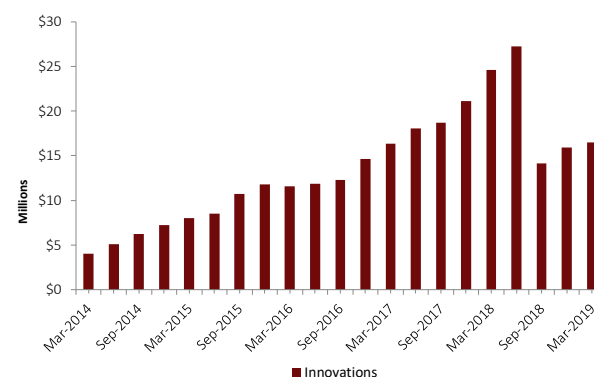
## COMMERCIAL LOAN BALANCES

FOR INNOVATIONS FCU | DATA AS OF 03.31.2019



## MEMBER BUSINESS LOAN BALANCES

FOR INNOVATIONS FCU | DATA AS OF 03.31.2019



Since jumpstarting its business services offerings in 2013, Innovations' business loan portfolios have added millions to its balance sheet and provided service to a community in need. One note: NCUA's reclassification in the reporting standards for single-family residential properties caused a one-time drop in member business loan balances between second and third quarter 2018.





“ The big banks didn’t want them, the small banks were gone, and the other credit unions in town weren’t ready to offer those services. We were. ”

— SCOTT GLADDEN, COO, INNOVATIONS FCU

#### **YOUR TOTAL BUSINESS LENDING PORTFOLIO HAS GROWN CONSISTENTLY SINCE 2013. WHO IS YOUR TARGET BORROWER?**

**SG:** There was that void in our market, but we wanted to find a niche within that where we could live and operate that fit our credit union. Really, when we started trying to grow we looked for our members who were also small business owners, and those small business owners who weren’t members but should have been. The big banks didn’t want them, the small banks were gone, and the other credit unions in town weren’t ready to offer those services. We were.

#### **HOW MUCH OF AN IMPACT HAS THE HIRING OF YOUR BUSINESS DEVELOPMENT OFFICER HAD ON THE SUCCESS OF YOUR PROGRAM?**

**SG:** That was a big hire for us, because David [Powell] was already well-known in the community. He knows everybody, from chamber presidents to committee members, and he’s opened people to the idea that credit unions can offer these types of services. He’s helped us grow this program at the pace we want to grow it. We’re not trying to put up big numbers, though it’s grown well. We’re a low-income designated, CDFI credit union. We’re trying to serve members and take care of people.

#### **WHAT PACE OF GROWTH ARE YOU LOOKING FOR FROM THIS PORTFOLIO?**

**SG:** We look at how these loans fit with the rest of our concentration analysis. Right now, we’ve got nearly \$35 million in our business portfolios. We’ll see how this line of business fits our budget and the overall loan growth projections for the credit union. I think this will change from budget year to year.

We try to grow our total loan portfolio around 10% each year. I’ve seen credit unions that try to grow faster, and put up big numbers, give up something somewhere else, like underwriting. 12-18 months later their delinquencies and charge-offs spike, and we don’t want to do that. Plus, regulators don’t like big, fast growth numbers. They put you under more scrutiny, even if you’re doing it well. We prefer to approach it in a consistent, safe, sound manner.

#### **STARTING WITH THAT BUSINESS DEVELOPMENT OFFICER IN 2013, HOW HAS THE TEAM GROWN? WHO IS RESPONSIBLE FOR WHAT?**

**SG:** David really started it, and then he hired an assistant who helps him keep track of all the moving parts. Other loans, you can put them on the books and forget them. With business and commercial loans, you have to monitor: are they giving you updated financials? Are they paying their taxes? Insuring their property? Following covenants that may be part of the agreement? Then, you have to continually risk-rate them.

Since then, we’ve added a loan officer, who really helps those looking for business services know where to start. Do they have a business plan? Do they know how to incorporate their business? He talks them through those initial steps and helps them understand what information they need to provide before they can apply for a loan.

That’s our department, but other folks help as well.

#### **LIKE WHO?**

**SG:** Me, our CEO (David Southall), and the head of our mortgage department, Mark Harwell. We’re on the loan committee, evaluating loans, though Mark does all the underwriting. For our document processing and more complex underwriting, we use third-party Lucro Commercial Solutions from Tallahassee, FL.

#### **HOW HAS THIS PROGRAM GROWN WITHIN THE COMMUNITY?**

**SG:** We’ve just started to advertise, but our business development officer is connected to everybody. And he attends Chamber of Commerce meetings, sits on committees. He’s often asked to emcee events. He’s everywhere. What happens is, once someone finds out we offer business services and they have a good experience with us, they tell their friend, who tells their friend.

People still don’t think credit unions offer these services. But once you can develop a network like that, we get enough business to keep us busy.

“ There’s five-years’ worth of fence building left in this town. ”

— SCOTT GLADDEN, COO, INNOVATIONS FCU

**WITH HURRICANE MICHAEL NOW A FEW MONTHS IN THE REARVIEW, WHAT ARE YOU DOING FROM A BUSINESS LENDING PERSPECTIVE TO HELP YOUR COMMUNITY REBUILD?**

**SG:** We don’t necessarily offer rebuilding loans. We’ve seen members with building damage or who’ve needed to expand their businesses to serve hard-hit areas. We’ve helped in those cases, and we recently applied for a second CDFI grant more specifically for rehabilitation and rebuilding loans.

We also offered deferments during the hurricane, but that hasn’t affected our credit quality thus far. Many of them collected on insurance claims and they’re still sitting on a lot of cash. That’s actually helped many people.

**IN 2018, YOU RECEIVED A CDFI FINANCIAL ASSISTANCE GRANT FROM THE U.S. TREASURY AND HAVE APPLIED FOR ANOTHER THIS YEAR. HOW MUCH WERE YOU AWARDED AND WHAT WILL THESE GRANTS HELP YOU ACCOMPLISH?**

**SG:** We’re the credit union for Bay County. And as we thought of all the ways we can help improve our community, we decided applying for a grant to benefit business lending was a good way to achieve that. If we can help to start a business, or expand one, it’ll provide a perpetual benefit. Starting or expanding means they’re able to employ more people who can shop in more stores and eat in more restaurants. For me, if we can help small businesses grow in our community, the effect of that is going to be bigger than helping someone remodel their house.

We were approved for \$500,000, and the funds are divided into three categories: micro-enterprise loans, startup business loans, and business readiness loans. Along with that, the grant allotted funds for technology upgrades, account reserves, capital, and staff hiring.

**HOW MUCH OF THAT HAVE YOU AWARDED TO MEMBERS?**

**SG:** \$250,000 since December. We were awarded the funds in September, but when the hurricane hit it pushed our scheduled rollout to members back a few months.

**BUT THE NEED IS CERTAINLY THERE OVER THE COURSE OF 2019?**

**SG:** It’s ramping up now, and we expect to award more in the next several months. We started to advertise in the Bay County and Panama City Beach chambers of commerce trade magazines, but we want to be strategic about it and put it in publications small business owners are more likely to see.

We’ve already awarded funds for hurricane cleanup. Some are helping existing businesses buy another truck or trailer or piece of equipment, others are working on building fences because everyone’s fence is gone. There’s five-years’ worth of fence building left in this town. ▲

## WITH GRATITUDE

*Callahan & Associates wants to thank the following individuals for sharing their time, insight, and stories to make this quarter's Anatomy impactful.*



**SCOTT GLADDEN, CHIEF OPERATIONS OFFICER**

“It’s a great place to work, and we’re always aiming to keep it that way.”



**JEREMY HINTON, CHIEF FINANCIAL OFFICER**

“The culture of the organization is really the hook that brought me down here in 2012, but it’s been a great fit and a wonderful experience since.”



**KAREN HURST, CHIEF MARKETING OFFICER**

“I love this place; I could talk for hours about it. I love being able to get to do all the things we get to do with the best people.”



**DAVID SOUTHALL, CEO**

“What I enjoy most about Innovations are the people, and how we’ve been able to create a positive environment for them to work in.”