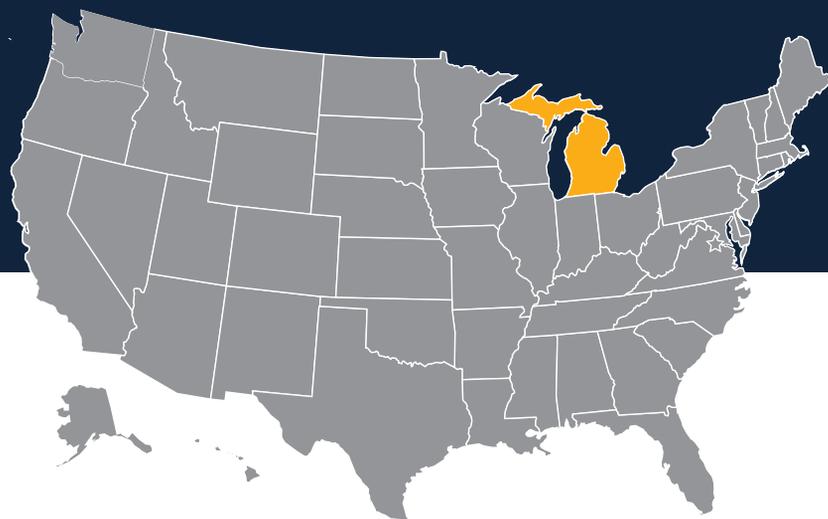




Anatomy of
American 1
Credit Union



STATES IN THE SPOTLIGHT



MICHIGAN

POPULATION:	10.1 MILLION
UNEMPLOYMENT RATE:	5.1%
NUMBER OF CREDIT UNIONS:	212
NUMBER OF BANKS:	85

STATE CU QUICK FACTS

DATA AS OF 03.31.21

\$89,129,182,438 TOTAL ASSETS	\$51,040,687,212 TOTAL LOANS	\$984,095,672 TOTAL YTD REVENUE
\$77,412,499,422 TOTAL SHARES	0.34% AVERAGE DELINQUENCY	2.94% AVERAGE OPERATING EXPENSE RATIO
5,690,124 TOTAL MEMBERS	\$9,828,082,611 TOTAL CAPITAL	

Loans

LOAN ORIGINATIONS PER MEMBER at Michigan credit unions reached \$6,201 as of March 31. That's up 49.2% year-over-year and significantly outpaced nationwide growth of 25.7%. Low interest rates spurred a surge in refinancing demand; consequently, total first mortgage originations rose 66.9% annually to \$4.2 billion.

LOAN BALANCES grew 8.3% year-over-year at Michigan credit unions and surpassed \$51.0 billion in the first quarter. With 15.2% growth, first mortgages led all products and represented 48.1% of the total lending portfolio.

Annual **AUTO LOAN GROWTH** reached 3.9% in the first quarter; 1.7 percentage points higher than the national average. New auto loan balances declined 0.7% annually to \$3.6 billion, whereas used auto loans expanded 5.4% to \$11.5 billion.

Shares

Michigan credit unions reported a 28.1% annual increase in **SHARE BALANCES**, which hit \$77.4 billion as of March 31. Additional COVID relief stimulus and tax refunds flowed into member deposit accounts through the first quarter.

SHARE DRAFT PENETRATION at the state's credit unions expanded 1.8 percentage points year-over-year to 63.6% in the first quarter. Total share draft balances increased 71.9% annually and hit a record \$16.5 billion.

The **LOAN-TO-SHARE RATIO** dropped 12.1 percentage points to 65.9% as of March 31. Annual share growth of 28.1% exceeded annual loan growth of 8.3% throughout the state.

Members

TOTAL MEMBERSHIP at Michigan credit unions grew 3.0% year-over-year to nearly 5.7 million; 168,000 members joined the movement in Michigan during the past 12 months.

The **AVERAGE MEMBER RELATIONSHIP** in the first quarter increased \$3,068 year-over-year to reach \$21,661 at Michigan credit unions. During the past decade, the state's average member relationship has expanded \$8,296.

Earnings

PROVISION FOR LOAN LOSS allocations at Michigan credit unions fell 70.3% over the past year as dropping default rates prompted credit unions to withdraw from their provision accounts. Quarterly provision allocations were down 50.2% quarter-over-quarter to \$19.5 million.

TOTAL INCOME rose 5.6% annually to \$984.1 million as of March 31. At \$642.4 million, interest income accounted for 65.3% of total income at Michigan credit unions, down 5.7 percentage points from one year ago.

ROA at Michigan credit unions increased 44 basis points year-over-year to 1.19%. Net income expanded 93.6% annually to \$255.4 million as credit unions increased non-interest income and decreased provision and interest expenses over the year.

The Bottom Line

Low interest rates created demand for first mortgage originations and refinances, which comprised the largest portion of the lending portfolio at Michigan cooperatives. Additionally, credit unions in the Wolverine State reported auto loan balances up 3.9%, outperforming the national average by 1.7 percentage points. Throughout the industry, credit unions are searching for consumer loan opportunities, and those in Michigan have done a good job providing auto loan services to their membership base. Credit unions in Michigan, like national counterparts, reported a surge in ROA to 1.19%, brought on by a combination of growing non-interest income generation and falling interest and provision expenses.

SOURCE: CALLAHAN & ASSOCIATES DATA AS OF 03.31.21

AMERICAN 1 CREDIT UNION

1 CREDIT UNION TO SERVE THEM ALL

American 1 Credit Union provides essential financial products to a blue-collar membership. The mid-size Michigan cooperative aims to double in size in the next decade, so how will it change its operations to reach that goal?

BY ERIK PAYNE

American 1 Credit Union (\$552.1M, Jackson, MI) has deep cooperative roots.

In the late 1940s, an enterprising group of Jackson, MI, residents founded a buying club that provided member discounts on goods like tires and appliances. It was a desirable service in a post-World War II economy, and the group named the organization the Jackson Co-Op. In 1950, that same group of individuals founded Jackson Co-Op FCU and restricted membership to those who participated in the buying club. Today, that credit union goes by the name American 1, and the buying club — now called Community 1 Cooperative — remains the community credit union’s sole associational group.

In American 1’s 70-plus years of operation, it has maintained a physical presence mostly in and around Jackson. Locations as far east as Detroit and as far west as Battle Creek helps the Wolverine State credit union serve a region roughly 120 miles in diameter, but it’s Jackson’s manufacturing history and blue-collar population that continues to influence what the credit union wants to be.

“In its heyday in the 1920s, there were more than 20 different automobiles invented and produced in Jackson,” says American 1 CEO Martha Fuerstenau. “It was a successful auto manufacturing town, but those days are no longer.”

Jackson still has its hands in the automotive arts, but not to the extent it once did. Unfortunately, the most recent data available puts the city’s median income at \$36,500 — well below the state average of nearly \$60,000. This legacy has pushed American 1 to key in on the everyday products and services members want while avoiding others entirely.

“We want to serve as many people as possible,” Fuerstenau says. “Our focus is on the checking account, auto loan, and credit card.”

As of the first quarter, American 1 held 85% of its loan portfolio in autos or unsecured credit cards. That’s nearly 50 percentage points higher than the national average. The credit union’s penetration rates for these products are higher than average, too. Two-thirds of its members have a checking

account with the credit union, one-third have a credit card, and nearly one-quarter have an auto loan.

American 1 doesn’t operate like other successful credit unions. Flip to page 34 to see a data comparison of a few key areas.

American 1’s philosophical leanings and operating ethos pre-date Fuerstenau’s time as CEO, but she has nonetheless made a significant mark on the organization since assuming the role on Jan. 1, 2018. She not only steered the credit union through a one-in-a-lifetime pandemic but also rewired the executive team to work more effectively and take advantage of incoming opportunities.

LONG-TERM LEADERSHIP TRAINING

Fuerstenau joined the credit union in 1984 as a teller. At the time, it was still named Jackson Co-Op FCU, and the small credit union had only few million dollars in assets and 20 employees. David Puckett, who became CEO in 1982, led the organization.

“He had a vision for the credit union,” Fuerstenau recalls.

Puckett introduced new internal departments and built new branches. Then, the credit rebranded in 1987. Fuerstenau absorbed as much as she could and accepted every challenge thrown her way.

“I said yes to any opportunity to learn something new,” she says.

When the credit union opened a new branch in Hillsdale in the late 1980s, Fuerstenau moved into management. Three years later, she returned to Jackson for a vice president position and spent most of the next 15 years in operations,

CU QUICK FACTS

American 1 Credit Union

DATA AS OF 03.31.21

JACKSON, MI

\$552.1M

ASSETS

59,576

MEMBERS

16

BRANCHES

29.0%

12-MO SHARE GROWTH

4.9%

12-MO LOAN GROWTH

0.52%

ROA

“ I said yes to any opportunity to learn something new. ”

— MARTHA FUERSTENAU, CEO, AMERICAN 1 CREDIT UNION

sowing the seeds for an early 2010s branch footprint expansion.

In 2007, Fuerstenau became the credit union's sole executive vice president. By then, she had earned her MBA from the University of Michigan and was broadening her internal focus to include payments, collections, and lending in addition to facilities. When Puckett announced his intention to retire after 35 years as CEO, Fuerstenau threw her hat into the ring.

When Fuerstenau became CEO, American 1 was in a strong financial position. In the first quarter of 2018, its capital ratio was nearly 20%, its ROA was 2.52%, and its efficiency ratio was 69.1%. At the same time, loan growth was at a three-year low and the \$340 million shop had added \$25 million in checking accounts in the previous five years. There was potential — and Fuerstenau was committed to unlocking it.

“I'd been with the company for 34 years, and I was as much a part of our growth as anyone,” Fuerstenau says. “I came into the role thinking everything was great. Then I saw we needed to make changes.”

BEST PRACTICE:

FIND A MORTGAGE ELSEWHERE

To serve as many people as possible, American 1 focuses on auto loans and credit cards. Would its members like it if the cooperative offered mortgages? Probably, CEO Fuerstenau says. But that would require a new lending expertise, and the credit union is already good at what it does.

“We're not going to just change our business strategy,” Fuerstenau says. “It's easy to get a mortgage elsewhere.”

ENTREPRENEURIAL MINDSETS AT THE TOP

Fuerstenau admits her leadership style is different from her predecessor. In the three decades before she became CEO, the credit union had grown more complex — adding employees, growing its branch network, and moving into new lines of business. In 2011, it merged twice in one quarter, bringing thousands of members and additional services and operations into the fold.

When she became CEO, Fuerstenau wanted to advance the credit union by creating a more collaborative environment among her direct reports.

“That's my style,” she says. “I don't know everything. I rely on people who are more specialized.”

But her team wasn't prepared for that kind of change at the top.

“My executive team wasn't used to being so involved in making the decision, being accountable for its outcomes, and thinking critically,” Fuerstenau says. “They knew what to do, but they'd never been asked to do it.”

On the recommendation of a friend, Fuerstenau read *Traction* by Gino Wickman, a book that lays out the concept of the “entrepreneurial operating system.” Defined simply, EOS provides a way to put leaders on the same page, make challenges manageable, and ensure everyone is working toward the same goals.

Fuerstenau asked her executive team to read the book. Then, she hired a facilitator in the spring 2019 to help the mid-size Michigan cooperative establish its EOS concepts.

“We decided to go on a journey to internally reorganize the company,” the CEO says. “It was about creating a nimble, entrepreneurial spirit within a 70-year-old organization.”

With the facilitator's help, American 1 tore up its org chart. But rather than rebuild an org chart around titles, EOS asks companies to organize around accountabilities.

As the CEO describes, American 1's work started by considering the primary functions of the credit union — as a lender, a depository institution, and an employer, among others — to break down the requisite needs of the organization. Then, the facilitator ran the leadership team through a series of sessions to rebuild American 1.

“We realized our basic needs, the seats we needed to fill, and the functions of each of those seats,” Fuerstenau says. “It wasn't hard. We removed all the fluffy stuff around who we are and what we do to ensure we had the right person in the right seat.”

The point of the exercise was to push senior staff to think creatively and critically rather than fall in line behind the chief executive. The exercise, which occurred across 2019, identified who was able to make that shift and who wasn't.



“We decided to go on a journey to internally reorganize the company. It was about creating a nimble, entrepreneurial spirit within a 70-year-old organization.”

— MARTHA FUERSTENAU, CEO, AMERICAN 1 CREDIT UNION

“The order takers didn’t make it,” Fuerstenau says. “They could absolutely execute on things if you told them what to do. But that wasn’t what I was looking for.”

Today, EOS is a topic of conversation from the first recruiting interview all the way through the onboarding process, and the credit union has new hires who chose American 1 specifically because of its EOS ethos. But EOS requires constant management because the credit union’s needs can change quickly.

“We might have someone in the right seat yesterday, and today they’re not,” Fuerstenau says. “Our focus can be in one direction yesterday, and today that’s changed.”

When the COVID-19 pandemic hit in 2020, it put EOS to the test.

AS MANY SERVED AS POSSIBLE

American 1 is focused on serving as many members as it can via the everyday products they need. For the 60,000-member cooperative, that means checking accounts, auto loans, and credit cards as well as all the ancillary services that go with them.

“We want to serve more people,” Fuerstenau says. “You can do that when you’re committed to making smaller dollar loans.”

That commitment faced a hurdle in 2020. COVID-19 created macroeconomic conditions that resulted in low consumer spending and low supply, but high demand, for auto loans. Additionally, health and safety concerns forced the credit union to scrap its spring auto sale, a weekend-long event during which American 1 can make up to \$2 million in loans.

To learn more about American 1’s auto lending strategy, flip to page 29.

American 1’s branch footprint is larger than that of credit unions of similar size. Its 16 branches reflect its commitment to convenience, but pandemic-related shutdowns pushed American 1 to rethink its usual strategy. It updated its digital channels, instituted a new rewards program for its credit card, and provided a mass reissuance of all its cards. The credit union hadn’t made the move to EMV yet, and seized

the opportunity to provide both chip and contactless options to its membership.

“With our branch network as large as it is, our philosophy is about convenience,” Fuerstenau says. “The pandemic helped us make our digital channels just as convenient.”

In the second half of 2020, the credit union slashed its auto loan rate from 1.99% to 1.59% to attract borrowers. At a time when the industry’s average auto loan growth slowed to less than 2.0% — and growth at asset-based peers moved negative — American 1 ended 2020 with nearly 12% growth, all direct.

BEST PRACTICE:

PUT YOUR MONEY IN YOUR MEMBER’S HANDS

American 1 is a successful auto lender, but it won’t go indirect. It has great relationships with its local dealers, but the credit union firmly believes that controlling the relationship from the start offers the best deals for members.

“We would rather put the money we’d otherwise pay to the dealers into our members’ hands,” CEO Fuerstenau says. “It’s hard work, and it took time to get ourselves into position where we don’t have to do it.”

Also in 2020, the credit union introduced an auto concierge service — an in-house built, digitized shopping tool that allows American 1 members to request specific vehicles safely and conveniently from their homes. Taken together, the credit union actually made more auto loans by dollar amount in 2020 than in 2019 — a sign of success during challenging circumstances.

Now, as the credit union looks forward to the second half of 2021, success requires thinking even bigger.

As part of its EOS work, American 1 set a goal to serve 100,000 members by 2030. Getting there will require an effort that encompasses the entire credit union, Fuerstenau says. But the mission won’t change.

“Our niche has always been rural, blue-collar communities abandoned by the banks,” the CEO says.

Take Milan, MI, a small town nearly 20 miles south of Ann Arbor. In the early 2010s, the town’s lone credit union was merged out of the community, leaving Milan with only big bank ATMs. With little competition and a cheaper cost to operate, Milan has become a successful area for American

1. Finding more communities like Milan is key to the credit union's growth plan, especially because Fuerstenau wants to reach 100,000 members totally organically.

In Fuerstenau's tenure as CEO, American 1 created a vice president of community partnerships position. Held by Janelle Merritt, the role is designed to keep a pulse on the needs of the credit union's local communities so American

1 can remain relevant to current and potential members. The credit union will key in on community leaders, school systems, and sponsorship opportunities to understand what the community needs.

"It's not rocket science," Fuerstenau says. "If we know what's going on in our communities, we'll know how to serve them. We'll know how to attract them to American 1." ▲

WHO? WHAT? WHERE? WHEN? WHY?

WHO?

James Earl Jones, born in Mississippi, moved to Jackson, MI, when he was five to live with his grandparents. The U.S. Army veteran and award-winning actor made his screen debut in the 1964 film *Dr. Strangelove* but is perhaps best known for his voice, a *basso profundo*, that he's lent to characters such as Darth Vader in the *Star Wars* films and Mufasa in *The Lion King*.



WHAT?

Jackson became an early leader in the production of automobiles, including Buick and Imperial. In time, much of the auto industry moved to other cities and Jackson became known for allied industries like auto parts and tires.

WHERE?

Among the credited birthplaces of the modern Republican Party is an oak grove on the outskirts of Jackson. Known today as "Under the Oaks," on July 6, 1854, an anti-slavery convention became one of the first official meetings of a group calling itself "Republican."



WHEN?

In 1914, a Macedonian immigrant opened the first Coney Island hot dog-focused restaurant, Todoroff's, which celebrates its 107th anniversary this year, is famous for its Coney dog, a hot dog topped with chili, onions, and mustard



WHY?

The duplex corset was invented in Jackson. Because of this, Jackson quickly became the center of corset manufacturing in the United States. By the early 20th century, as many as 16 corset manufacturers operated in Jackson.

SOURCES: JACKSONMICH.COM, BRITANNICA, TODOROFF'S

HOW DOES AMERICAN 1 MAKE IT WORK?

Nine data points tell the story of a turbulent 2020.

BY ERIK PAYNE

American 1 Credit Union (\$552.1M, Jackson, MI) operates a little differently. As part of its ethos to serve more members, the mid-Michigan credit union focuses its lending efforts primarily on auto loans and credit cards. It doesn't have a mortgage team; it doesn't make mortgage loans. Instead, the credit union has spent 40-plus years or more ensuring it has the people, processes, and financial strength in place to make its strategy work.

But how does a credit union with such a specific guiding principle weather a once-in-a-generation pandemic? Below, follow the line that connects American 1's different totals and growth rates, current as of first quarter.

16 Branches

Despite being at the smaller side of its asset-based peer group, American 1's 16 branches put it at No. 13 among the credit unions with assets from \$500 million to \$1 billion. The credit union added the majority of its branches in 2011 after two separate mergers and a concerted building effort.

186 Full-Time Employees

American 1's 186 FTEs far outstrips its peer average. Taken with its branch footprint, this represents a significant investment in the front line. These employees help the credit union maintain a blistering auto loan origination pace while developing member and community relationships.

63.3%

Nearly two-thirds of the credit union's loans are auto loans – the majority of those are used. For asset-based peers, this number is 35%. American 1 believes in serving more members through lower-dollar auto loans versus fewer members through high-dollar mortgages. To wit, mortgages comprise just 1.1% of American 1's loan portfolio.

2.5 Years

According to the credit union, its average auto loan is paid off in two-and-a-half years. As such, American 1 is constantly looking to replace outgoing loans with new ones.

15 Percentage Points

In the past decade, American 1's loan-to-share ratio climbed as high as 97%. During the pandemic, however, members used government aid to pay down consumer debt, and the credit union's its loan-to-share ratio dropped 15 percentage points to 66.5%.

\$7 Million

Members pulled back on spending across 2020 as pandemic-related shutdowns cooled card swipes and increased debt payments. Balances at American 1 dropped \$7 million during the past year, although CEO Fuerstenau sees activity increasing once again.

0.52%

As balances shrunk during 2020, earnings at American 1 declined as well. The credit union's net interest margin fell 1.25 percentage points to 3.35%, still 70 basis points higher than its asset-based peer average. ROA, too, has declined in the past 12 months to 0.52%.

\$2.2 Million

In addition to offering core products, American 1 cross-sells gap, credit life, and disability insurance to its members. On the 5300 Call Report, credit unions report insurance products like these as well as interchange from credit swipes as "other income." This category comprised 25%, or \$2.2 million, of American 1's total income in the first quarter of 2021, as other income continued to supplement the balance sheet during COVID-19.

13.5%

Despite 2020's challenges, American 1 has maintained a well-capitalized position. As of first quarter, its 13.5% capital ratio put it well ahead of the NCUA's well-capitalized threshold. As spending rebounds into 2021, American 1 remains in a strong position to take advantage of future opportunities.

THE DRIVING FORCE BEHIND AMERICAN 1'S AUTO LENDING

Nearly two-thirds of the credit union's loans have four wheels. What are the keys to success for this mid-size Michigan cooperative?

BY ERIK PAYNE

Take a look at the loan portfolio of American 1 Credit Union (\$552.1M, Jackson, MI), and it's clear the cooperative is laser-focused on consumer loans.

In the first quarter of 2021, the credit union held approximately 63% of its loan portfolio in autos — the vast majority of that being used — and 22% in credit cards. On the auto front, that's 30 percentage points higher than the national average. Its credit card concentration beats the national average by 17 percentage points.

In a year when the pandemic complicated consumer lending, American 1 stood apart from the pack. Its exemplary auto loan performance, in particular, stems from a strategy many years in the making.

CU QUICK FACTS

American 1 Credit Union
DATA AS OF 03.31.21 JACKSON, MI
\$552.1M ASSETS
59,576 MEMBERS
16 BRANCHES
29.0% 12-MO SHARE GROWTH
4.9% 12-MO LOAN GROWTH
0.52% ROA

"We want to serve as many people as possible," says Marla Sanford, vice president of marketing and communications. "That means doing smaller, faster loans. We can help more people without tying up our lending power for the long term."

The credit union assumed a number of mortgages during two mergers in 2011. Other than those, however, American 1 doesn't make mortgage loans. It doesn't participate in business lending, either. Instead, the credit union has positioned itself as an

everyday lender vying to provide three things: an auto loan, a credit card, and a checking account.

"We call ourselves the auto loan experts," Sanford says. "We're usually the institution members and non-members think about when they want an auto loan."

Becoming a first-choice auto lender is not as simple as turning the ignition, however. The strategy requires operational focus, a strong network of dealers, and a creative approach to sales.

HUSTLE FOR AUTOS

American 1's average auto loan in the first quarter of 2021 was approximately \$13,600. April 2021 data from Zillow shows the average home value in Jackson, MI, was nearly \$150,000. Based on that data, the credit union could make slightly more than 10 auto loans for every one mortgage loan. Put another way, American 1 can serve more members via auto lending.

"If you have \$100,000 to lend, you can serve one member with a mortgage or 10 with an auto loan," says Janelle Merritt, vice president of community partnerships. "It's our philosophy to allocate our dollars in a way that best serves every potential American 1 member."

It's also the credit union's philosophy to avoid indirect auto lending altogether. Doing so allows American 1 to avoid charging higher rates to cover dealer incentives. In the first quarter, American 1's median loan rate for new and used auto



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COMMUNICATIONS,
AMERICAN 1 CREDIT UNION



JANELLE MERRITT
CEO, VP OF COMMUNITY
PARTNERSHIPS,
AMERICAN 1 CREDIT UNION



**CHRISTOPHER
ZEGARLOWICZ**
LENDING MANAGER,
AMERICAN 1 CREDIT UNION



If you have \$100,000 to lend, you can serve one member with a mortgage or 10 with an auto loan. It's our philosophy to allocate our dollars in a way that best serves every potential American 1 member.



— JANELLE MERRITT, VICE PRESIDENT OF COMMUNITY PARTNERSHIPS, AMERICAN 1 CREDIT UNION

loans was 1.99%. At Michigan credit unions, those rates were 3.47% and 4.61%, respectively.

In addition to lower rates, American 1's direct lending strategy also provides better pricing transparency than indirect lending as well as offers the opportunity to talk to borrowers about their financial needs.

According to Merritt, direct lending tends to engender deeper loyalty to the credit union, too. In an indirect relationship, the borrower learns who the lender is when the first bill comes due. Conversely, direct lending establishes a relationship between borrower and lender right from the start, allowing American 1 to talk openly with members for the life of the loan.

"We can have a more effective conversation with these members and protect them from what they can and can't see," Merritt says.

Protection can take the form of gap or disability insurance, deposit accounts, a credit card, or a personal loan. Notably, American 1 members hold 2.72 deposit and loan accounts on average — higher than the average for the credit union's asset, state, and local peers. That kind of cross-selling is important because loans at American 1 tend to turn over quickly — 2.5 years on average, according to the credit union.

"We have to hustle harder," Sanford says. "We have big loan months, but the turnover can be quick."

To service all that activity, the credit union employs 186 full-time equivalent employees and operates 16 branches. Respectively, that's 28% and 89% greater than its asset-based peer averages. The credit union is open until 7 p.m. every weeknight except Saturday, when it stays open until 4 p.m., and it offers a full suite of contact options through which members may ask questions.

"We aim to be accessible while offering expertise," Merritt says. "It helps us maintain consistency across the organization."

THE HAPPIEST PLACE FOR AUTO SALES

When it comes to direct lending, the importance of American 1's car sales program cannot be overstated. The Michigan cooperative has run some version of the program for several decades. The events are a significant undertaking

on the marketing and coordination front, but they are huge drivers of auto loans for American 1.

The credit union usually hosts three or four car sales every year. In one particularly aggressive year, it hosted seven. According to Sanford, the marketing and communications VP, the credit union has coined that year "The Year of Car Sales" and will never do that many again.

For a typical event, the credit union invites four or five local auto dealers to bring a large stock of cars to a central shopping location where interested buyers can shop until they drop. Car sales last three to four days, and daily hours regularly extend past the posted closing time.

"My favorite way I've heard a member describe it is Disney World for car shoppers," Merritt says.

American 1 doesn't pay the dealers to participate because dealers know the number of sales generated from one of these events outstrips most other opportunities. Before the pandemic, car sale weekends generated nearly \$2 million on average in auto loans for American 1.

The credit union staffs each day of the sale with 40 employees ranging from loan officers and underwriters to event planners and marketing folks. The prep work, however, requires the attention of the entire organization.

Marketing designs billboard, radio, and other advertisements while branch staff drums up interest and secures pre-approvals.

"They work hard to get members pre-approved before the event," says Christopher Zegarlowicz, American 1's lending manager. "We make the sale as smooth as possible. All members have to focus on is picking out the car of their dreams."

CHANGING WITH THE TIMES

Auto lending at American 1 is a well-oiled machine, but the mid-size credit union faced a speed bump in 2020 that challenged its vehicular focus.

When COVID-19 hit the United States in 2020, it changed the way Americans live, work, and shop. Shutdowns across the globe caused significant delays in the supply chain of auto manufacturers. To reassure consumers and encourage spending, the Federal Reserve decreased its

fed funds rate to effectively zero, creating an auto-buying environment with high demand and low supply.

“Vehicle prices increased pretty quickly,” loan manager Zegarlowicz says. “Our dealer partners tell us they can’t purchase enough cars to fill their lots because of the expense. They have even changed the way they arrange cars on the lots to make it seem like they have greater coverage.”

According to CarGurus, used car prices in April 2021 were 14% higher than one year earlier. What’s more, ongoing demand and parts shortages have led some industry experts to predict the used auto market will remain short millions of vehicles through 2023.

Not surprisingly, auto loan growth at credit unions nationally dipped nearly a full percentage point in 2020 before rebounding slightly in the first quarter of 2021. At American 1, its historical double-digit auto growth bottomed out at 6.8% in the third quarter of 2020 — still nearly four-times the national average — before rebounding.

For a credit union that prides itself on its high-touch, face-to-face approach to lending, the pandemic threw a wrench into its operations. American 1 did not host a spring on-site car sale in 2020; however, it did hold its first-ever virtual car sale in May. Members shopped from home, American 1 loan officers facilitated the event from their credit union office, and car dealers worked from their dealerships. Every interaction occurred via phone or video, and parties signed documents electronically.

The virtual sale was a success, but it didn’t quite live up to the in-person experience.

“It’s more impactful when there’s face-to-face interaction,” says Merritt, the community partnerships VP.

In August, the credit union tried again. This time, to smooth out the buying process, the credit union embedded a limited number of masked and socially distanced loan officers at the dealerships.

“We had at least one representative on-site who could communicate quickly if there was a change in the trade amount or down payment,” Merritt says. “It was a good, pandemic-friendly solution.”

American 1 plans to return to its traditional car sales model in 2021 and will fold in some smaller weekend events as demand dictates. Having to reimagine these events for a COVID-19 world reinforced American 1’s strengths as well as uncovered its weaknesses. Today, the credit union understands the important role flexibility and open-

mindedness play in helping it meet members where they want to shop.

“We market ourselves as boldly generous, convenient, and uncomplicated,” Sanford says. “We take that to heart.”

That’s why American 1 launched an auto concierge service in 2020. At a typical car sale, members ask a loan officer or dealer representative about a specific make and model, and the crew jumps in a golf cart to search for a vehicle.

In conjunction with the May virtual car sale, American 1 digitized the search to allow buyers to visit American 1’s website and request specifics like model, year, mileage, price, and more, and the credit union can tell them if they car they want is available before they advance any further in the process.

“Choosing a car can be overwhelming,” Merritt says. “Allowing us to do the legwork makes the experience better.”

Pivoting in response to the pandemic helped American 1 post double-digit auto loan growth in the first quarter of 2021. Looking forward, however, macro-issues are still at play.

Used auto delinquency at American 1 typically outpaces peer averages. At the onset of the pandemic, the credit union’s auto delinquency peaked at 1.67%. However, federal relief packages across 2020 and into 2021 encouraged members to pay down debt, and improving economic conditions in 2021 helped push down auto delinquency at American 1 to 0.90% as of the first quarter of 2021.

More unusually, early paydowns have accelerated rapidly across April and May 2021. The credit union is monitoring the activity, but suspects the behavior is the result of families recovering from the economic impact of COVID-19 and will have a short-term effect on its financial metrics. After a yearlong pandemic that changed much of American life, activity that suggests its membership is in a financially positive position is a good problem to have.

“We are always going to choose the financial wellbeing of our members even when our numbers could look different,” Merritt says. “We want to reinforce positive behavior. That works out better for everyone in the end.” 🐦

DIVERSITY BEGINS WITH INCLUSIVITY AT AMERICAN 1

The mid-Michigan credit union is refining hiring practices and tapping employees to help build a workplace where people feel included and heard.

BY MARC RAPPORT

American 1 Credit Union (\$552.1M, Jackson, MI) is building diversity among its nearly 200-person workforce by focusing on how prospective new employees think and feel, not on how they look.

Guiding this new effort is chief employee experience officer Tonia White, a lifelong resident of Jackson who joined the cooperative last year after 20 years in management with Bath & Body Works.

“All I knew coming into my new position in the middle of a pandemic was that we hire people based on a set of core values,” White says. “If we hire to those values, we’ll meet our primary goal.”

These core values steer American 1 into hiring employees who are engaged, focused, trustworthy, humbly confident, and achieving. The credit union’s ultimate goal is that such employees will help build a workplace where people feel included and heard.

DIVERSITY BEGINS AND ENDS WITH INCLUSIVITY

Recruiting and hiring people who reflect its core values will help American 1 meet what White says is the credit union’s primary goal of creating an environment of inclusivity in which people and ideas can freely mix to help the mid-Michigan cooperative excel in member service and employee experience.

Reaching that goal requires cultural work from the top down and back up again rather than easier-to-achieve hiring goals. That’s why American 1 is leading with core values over quotas.

“We don’t have quotas,” White says. “We’re building a culture, not checking off a to-do list. My job is to build a culture around our current DEI initiatives and work closely with HR to ensure benefits and hiring policies are inclusive.”

And according to White, changing culture starts with core values.

“You find people who believe in what your organization believes in, you look for people with those traits, you talk to people with common interests,” White says. “Keep doing all of that, and after a while, you have an environment where

people are comfortable expressing themselves and their ideas in ways that benefit everyone.”

Gender or skin color, then, isn’t the end goal. Rather, American 1 is looking for a meaningful mix of employees whose talents and perspectives blend to complement one another and strengthen the organization.

“Diversity of thought and expression is just as important as diversity of color and gender,” White says. “‘Inclusion’ is the word we use to refer to our ultimate goal.”



TONIA WHITE
CHIEF EMPLOYEE
EXPERIENCE OFFICER,
AMERICAN 1 CREDIT UNION

TAKE A SURVEY. THEN TAKE ACTION.

To kick off this journey, the executive team at American 1 crafted a DEI strategy to guide opportunities and build a more inclusive, empowered workforce. The three goals of the DEI strategy are: workforce diversity, workplace inclusion, and sustainability and accountability.

One of the first steps the credit union took was to survey its nearly 200-person workforce.

“We asked about equity and inclusion,” White says. “We asked, ‘When I speak, do I feel heard? Is my opinion valued? Do I feel I belong?’ It was all anonymous. You need to know where your employees’ minds are, you can’t just assume you know.”

The credit union next focused on recruiting and training. Under the direction of “the world’s greatest marketing team,” White says, American 1 produced a video for internal viewing

CU QUICK FACTS

**American 1
Credit Union**
DATA AS OF 03.31.21
JACKSON, MI
\$552.1M
ASSETS
59,576
MEMBERS
16
BRANCHES
29.0%
12-MO SHARE GROWTH
4.9%
12-MO LOAN GROWTH
0.52%
ROA

“Diversity of thought and expression is just as important as diversity of color and gender. ‘Inclusion’ is the word we use to refer to our ultimate goal.”

— TONIA WHITE, CHIEF EMPLOYEE EXPERIENCE OFFICER, AMERICAN 1 CREDIT UNION

that includes a quiz about appropriate and inappropriate phrases as well as answers and explanations.

Of course, inclusivity encompasses recruiting, too, and White advises credit unions to take a critical look at who comes through the hiring process.

“If all your candidates look like your recruiters, you might want to look at some re-training,” she says.

5 TIPS TO DEVELOP DEI

Tonia White, chief employee experience officer at American 1 Credit Union, shares five ways to advance DEI at any credit union.

- Use the NCUA's self-assessment tool to identify opportunities within the credit union.
- Create a DEI survey with the credit union's distinct goals in mind.
- Tell employees about the credit union's DEI intentions. Then, begin building relationships, for example, through an employee resource group.
- Encourage employee involvement. Diverse ideas are critical to buy-in and sustainability.
- Remember, any progress is a win.

THE RIGHT PEOPLE ARE OUT THERE, EVEN IN A PANDEMIC

Although the pandemic has made it more difficult to mix and mingle, White says recruitment opportunities are still out there. American 1 knows what candidates it desires and meets them where they are. It posts job openings with the local Martin Luther King Jr. Community Center, and, well, it poaches.

White draws on her many years of retail management experience to identify good candidates in any environment, and she stays on the lookout when she interacts with people in their work environment, such as Starbucks.

“They have great employees,” she says.

In fact, one of White's first recruits was from a street fair showcasing Black-owned businesses in Jackson County and surrounding areas.

“We recruited one of the co-founders of the event,” White says. “She was at a bank. Now she's a branch manager.”

Job descriptions also are part of White's efforts. The credit union doesn't use gender-specific pronouns in its job descriptions. But even beyond that, certain terms — one example White gives is “good with numbers” — can mean different things to different demographics. So American 1 asks a variety of people to read its job descriptions to spot potential biases and ensure inclusivity of interpretation.

THEY WILL COME

Any progress is a win, White says, and success begets success.

“As your intentions become known, the right people will find you,” White says. “Intentional inclusion will attract diverse employees. The hiring process will become easier.”

According to White, an inclusive mindset leads to conversations with prospects who appreciate that mindset. And employees who appreciate that mindset attract others who also would like to work in that environment.

“People who share your values will associate you with that kind of workplace,” White says. “And as you build relationships in the community, the community will start recruiting for you. I'm looking forward to getting out and involved again when it's safe.”

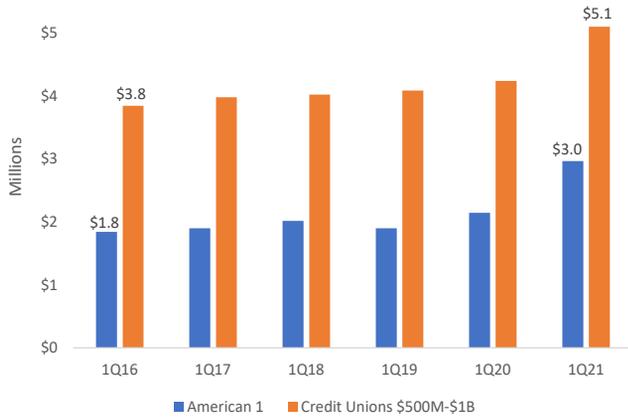
Ultimately, White's role as chief employee experience officer is to elevate the HR experience inside the credit union and advocate for that experience outside it via job fairs and other venues.

“DEI is just a part of it,” White says. “We're all about creating a culture that allows our teams to mesh.”

ASSETS PER FTE

FOR CREDIT UNIONS \$500M-\$1B | DATA AS OF 03.31.21

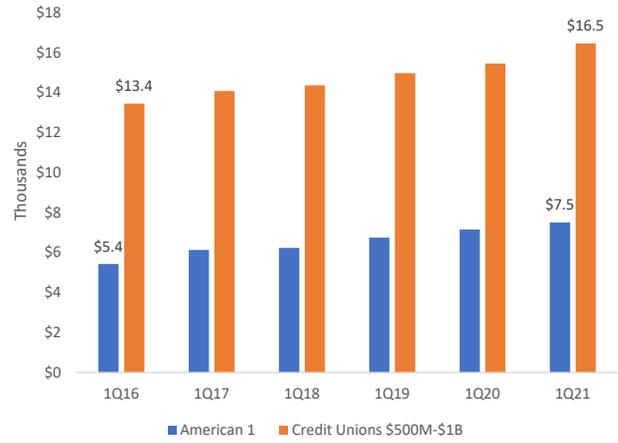
American 1 has nearly 50 more employees than similarly sized credit unions, a reflection of its high-touch approach to consumer loans. As of first quarter, its assets per full-time employee lagged behind asset-based peers by more than \$2 million.



AVERAGE LOAN BALANCE

FOR CREDIT UNIONS \$500M-\$1B | DATA AS OF 03.31.21

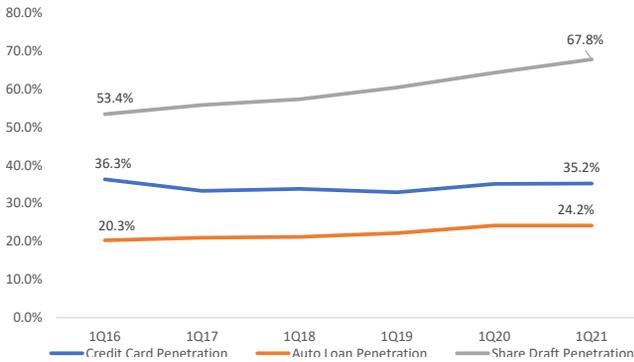
The average loan balance at American 1 has historically been lower than peer average. The Michigan credit union's focus on auto loans and credit cards in lieu of mortgages keeps this number lower than at other cooperatives.



PRODUCT PENETRATION RATES

FOR AMERICAN 1 CREDIT UNION | DATA AS OF 03.31.21

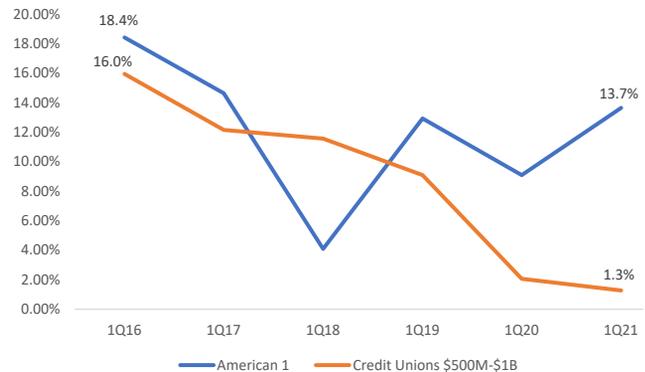
American 1 works to capture three essential products from members: a checking account, an auto loan, and a credit card. In the first quarter of 2021, the penetration rate for each of these bested national, state, and peer averages. Notably, credit cards nearly doubled the Michigan state average.



TOTAL AUTO LOAN GROWTH

FOR \$500M-\$1B | DATA AS OF 03.31.21

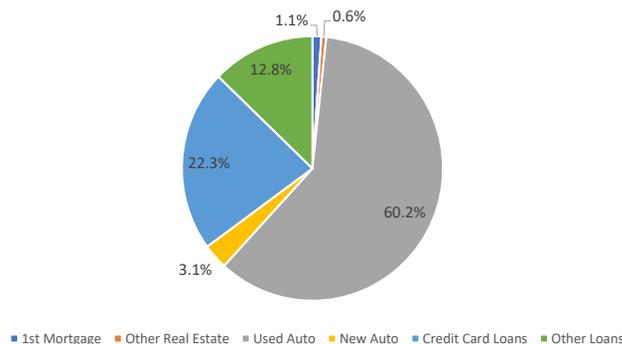
Despite COVID pressures, American 1's auto growth has rebounded in first quarter. The credit union relies on positive word-of-mouth marketing and pre-existing market share to maintain its direct-only approach.



Because American 1 focuses primarily on autos and credit cards, its loan portfolio looks different from its asset-based peers. On average, similarly sized credit unions hold nearly half their portfolio in real estate, whereas the concentration of real estate in American 1's portfolio is less than 2%. On the flip side, auto and credit cards comprise 85% of American 1's portfolio – nearly triple the allocation at asset-based peers.

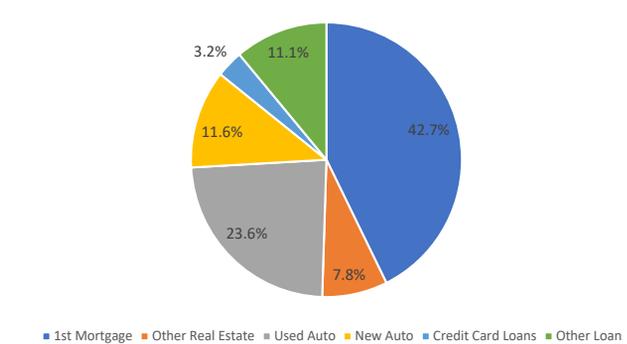
LOAN COMPOSITION

FOR AMERICAN 1 CREDIT UNION | DATA AS OF 03.31.21



LOAN COMPOSITION

FOR CREDIT UNIONS \$500M-\$1B | DATA AS OF 03.31.21



SOURCE: CALLAHAN & ASSOCIATES

WITH GRATITUDE

Callahan & Associates wants to thank the following individuals for sharing their time and insight. American 1's operating model requires organizational synchronicity and buy-in from all levels of the credit union, and the cooperative's willingness to discuss both how it makes it work and the challenges COVID-19 provided offers readers an inside look at one of the industry's most singular shops. We hope readers will find value and take inspiration from what American 1 Credit Union has accomplished.



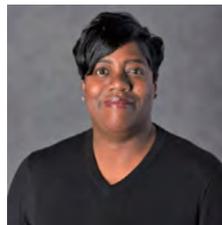
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ZEGARLOWICZ**
LENDING MANAGER,
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THANK YOU,

