

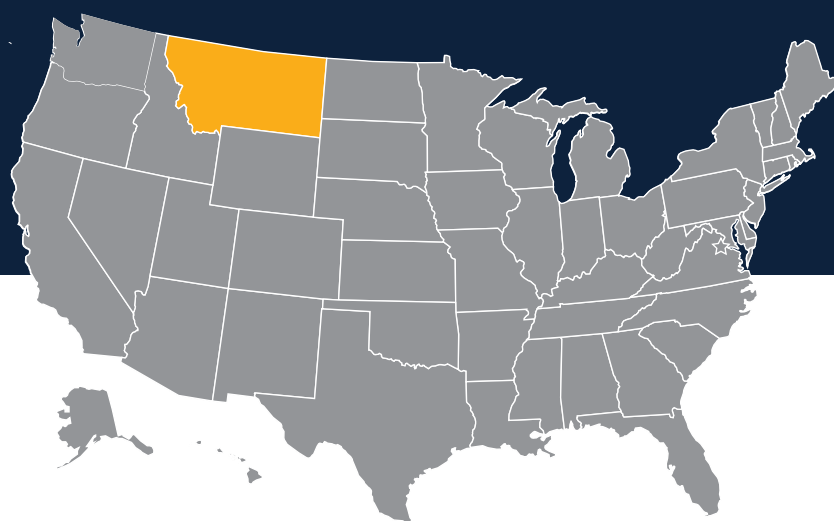


Anatomy of

Clearwater Credit Union



STATE IN THE SPOTLIGHT



MONTANA

POPULATION:	1.1 MILLION
UNEMPLOYMENT RATE:	2.3%
NUMBER OF CREDIT UNIONS:	46
NUMBER OF BANKS:	40

STATE CU QUICK FACTS

DATA AS OF 03.31.22

\$7,532,752,423	\$4,157,974,082	\$66,299,846
TOTAL ASSETS	TOTAL LOANS	TOTAL YTD REVENUE
\$6,759,940,760	0.22%	2.67%
TOTAL SHARES	AVERAGE DELINQUENCY	AVERAGE OPERATING EXPENSE RATIO
424,133	\$737,693,882	
TOTAL MEMBERS	TOTAL CAPITAL	

Loans

OUTSTANDING LOAN BALANCES

at Montana credit unions were \$4.2 billion on March 31, an 8.4% annual increase. Residential real estate loans comprise almost half of the collective Montana credit union loan portfolio — 48.2% — with annual first mortgage and other real estate loan growth of 9.2% and 21.2%, respectively.

TOTAL AUTO BALANCES grew 8.7% at Montana credit unions to \$1.2 billion, comprising 28.8% of the loan portfolio. Credit unions in the state have historically had better success in the new auto loan space, but year-over-year growth for used auto (9.8%) surpassed new auto growth (6.9%) for the first time in nearly six years.

Montana credit union members continue to pay down debt. **TOTAL LOAN DELINQUENCY** improved to 0.22% as of March 31, a historic low for the state. This is 20 basis points lower than the national average delinquency rate.

Shares

Montana credit unions expanded **SHARE BALANCES** 11.0% annually to nearly \$6.8 billion. Share growth has surpassed loan growth on an annual basis since the second quarter of 2020.

The state industry's **LOAN-TO-SHARE RATIO** decreased 1.5 percentage points year-over-year to 61.5% but remains unchanged quarter-over-quarter. This liquidity ratio is 8.7 percentage points lower than the national average of 70.2%.

More Montanans are considering one of the state's 46 credit unions to be their primary financial institution. **SHARE DRAFT PENETRATION** expanded 1.6 percentage points from a year ago to 54.0% as of March 31, though the national average was 7.3 percentage points higher at 61.3%.

Members

Montana credit union **MEMBERSHIP** expanded 1.7% annually, bringing 7,072 Montanans into the membership fold since March 2021. Over 424,000 people are members of a credit union headquartered in the state, a new record.

The **AVERAGE MEMBER RELATIONSHIP** — defined as loan plus share balances per member — expanded 8.4%, a gain of \$1,917 during the past 12 months. Share balances per member are up 9.2%; loan relationships increased 7.1%.

FULL-TIME EQUIVALENT EMPLOYEES (FTEs) increased 4.0% annually — a gain of 54 employees — to a state industry total of 1,386. This staff investment reduced the number of members per employee to 306, down from 313 this time last year.

Earnings

TOTAL YEAR-TO-DATE NET INCOME at Montana credit unions declined 9.6% annually after nearly doubling in 2021. Despite the decline, year-to-date net income of \$14.3 million remains well above the state's historical average through the first quarter.

Montana credit union **EXPENSES** — consisting of operating, interest, and provision expenses — grew 4.8% year-over-year to \$55.1 million. This growth in expenses comes from increased operating expenses — mainly through employee salaries. Interest expense declined 26.1% from totals through March of last year.

Montana credit unions posted an **ROA** of 0.76% year to date, down 24 basis points from the fourth quarter of 2021 and 19 basis points from one year ago. Montana earnings are 9 basis points below the national industry average of 0.87%

The Bottom Line

All told, Montana credit unions posted a historically successful first quarter. The state reported positive growth in all major loan products for the first time since the pandemic started. Members are not only taking out loans, they're also paying them down on time, driving the asset-quality ratio to the lowest it's ever been. Montana credit union member engagement deepened, and cooperatives invested in staff to better service their communities.

SOURCE: CALLAHAN & ASSOCIATES DATA AS OF 03.31.22

CLEARWATER CREDIT UNION

BANKING ON VALUES IN A CROWDED MONTANA MARKET

Clearwater Credit Union is growing rapidly by embracing values-based banking and characteristics of life unique to Big Sky Country.

BY E.C. HARRISON

High in the Rocky Mountains of Montana sits one of nature's rarest hydrologic features: Triple Divide Peak, where clear glacial waters flow down the summit to feed streams and rivers in three directions, eventually reaching the Atlantic Ocean, Pacific Ocean, and Hudson Bay.

Clearwater Credit Union (\$899.0M, Missoula, MT) takes its name from the pristine waters that crisscross the state. Like a swelling river, Clearwater has expanded from three counties to 20 across the western side of the state during the past decade and has become one of the nation's top-performing credit unions by nearly every performance metric.

Since 2013, Clearwater's assets have more than doubled, rising from \$383 million to \$899 million, and the credit union projects it will reach \$1 billion in 2023. Over the past few years, the credit union expanded its charter, underwent a name change, became the state's largest Community Development Financial Institution (CDFI), completed a core systems transformation, and dramatically expanded its lending program.

CEO Jack Lawson attributes Clearwater's success to the credit union's move to values-based banking in 2017. Clearwater's strategy is to rise above the competition in the crowded Montana market with a strong commitment to environmental protection, financial inclusion, member centricity, and full transparency.

"Montana is not under banked," Lawson says. "There are [45] other good credit unions operating in the state and a lot of good locally owned and regionally owned community banks. It's a competitive environment. We win on values-based banking, while staying competitive on price. That and the ability to assemble good teams are what's delivering our success today."

Just how competitive is the Montana market? By Clearwater's own estimates, there's one financial institution for every 32,000 people nationwide. In Montana, the fourth-largest state in terms of land area but with 1.1 million people among the smallest in terms of population, that ratio is one institution for every 12,790 residents.

Clearwater's transformation to values-based banking has been a journey, much like Lawson's professional career. He initially focused on biology and environmental studies at the University of Vermont before attaining a master's degree in development economics at the University of London.

Lawson was working on a doctorate in economics at The New School for Social Research in New York City when he stumbled into an opportunity to help organize a small credit union serving predominantly low-income Spanish-speaking immigrants. That institution ultimately became Brooklyn Cooperative FCU (\$55.6M, Brooklyn, NY), and after a decade as the founding CEO, Lawson moved on to Self-Help Federal Credit Union (\$1.8B, Durham, NC). Coming aboard there in 2008 as chief operating officer and working out of Self-Help's California offices, Lawson joined at a pivotal time, given how the Great Recession impacted the California market.

"Five years into that, I got hungry to be a CEO again," Lawson says. "I was eager to get back to strategic and outward-facing work, so I started hunting around the country. Luckily, I landed the job at Missoula."

According to Lawson, Missoula Federal Credit Union, now Clearwater, had a strong board, a brand with nearly full penetration in the Missoula market, and a reputation as a highly engaged, good corporate citizen. But the credit union had room to improve.

"We lacked a clear sense of strategic purpose, and our lending engines were broken," he says. "We weren't lending effectively. We had come out of the Great Recession later than many communities and later than most financial institutions. We needed new thinking about the way

CU QUICK FACTS

CLEARWATER CREDIT UNION

DATA AS OF 03.31.22

MISSOULA, MT

\$899.0M

ASSETS

55,142

MEMBERS

8

BRANCHES

11.4%

12-MO SHARE GROWTH

18.7%

12-MO LOAN GROWTH

1.22%

ROA



we led teams on pricing, underwriting, marketing, goal setting, and performance metrics.”

Since then, the lending program — mortgage lending in particular — has turned around. Clearwater’s loan-to-asset ratio has moved from 32% in 2013 to more than 60% today, even with the credit union selling approximately 40% of the mortgages it originates to the secondary market.

“It’s still not where we need to be, but it’s much better,” the CEO says.

Leslie Halligan, who joined the credit union’s board of directors in 1991 when the institution had just \$83 million in assets, has witnessed dramatic changes at the cooperative.

“When I first started, the credit union was almost like a savings and loan — a credit union where people came to get a car loan,” says Halligan, a circuit court judge and former prosecutor and district attorney. “Then we started to bring in more services to work toward being a full-service financial institution. The board is proud of the performance of the credit union, which has allowed us to continue to expand services and support the membership.”

Over the years, the credit union has lost many battles for high-net worth depositors to banks; however, it has filled an important role of supporting low- to moderate-income members. Consequently, the credit union built a strong reputation of community impact. According to Halligan, two major changes brought greater focus to that mission: bringing in Lawson to replace a retiring CEO and adopting the principles of values-based banking in 2017.

As CEO, Lawson tackled CDFI certification and led the rebranding from Missoula Federal Credit Union to Clearwater Credit Union (which included the conscious decision to drop “Federal” from the branding, although it retains a federal charter). All of those developments came at a time when the state’s economy was shifting from industries such as logging, mining, and agriculture to tourism and outdoor recreation.

“Montana folks are fiercely independent, but they’re also interested in the environment, interested in communities, interested in the growth of families, and interested in the success of individuals,” Halligan says. “Values-based banking fits well with those our core values.”

In 2017, Clearwater became the second U.S. credit union — behind Vermont State Employees Credit Union — to join the Global Alliance for Banking on Values (GABV), an international network of forward-thinking financial institutions that collectively serves more than 50 million customers.

At Clearwater, the values-based approach revolves around five principles:

- Member-centered.
- Long-term resiliency.
- Local economy.
- Social and environmental impact.
- Transparency.



“Montana is not under banked. There are [45] other good credit unions operating in the state and a lot of good locally owned and regionally owned community banks. It’s a competitive environment. We win on values-based banking, while staying competitive on price.”

— JACK LAWSON, CEO, CLEARWATER CREDIT UNION

Since transitioning to values-based banking, Clearwater’s accomplishments to date include achieving carbon neutrality in its business operations, attaining a member growth rate of 4.3% in 2021, and donating 5% of its net income to charities, with \$755,530 going to 151 nonprofit organizations in 2021.

“We set metrics under each of the principles of values-based banking,” Lawson says. “That is what our board holds us accountable to. It helps us drive forward to demonstrate a deeper commitment to values-based banking.”

Transparency to its 55,000 members is a key pillar of values-based banking, the CEO adds. Clearwater shares its five-year strategic plan along with overall compensation data on its website.

“We serve pretty detailed compensation metrics that help describe how we pay our workers, how women and men are paid differently or similarly in the same job classes, and the distance between the lowest- and highest-paid person in the organization,” Lawson says. “We also publish detailed environmental-impact statements that describe solid waste production, water consumption, and greenhouse gas emissions from our business operations as well as from our balance sheet. Those transparency initiatives are important to deliver impact and hold ourselves accountable to measuring and sharing where we’re succeeding and where we’re not.”

VALUES-BASED OPERATIONS

Values-based banking principles are evident in the way Clearwater interacts with members in its eight branches, giving impetus to long-considered improvements such as universal associates, more inviting open floor plans, and interactive teller machines in the drive-thrus.

“We got rid of teller lines completely,” says Clint Summers, chief operations officer at Clearwater. “If somebody needs to come in and do a quick cash transaction, they have access to our universal associates. It’s more like we’re working through it together. We built toward this hip-to-hip model of sitting down next to people versus sitting behind a barrier. This allows people to feel more welcome.”

Clearwater’s open floor model, so far implemented at three branches, was partially inspired by branches in

Germany. Meagan Kraft, Clearwater’s senior vice president of operations, was attending a GABV Leadership Academy in Berlin and snapped a few photos of open lobby. An architect worked with Clearwater’s team in Montana to design a new branch with a pod-style floor plan.

“The efficiencies it creates are huge,” Kraft says. “We don’t need giant branches to provide service to our members. The new layout with the pods allows members to get help sitting on a couch while they’re having a cup of coffee.”

Clearwater’s philosophy for branches is to never put a screen between an employee and a member who steps inside for service. For members who don’t want to step inside, the credit union is implementing a new online banking system. Glia, next-generation digital-communication platform, will enable contact center staff to interact with members via web, mobile, chat, email, co-browsing, and two-way video. It also provides seamless transfer to others.

Three years ago, the credit union replaced its core banking system with Corelation’s Keystone, which enabled numerous improvements that support member services. One key enhancement, Summers says, is the ability to automatically trigger surveys with members when they open or close an account or make changes to services or loans. Clearwater’s response rate to those is approximately 10%.

“We’re getting those notifications almost immediately so we can reach out,” Summers says. “That’s usually me or the senior vice president of operations. We’re looking at how to connect with those people immediately.”

RETHINKING CONSUMER LENDING

Consumer lending is another area of the credit union that has been growing rapidly, partly because of the focus on values-based banking, says Bill St. John, senior vice president of consumer banking.

Business for term loans, auto loans, and solar loans nearly doubled from \$48 million in 2015 to \$87 million in 2021, and the credit union is on track to reach \$100 million in 2022. Unlike other financial institutions, Clearwater doesn’t rely on computer-based auto-decisioning to underwrite loans.

“This allows us to be more responsive to a variety of different levels of credit borrowers,” St. John says. “All of

our lenders know how to look at credit, collateral, capacity, and character to see what makes sense for the credit union and what makes sense for the member.”

To address the needs of low- to moderate-income borrowers, Clearwater has introduced a variety of innovative programs, from a payday lending alternative to non-prime auto loans. Launched in January 2021, Auto Boost targets borrowers with no credit score or credit scores lower than 620 with loans in the 10% to 15% interest rate range. Recognizing that most of these borrowers are unlikely to walk into a branch, the credit union reached out to a half-dozen independent auto dealerships to spread the word about the new program. To date, Clearwater has made 63 non-prime loans with few delinquencies and no charge-offs.

“We verify income and we have some other special qualifiers, but for the most part, we’re saying if they don’t have any auto charge-offs and no bankruptcies within the past two years, we don’t care how low their credit score is,” St. John says. “If they have the ability to repay and they’re

“Everyone says, ‘Come see us, we’re local,’” St. John says. “We were saying the same thing as everybody else. Now, we are still local, but we talk about values as our differentiator.”

LOOKING AHEAD

Looking ahead in the face of rising interest rates and a slowing economy, Clearwater is actively preparing its balance sheets for continued growth with an infusion of secondary capital. Recent growth spurts diluted the credit union’s net worth ratio from 11% in 2019 to 9% in 2020.

In response, Clearwater in 2021 was among less than 2% of the nation’s credit unions to receive secondary capital from the Emergency Capital Investment Fund administered by the Treasury Department. The credit union is implementing \$16.8 million of that secondary capital in 2022 and expects to return Clearwater’s net worth ratio to above 12% so it can continue as a well-capitalized institution.



Clearwater's new Brooks Branch in Missoula features an open-floor design, drive-thru ATMs, couches and coffee stations.

putting some cash down on it so they have skin in the game, then let's make some auto loans.”

According to St. John, the credit union has loaned slightly more than \$400,000 through its Auto Boost program, but that represents 63 people who might not have been able to get an auto loan or would have paid a higher interest rate.

Similarly, the credit union targets members struggling with repetitive overdraft fees with its Overdraft Sweep program. Started in 2017, the program treats overdrafts as short-term loans rather than fee opportunities. To date, overdraft loans have saved members more than \$1 million in fees.

Clearwater sees these values-based initiatives as a competitive advantage in the crowded marketplace.

“From a net worth standpoint, it will allow us to expand and take on additional risk, and continue lending in those different markets,” says John DeGroot, chief financial officer at Clearwater.

This infusion of capital, plus other activities, should position Clearwater to meet new challenges, Lawson says.

“We have to continue to grow the credit union, we have to continue to recruit and retain the best people in the market, we need to continue to lend effectively, and we need to continue to differentiate along values-based banking lines,” the CEO says. “We need to get better at that year in and year out. I see a lot of hard work ahead of us, but I see a tremendous amount of opportunity and exciting work as well.”

HOW CLEARWATER CREDIT UNION MAKES IT WORK

20 Counties

Fueled by a decade-long expansion program, Clearwater's total assets grew from \$383 million in 2013 to \$898 million 2022 – a 134% increase – as its service area expanded from three counties around Missoula to 20 counties across the western part of Montana.

151 Nonprofits

As part of the credit union's values-based banking initiative, Clearwater has pledged to donate 5% of its net income to charities annually, which in 2021 amounted to \$755,530 going to 151 different nonprofit organizations.

\$245M

Clearwater Credit Union's mortgage lending team closed a record \$245 million in first mortgages in 2021, up 45.6% over the previous year, compared to an average growth rate of 38.8% for peer credit unions.

81%

Commercial lending at Clearwater has nearly doubled in recent years, growing from \$48 million in 2015 to \$87 million in 2021, with the credit union on track to reach \$100 million in 2022.

0

Through solar panels on branches, a focus on energy efficiency, and purchasing offsets by investing in a Missoula affordable-housing project, Clearwater was able to achieve its carbon-neutral goals in operations in 2020.

60%

Clearwater's loan-to-asset ratio increased from 32% in 2013 to over 60% in 2022, even with the credit union selling approximately 40% of the mortgages it originates to the secondary market.

0.05%

Clearwater's overall delinquency rate for all loans (0.05%) was seven times lower than the peer credit union average (0.36%) in March 2022. Net charge-offs were only 0.07%, compared to 0.21% for peer credit unions.

\$1M

Launched in 2017, Clearwater's Overdraft Sweep program treats overdrafts as short-term loans rather than fee opportunities. To date, members have saved \$1 million in fees.

\$16.8M

Clearwater in 2021 was among less than 2% of the nation's credit unions to receive secondary capital from the U.S. Treasury Department's Emergency Capital Investment Fund, a move expected to increase its net worth ratio to above 12%.



COMING AROUND ON CANNABIS BANKING

A legal change spurred the credit union to embrace cannabis banking — to the point that it now serves roughly 25% of licensees statewide.

BY E.C. HARRISON

In May 2017, following a state referendum that legalized medical cannabis sales, a longtime business member was flagged by Clearwater's BSA officer as having moved into the cannabis business.

Bill St. John, senior vice president of consumer banking at Clearwater, spotted an opportunity. He told the member he might not have to close the account, then conferred with CEO Jack Lawson and Clearwater's board of directors, which determined cannabis businesses served a legitimate industry and deserved access to banking services.

Five years later, Clearwater is now the largest provider of cannabis-related banking in the state. Recreational cannabis sales went into effect in January 2022, and Clearwater supports deposits and share accounts for 34 businesses — approximately 25% of the state's licensees.

Clearwater hired a business-banking compliance specialist who focuses exclusively on cannabis and retained an attorney with cannabis experience to help write a business plan with fees aimed at covering the credit union's costs. Clearwater received no guidance from regulators but practiced high levels of transparency, kept examiners informed at every step, and has since gone through multiple exams and BSA audits.

"The reason we did it is because of our values of inclusivity," St. John says. "These were state-legal businesses, but they were literally hoarding cash in their homes and their businesses, driving duffel bags of cash to pay quarterly taxes. We felt it was the right thing to do for the community to try to keep it safe and the right thing to do for these businesses." ▲

WHO? WHAT? WHERE? WHEN? WHY?

WHO?

Robert Craig Knievel, better known as Evel Knievel, was born and raised in Montana. Before finding fame as a world-famous daredevil, Knievel formed the Butte Bombers, a minor league hockey team where he served as owner, manager, coach, and player.

WHAT?

Montana has hosted film productions for dozens of movies — some better known than others, including "A River Runs Through It," "Forrest Gump," "Under Siege 2," "The Shining," and more. Its distinctive landscape has also made the state a natural place to film countless westerns, including the John Wayne classic "The Searchers."

WHEN?

Montana became the 41st state upon its admission to the union in 1889.



WHERE?

Famous for the natural beauty that earned it the nickname "Big Sky Country," Montana is home to two of the nation's most popular landmarks — Yellowstone and Glacier National Parks.

WHY?

The Battle of Little Bighorn, also known as "Custer's Last Stand," occurred in 1876 in what is now Montana.

SOURCES: MONTANA KIDS, NATIONALPARKTRIPS.COM, MONTANA FILM OFFICE

LOW EMISSIONS, BIG IMPACT

An emphasis on reducing its carbon footprint is just one part of Clearwater Credit Union's multifaceted community-impact strategy.

BY E.C. HARRISON

Two years ago, the Missoula Housing Authority was building a 13-unit housing project that targets renters making less than 30% of the area's median income and frequent users of the city's emergency services. However, cost overruns were forcing the authority to scrap plans for highly efficient heat pumps in favor of cheaper electric resistance units.

In stepped Clearwater Credit Union (\$899.0M, Missoula, MT), which partnered with Climate Smart Missoula to partially fund the more efficient heat pumps, resulting in \$5,000 annual savings in operating costs for the housing authority. Through that funding, Clearwater was able to count those energy savings to offset its own carbon footprint.

"We ended up supporting a local affordable-housing project, making it more efficient, saving money for the organization, and offsetting our greenhouse gas emissions for about two and a half years," says Paul Herendeen, director of impact market development at Clearwater.

That, along with other projects in 2020, helped Clearwater meet its carbon-neutral goals for the year — one of the pillars for its values-based banking initiative. Most of Clearwater's eight branches have solar panels on-site or have plans to install them.

"We want to continue to drive our emissions down, and that's going to get harder as time goes on," says Herendeen, an environmental scientist who joined the credit union in 2017. "We've taken some of the low-hanging fruit. Putting solar panels up is relatively easy; improving the energy efficiency of the buildings is a little harder. We are committed to remaining carbon neutral, and as the credits from that local-offset project get exhausted, we are looking for other local projects."

Fighting climate change is one of the many ways Clearwater is focusing on ways to positively impact the community. Each year, the credit union donates 5% of its net income to charities, which amounted to \$755,530 going to 151 nonprofit organizations in 2021. The credit union targets that philanthropy toward three areas: empowering people, building inclusive economies, and protecting the environment.

Programs supported by Clearwater include vocational training, housing assistance, credit building, transportation, affordable housing, community childcare, and economic

development, just to name a few. According to Herendeen, it's important that community organizations don't have to spend a lot of time to access aid.

"We have a very simple application," the impact director says. "We don't ask for a lot of quantification of impact. We don't target specific programs with the giving. We're happy to support general operations and help people in our community who are doing good work."

One of the credit union's longstanding programs supports refugee resettlement. Since the 1970s, Missoula has welcomed refugees from all over the world, most recently from the Democratic Republic of Congo, Syria, and Afghanistan.



Solar panels at Clearwater branches have helped the credit union to become carbon neutral.

"We have had important partnerships with the International Rescue Committee as well as a local nonprofit called Soft Landing that do a lot of work to help embed refugee community into the neighborhood institutions and build neighborhood programs," says CEO Jack Lawson. "We work quite closely with both organizations."

The credit union has also created lending programs to encourage investments in sustainability and affordable housing. For example, Clearwater's solar loan program offers homeowners unsubsidized loans for solar panels for up to \$30,000, with a 15-year term at 3.90% APR, along with no



“ We’re happy to support general operations and help people in our community who are doing good work. ”

— PAUL HERENDEN, DIRECTOR OF IMPACT MARKET DEVELOPMENT

application or origination fees, and no pre-payment penalty. That program is gaining in popularity.

“We’re only about \$25,000 away from hitting last year’s numbers for solar lending,” says Bill St John, senior vice president of consumer banking. “I like what we’re doing in that space. Our prices are low. We’re aggressive on term. We’re aggressive on amount. Borrowers are all homeowners. They’re conscious about the environment for the most part, and they’re all really strong borrowers.”

To support affordable housing, the credit union has

Therefore, Clearwater is partnering with NeighborWorks Montana to finance resident-owned communities.

“When manufactured housing parks come up for sale, they can actually be purchased by everyone living there and owned cooperatively,” Herenden says.

Herenden adds that the credit union has received positive feedback from the community on its various impact programs, and it has continued to make gains in membership and deposit growth. A recent staff survey showed 90% of employees feel the credit union is on the



Rather than using disposable cups at its in-branch coffee station, Clearwater uses ceramic mugs from Opportunity Resources, a local non-profit that allows people with disabilities to express themselves through art while also earning an income.

expanded its business in the manufactured housing market, which makes up nearly 12% of the housing stock in Montana. With housing prices skyrocketing, manufactured housing parks have become prime candidates for redevelopment, which means residents could have the land sold right out from under them and face eviction.

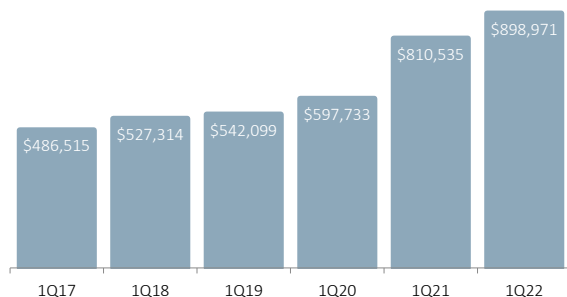
right track.

“They said that they understood the mission, vision, and values, and felt the team is committed to putting those into practice,” Herenden says. “Overall, the response has been overwhelmingly positive from our members, our community, and our staff.”

TOTAL ASSETS

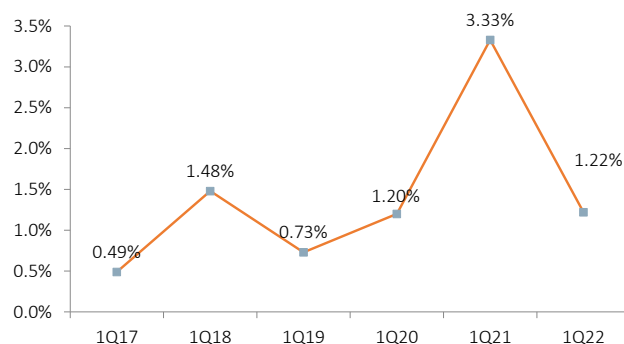
FOR CLEARWATER CREDIT UNION | DATA AS OF 03.31.22

Assets at Clearwater have risen steadily in recent years, as the community it serves embraces the credit union's values-based banking.

**ROA**

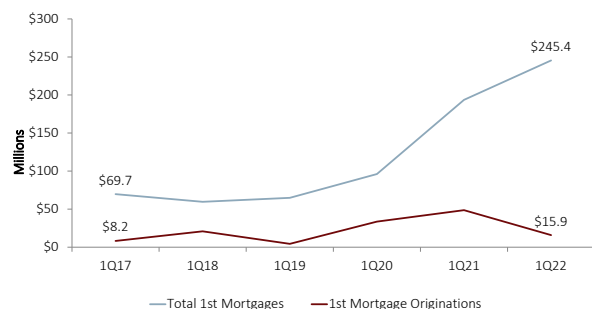
FOR CLEARWATER CREDIT UNION | DATA AS OF 03.31.22

After spiking in 2021, ROA at Clearwater has returned roughly level with where it stood in early 2020.

**TOTAL 1ST MORTGAGES AND ORIGINATIONS**

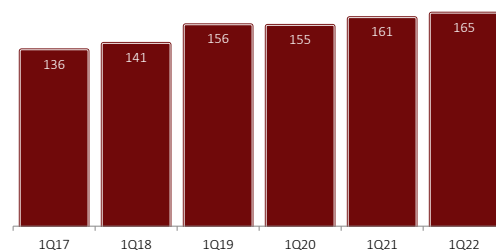
FOR CLEARWATER CREDIT UNION | DATA AS OF 03.31.22

First mortgages are sticking to Clearwater's balance sheet as the credit union saw originations rise throughout the pandemic but sold only some of those loans to the secondary market.

**FULL-TIME EQUIVALENT EMPLOYEES**

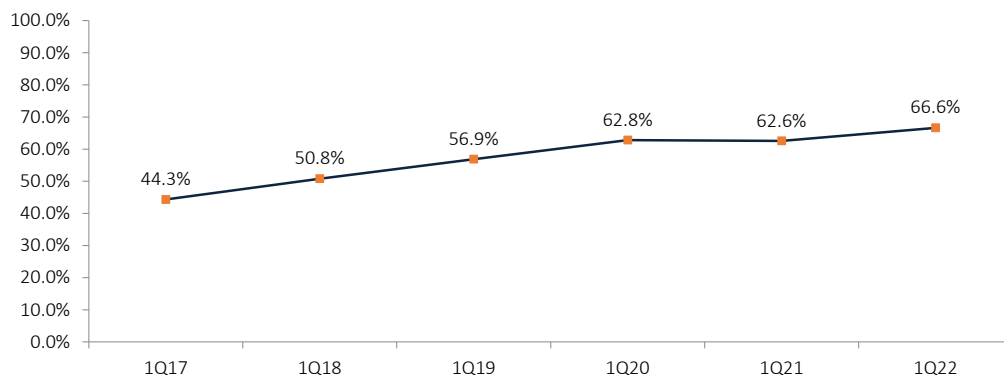
FOR CLEARWATER CREDIT UNION | DATA AS OF 03.31.22

Despite substantial asset growth, Clearwater has kept staffing relatively steady, thanks in part to an open branch model that relies on universal member service representatives.

**LOAN-TO-SHARE RATIO**

FOR CLEARWATER CREDIT UNION | DATA AS OF 03.31.22

Clearwater's loan-to-share ratio is back on the rise after staying relatively flat during the worst of the pandemic. The uptick is due in part to growth across a variety of loan products, including term loans, multiple auto categories, solar energy, and more.



SOURCE: CALLAHAN & ASSOCIATES



IN SEARCH OF NEW HOMEOWNERSHIP GROWTH

Clearwater Credit Union built out its mortgage team prior to the 2020 home lending boom. Now, it's finding innovative ways to advance homeownership while keeping delinquencies down.

BY E.C. HARRISON

The Montana housing market has long faced the challenge of light inventories that can't keep up with demand from homebuyers. This problem only worsened with the onset of the COVID-19 pandemic in 2020.

Increases in demand from people of all ages moving into the state and the move to remote working have put unprecedented pressure on the market, with contractors unable to keep up with the need for new housing. Although these trends have driven up prices nationwide, the challenges are particularly acute in Montana.

The mortgage lending team at Clearwater Credit Union (\$899.0M, Missoula, MT) has been working overtime to meet the demand. The credit union closed a record \$245 million in first mortgages in 2021. That's up 45.6% over the previous year and compares favorably to an average growth rate of 38.8% for all credit unions between \$500 million and \$1 billion in assets.

The success of Clearwater's mortgage program has its roots in a heightened focus on this line of business that began more than four years ago, says Justin Sanders, senior

vice president of mortgage banking at Clearwater. Until that point, Clearwater made mortgages on a smaller scale, and its efforts were more conservative.

"When I was hired, we needed to change the reputation and show we could be a player," Sanders says. "We had something good to offer members, homeowners, Realtors, and all the partners involved. The success we've achieved is because we've built a team of quality individuals who drive success."

Clearwater began chipping away at the competition after proving its ability to deliver loans in a timely manner with competitive rates and lower fees, ensuring it was well positioned to capitalize on the market boom of the past two years. Business has spread mostly by word of mouth through members, branches, and the real-estate community.

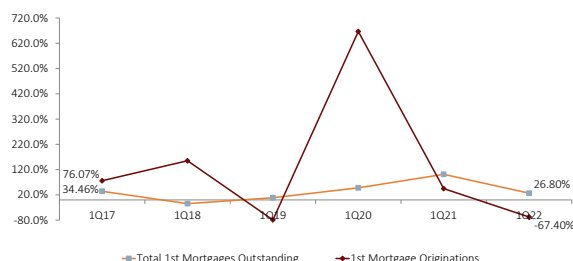
"A lot of folks started to come to our communities and had some exposure to credit unions in different states, but those credit unions weren't able to help them," Sanders says. "They came here, they liked our credit union philosophy, and the Realtors they spoke to told them about us. That



MORTGAGE GROWTH

FOR CLEARWATER CREDIT UNION | DATA AS OF 03.31.22

Like most other financial institutions, Clearwater saw a huge jump in mortgage growth due to the housing boom in 2020. As the real estate market cools, mortgage growth is settling back down to pre-pandemic levels.



helped grow more of our opportunities. Hopefully we can continue to take it further and have more impact for folks in the future.”

To address Clearwater’s financial risk goals, the credit union sells about 40% of its mortgages to the secondary market, but it makes a conscious decision to retain the servicing of all loans at the local level.

“That’s a great selling tool for folks on my team to offer,” Sanders says.

Although the mortgage team has grown, Sanders says he has been careful to not build the team too much because he knows the homebuying slowdown is coming as interest rates start rising.

“We’re always looking for what’s next,” the mortgage SVP says. “We’re continuing to find quality loan officers and quality team members to grow throughout our field of membership and get mortgage lending into some of the other cities and towns as we expand.”

In April, the credit union launched a new mortgage product aimed at public workers, including healthcare professionals, teachers, and first responders. The Next Door Neighbor loan requires only a 5% down payment from qualified borrowers, and Clearwater waives the mortgage insurance requirement.

“It could help a family get into a safe, secure home and allow them to stay in the community for the betterment of the whole community,” Sanders says. “I’m excited about it. It’ll take time for us to see how it works, and we’ve got to watch the delinquencies, but I think the risk is well worth it.”

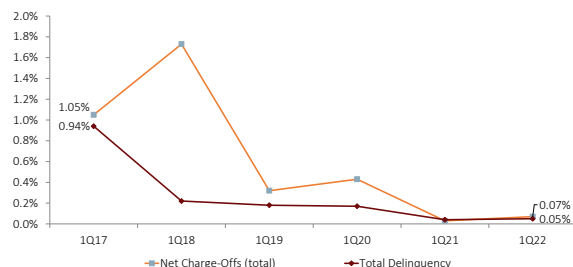
KEEPING AN EYE ON DELINQUENCIES

Despite loan growth across the entire portfolio, Clearwater Credit Union’s delinquency rates are among the lowest in the country.

DELINQUENCIES AND NET CHARGE OFFS

FOR CLEARWATER CREDIT UNION | DATA AS OF 03.31.22

Quality underwriting and good member relations have helped Clearwater keep delinquencies and charge offs near zero even as lending surges.



For credit unions with \$500 million to \$1 billion in assets, the overall delinquency rate for loans was 0.36% as of March 31, 2022; Clearwater’s rate was seven times lower at 0.05%. New auto loan delinquency at Clearwater was only 0.09%, compared with 0.25% for its peer group. Clearwater’s credit card delinquency was 0.26%, compared with 0.67% for peers. And, mortgage delinquency at Clearwater was 0.05% versus 0.22% for peers.

Net charge-offs at Clearwater were a low 0.07%. At peer credit unions? They were 0.21%.

Lending executives at Clearwater say part of that success has to do with strong local economic conditions and a conservative mindset of Montana residents who tend to live within their means. But it also ties back to the fact that Clearwater has its finger on the pulse of the community.

“We evaluate risk well when we make our lending decisions,” says Bill St. John, senior vice president of consumer banking.

On the mortgage side, knowing borrowers and the wider community is important, too.

“Being a community credit union and having people who live and work here, we know these people, so we understand what’s going on,” says Sanders. “We hear what movements are happening in various industries and in the cities and towns where we all live and work.”

According to Sanders, much of the mortgage industry has become too reliant on credit scores and underwriting algorithms.

“It’s become too automated and has to fit in this little box that you can’t go outside,” he says. “I wish the industry would change as a whole to where we rely more on truly underwriting a file and looking at the circumstances.”

A CULTURE CHANGE AT CLEARWATER CREDIT UNION

In 2017, the Montana cooperative shifted to values-based banking. So far, morale among employees remains high and performance is strong.

BY E.C. HARRISON

In 2017, when Clearwater Credit Union (\$899.0M, Missoula, MT), launched its values-based banking strategy, job No. 1 was to get buy-in and support from employees, who would be the face of the initiative. At the same time, the staff was growing to support branch expansion and new programs, rising from 136 full-time equivalent employees in 2017 to 165 today — an increase of 21%.

HR leader Robert Farmer, whose title soon changed to senior vice president of people solutions to reflect the values-based principles, was charged with educating the staff.

In June of 2017, the credit union held interactive strategy sessions with all of its employees. In groups of 15 to 20 coworkers at a time, CEO Jack Lawson and Farmer introduced the concept of values-based banking.

“We took the time to explain our core values and what they meant, talked about our shared examples of what that might look like internally, and had discussions with coworkers about how the values connect to their individual roles. Where would they have the opportunities to live these values in their day-to-day work?”

The sessions were well-received, and Farmer’s team subsequently set about revamping the credit union’s onboarding program. New employees now spend their first week on the job hearing from speakers — including Lawson, the executive team, and representatives from various committees — about Clearwater’s strategy and key initiatives.

“Our formal definition is that our culture is shaped by our organizational values,” Farmer says. “Above all, we accept the responsibility to serve our coworkers and members at the highest ethical standards and, in doing so, we work hard to provide coworkers with three things: the tools to succeed, a voice in decision-making, and the power to solve problems. Our culture is very hard working, but it’s a fun place to be. We’re a community, sort of a family, and we try to be as transparent as possible.”

Additionally, key staff members participate in the Global Alliance for Banking on Values. Known as “focal points,” these employees are charged with sharing their knowledge and bringing new ideas and potential metrics back to the credit union.



An open and inviting branch environment serves to subtly reinforce Clearwater's focus on values-based banking.

Perhaps one of the most noticeable changes the credit union has implemented involves the dress code. Previously, employees were asked to wear traditional logo-wear and business apparel. Today, they simply “dress appropriately,” a policy change made prior to the COVID-19 pandemic.

All staff members, including managers, are now referred to as “coworkers” to foster principles of inclusion and empowerment for all. To support community impact programs, Clearwater encourages employees to take three paid days off each year to volunteer for community programs. The credit union also matches up to \$100 of donations from every staff member.

“I’ve worked for the credit union for 23 years, and it’s a great place to be,” Farmer says. “In the past five years, I have been the most excited due to values-based banking — connecting our work to something larger than ourselves and realizing we’re all working to make the world a better place for everyone.”

That connection resonates with Lawson, too, just as Clearwater hopes it will with potential new hires.

“To retain and recruit the best people, we need to give them that strong sense of purpose,” the CEO says. “We recognized that values-based banking was the best differentiator. It is the best strategic pathway forward for us.” ▲

WITH GRATITUDE

Callahan & Associates thanks the following individuals for their time and insights for this Anatomy Of A Credit Union feature. These senior leaders and the team at Clearwater embody the industry's cooperative spirit and the values-based banking principles that are helping credit unions stand out in today's financial services market. We hope readers will find value and take inspiration from Clearwater's accomplishments.



JACK LAWSON
PRESIDENT & CEO



CLINTON SUMMERS
CHIEF OPERATIONS OFFICER



JOHN DE GROOT
CHIEF FINANCIAL OFFICER



ROBERT FARMER
SENIOR VICE PRESIDENT OF
PEOPLE SOLUTIONS



BILL ST. JOHN
SENIOR VICE PRESIDENT
OF CONSUMER BANKING



LESLIE HALLIGAN
BOARD OF DIRECTORS



MEAGAN KRAFT
SENIOR VICE PRESIDENT OF
OPERATIONS



JUSTIN SANDERS
SENIOR VICE PRESIDENT
OF MORTGAGE BANKING



PAUL HERENDEEN
DIRECTOR OF IMPACT MARKET
DEVELOPMENT