

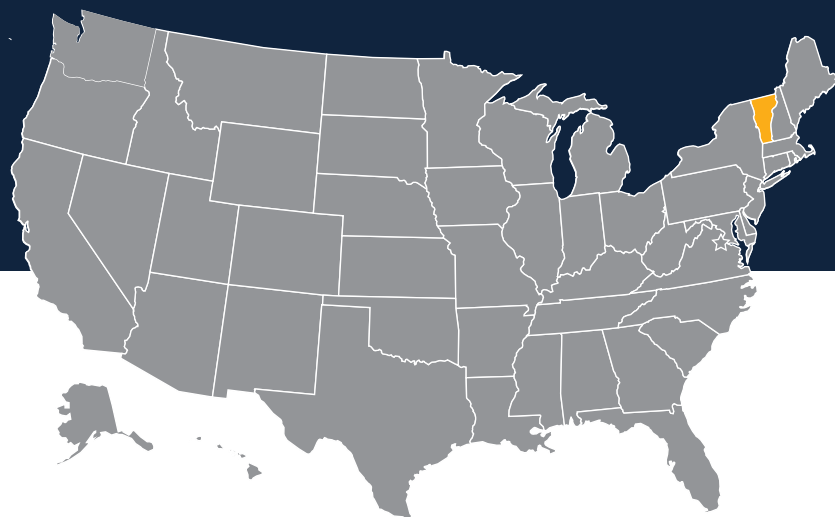


Anatomy of

VSECU



STATE IN THE SPOTLIGHT



VERMONT

POPULATION:	624 THOUSAND
UNEMPLOYMENT RATE:	2.8%
NUMBER OF CREDIT UNIONS:	18
NUMBER OF BANKS:	11

STATE CU QUICK FACTS

DATA AS OF 09.30.21

\$6,348,258,014 TOTAL ASSETS	\$4,448,147,515 TOTAL LOANS	\$215,844,711 TOTAL YTD REVENUE
\$5,660,306,550 TOTAL SHARES	0.39% AVERAGE DELINQUENCY	3.19% AVERAGE OPERATING EXPENSE RATIO
409,550 TOTAL MEMBERS	\$624,562,698 TOTAL CAPITAL	

Loans

LOAN BALANCES at Vermont credit unions grew 10.0% year-over-year to total \$4.5 billion as of Sept. 30. First mortgage growth of 17.2% led that increase. First mortgage loans made up 65.1% of total Vermont credit union loan balances in the third quarter, the highest portion across all 50 states.

AUTO LOAN BALANCES at Vermont credit unions expanded 1.1% as of Sept. 30. Supply constraints suppressed new auto growth, dropping balances by 10.6%. Used auto business – up 3.8% – picked up some of the slack, but auto loans still comprised only 14.9% of the loan portfolio for Vermont credit unions.

Members made loan payments on time, and **LOAN DELINQUENCY** at Vermont credit unions fell to 0.39% as of Sept. 30. This is the lowest level on record since the first quarter of 2006.

Shares

SHARE BALANCES at Vermont credit unions expanded 19.1% annually to \$5.7 billion. Consequently, the loan-to-share ratio decreased by 6.4 percentage points year-over-year to 78.6%. However, the loan-to-share ratio was still 8.7 percentage points higher than the national rate of 69.9%.

SHARE DRAFT PENETRATION at Vermont's 18 credit unions expanded 1.3 percentage points from last quarter and 32 basis points from last year and 32 basis points from last quarter to 55.0% as of Sept. 30. The national average was 60.9%.

Members at Vermont credit unions deposited almost all new funds into liquid core deposit accounts, with low dividend rates. Consequently, the state industry's **AVERAGE COST OF FUNDS** was down 34 basis points year-over-year to an all-time low of 0.40% during the same period.

Members

MEMBERSHIP expanded 7.5% annually as Vermont credit unions added 28,696 members during the past 12 months. This was the fifth-fastest growth rate of any state. Vermont credit union membership reached a record high of 409,550 as of Sept. 30.

The **AVERAGE MEMBER RELATIONSHIP** – defined as loan plus share balances per member – increased \$1,550 from one year ago to \$23,698 as of Sept. 30, 2021. Share balances per member expanded 11.0%; loan relationships were up 1.9%.

Consequently, **CREDIT CARD PENETRATION** at Vermont credit unions increased 1.4 percentage points year-over-year to 19.7%. At 8.0%, real estate penetration was the third-highest of any state but was down 3 basis points from last year, mainly a result of selling mortgages to the secondary market.

Earnings

TOTAL YEAR-TO-DATE REVENUE at Vermont credit unions increased 12.4% annually to \$215.8 million, the highest total ever in the state through the first three quarters. Non-interest income comprised 33.6% of year-to-date income, the highest portion through nine months since 2012.

Vermont credit union **TOTAL EXPENSES** grew 2.3% year-over-year to \$164.2 million. This was the second-highest rate in the nation. Operating expenses expanded 16.2% year-over-year with staff compensation comprising 52.2% of the total.

Vermont credit unions posted and **ROA** of 1.19% year-to-date. This was down 15 basis points from the second quarter - mainly due to increased operating expenses - but is still up 38 basis points from 1 year ago.

The Bottom Line

Mortgages continued to drive lending at Vermont credit unions, even with sales of new mortgage originations hitting 46.6%. Lending and non-interest income strategies drove up ROA to 1.19% as of Sept. 30, the 10th-highest of any state. Still, membership and member engagement at Vermont credit unions is growing at near top-of-market rates, and cooperatives are dipping into these earnings to invest in operational member service. With the state's unemployment rate down to 2.8% from 4.9% last year, Vermont credit unions are pressed to increase worker compensation to attract skilled staff.

SOURCE: CALLAHAN & ASSOCIATES DATA AS OF 09.30.21

VSECU EYES A GREEN FUTURE IN VERMONT

Energy lending, community impact programs, medical cannabis banking, and more have helped VSECU cross \$1 billion in assets as it reaches its 75th anniversary.

BY E.C. HARRISON

Sandwiched between New York, New Hampshire, and Canada, Vermont embraces a fiercely independent spirit that dates back to the 1770s when Ethan Allen’s Green Mountain Boys fought for independence from the British.

Home of maple syrup and Ben and Jerry’s ice cream, Vermont was among the first states to outlaw slavery and remains one of the more progressive states in the country. In addition to introducing the world to U.S. Sen. Bernie Sanders, Vermont is one of the few places in the country with statewide planning authority and a statewide ban on billboards.

Headquartered in the state capital, VSECU (Vermont State Employees Credit Union, \$1.1B, Montpelier, VT) is likewise setting itself apart. Described as the “greenest credit union in the country,” VSECU’s growing green lending program promotes renewable resources and energy efficiency to create a more sustainable, affordable future for members. But the credit union’s optimistic vision for the future doesn’t stop with lending; it also supports causes such as hunger relief, local cooperative businesses, winter heating discounts, medical cannabis banking, and immigrant resettlement.

Adopted in 2016, VSECU’s vision statement is to “inspire a movement that brings people together to empower the possibilities for greater financial, environmental, and social prosperity.” That’s a reflection of the mindset synonymous with the state of Vermont.

“We’ve always been a values-based organization,” says Rob Miller, VSECU’s CEO since 2014. “But more than 10 years ago, our board adopted an environmental mission statement for the organization that put us squarely in the category of sustainability.”

According to Miller, VSECU’s sustainability is about more than the environment.

“It’s our members’ economic prosperity, their community wellbeing, and the total quality of life that we’ve always focused on,” the CEO says. “The biggest change over the past five years is that we’ve become more publicly embracing of that image.”

CROSSING \$1 BILLION IN ASSETS

Today, that reputation is paying off. As VSECU was helping Vermonters weather the pandemic in January 2021, the credit union quietly passed \$1 billion in total assets. Notably, VSECU did it mostly through organic growth, aside from only two small mergers in 2014 and 2015.

According to Miller, the credit union reached that \$1 billion milestone largely thanks to deposit and asset growth. Like elsewhere in the industry, federal relief payments as well as low interest rates underpinned growth in those areas. In fact, year-over-year first mortgage growth at VSECU hit a whopping 68% in the third quarter of 2021. But that’s not the only growth the credit union has recorded.

“We’ve also seen growth in some of the businesses we’ve been leaning into, particularly our green lending program,” Miller says. “VGreen, as we call it, has seen steady and consistent growth over the past five or six years and now exceeds about 10% of our total assets.”

Success at VSECU, according to Miller, is a combination of many different factors, including a change to the credit union’s charter. VSECU was founded by seven state employees who wanted to offer affordable savings and credit for themselves and fellow state employees. In 1947, the Vermont State Employees Credit Union earned its state charter and opened its first office in a state office building in Montpelier.

Membership was originally reserved solely for state employees, but in the 1960s, that expanded to include family members of any current member of the credit union. In 2002, the field of membership expanded again to include anyone who works or lives in the six counties of Addison, Caledonia,

CU QUICK FACTS

VSECU
DATA AS OF 09.30.21
MONTPELIER, VT

\$1.1B
ASSETS

70,924
MEMBERS

9
BRANCHES

12.0%
12-MO SHARE GROWTH

7.6%
12-MO LOAN GROWTH

1.33%
ROA



The VSECU senior team, from left to right: Rob Miller, Valerie Beaudin, Greg Huysman, Yvonne Garand, Rick Hommel, and Terry Field.

Chittenden, Lamoille, Orange and Washington. The credit union added Rutland County in 2006.

In 2009, after key changes in state legislation, VSECU became the first credit union to serve anyone who lives or works in Vermont. As a statewide community-chartered credit union serving its founding and affinity members in addition to every person who lives or works in Vermont, the credit union shortened its branded name to simply VSECU with a brand campaign highlighting that the “E” stands for “everybody.”

Since then, membership has doubled to nearly 71,000 members. Nearly one in every nine Vermonters is a member, who the credit union serves through its nine branches.

In 2017, the credit union again expanded its state charter to offer green energy loans and membership to individuals outside of Vermont who are members of the Northeast Sustainable Energy Association. That opened the door for contractors doing business in Vermont and neighboring states to offer VSECU financing for solar panels, geothermal, energy efficiency projects, and more.

CHALLENGES AHEAD

Although geography and climate help to define Vermont, they also pose challenges to the state’s future prosperity. The rolling, tree-covered mountains, picture-perfect postcard towns, and ski resorts attract millions of tourists every year, but only 643,000 residents live in Vermont year-round, making it the second-smallest state in population next to Wyoming. According to the U.S. Census, Vermont grew 2.8% between 2010 and 2020 — the 12th-lowest in the United States — and low birth rates combined with an aging population are slowing that growth even more.

That makes for a highly competitive climate in a static market. VSECU’s 12-month member growth was 1.18% as of Sept. 30, 2021, compared with 4.91% for credit unions with more than \$1 billion in assets.

“Membership growth has been challenging,” says Terence Field, senior vice president of finance at VSECU. “There continues to be consolidation in the financial services industry in Vermont. The banks are getting bigger and introducing more offerings. The consumer, the member, has plenty of choices for products and services.”



“ Through the act of banking, people can collectively make impactful change in our society. That is the key differentiator for us. ”

— YVONNE GARAND, SVP MARKETING & BUSINESS DEVELOPMENT

As of Sept. 30, VSECU’s average loan amount of \$28,367 was 49% higher than all credit unions with more than \$1 billion in assets, but its average share balance of \$13,574 was 8% lower. With the Fed poised to raise interest rates in 2022 and consumer spending likely to draw down deposits, Field forecasts an even more competitive landscape.

“I fully expect our balance sheet will be in a situation where we will be competing for deposits by 2023,” Field says. “We have to start thinking in terms of what we are going to do to retain deposits and continue to grow them without paying a premium.”

Rather than simply cutting checks for charity, VSECU partners with community groups and encourages employees and members to actively participate in programs to feed the hungry, provide winter heating fuel to needy families, and invest in local business startups, cooperatives, and green energy firms, Garand says.

“We’re mobilizing our entire membership in the communities we serve,” the SVP says.

Miller was an outsider to the credit union industry when he took the job at VSECU in 2014, but he says that helped pave the way for new ideas. He had held various positions at Citibank, Dwight Asset Management, and Conning and also



VSECU leads the Independence Day Parade in Montpelier. The annual parade “powered by VSECU” focused on bicycling and raising money for the Vermont Foodbank in 2019.

CHANGING CULTURE

One key strategy, according to CEO Miller, is to align VSECU’s culture with its values, mission, and brand.

“If we’re going to be truly effective and authentic, we have to reflect our values and impact,” Miller says.

The credit union also needs to live its mission if it’s going to stand out in the market, says Yvonne Garand, senior vice president of marketing and business development at VSECU.

“Banking can be something greater than just people using their debit card, getting a mortgage, or getting a car loan,” Garand says. “We demonstrate that, through the act of banking, people can collectively make impactful change in our society. That really is the key differentiator for us.”

had served as commissioner of the Vermont Department of Economic Development from 1994 to 2000 under Gov. Howard Dean. Miller says his background in both the public and private sectors helped him question age-old practices at VSECU. He also joined the boards of nonprofits aligned with the credit union’s mission including the Vermont Council on Rural Development and the Energy Action Network, which works to achieve Vermont’s commitment to 90% renewable energy by 2050.

One of his first most-visible changes was to foster an environment of empowerment within the credit union and its employees. He intentionally introduced various new disciplines to create space where the people closer to the work had a greater influence in decision-making. For several

“ There continues to be consolidation in the financial services industry in Vermont. The banks are getting bigger and introducing more offerings. The consumer has plenty of choices for products and services. ”

— TERENCE FIELD, SVP OF FINANCE, VSECU

years, the credit union focused on a cultural transformation that empowers employees within VSECU operations.

At the time, he recalls, VSECU was a traditional hierarchical organization. That’s changed in the years since.

“We’ve tried to be a much more inclusive organization,” Miller says. “A lot of that is based on our participatory values as a member-owned co-op, but also we believe that having more people around the table leads to better decisions.”

VSECU’s culture of inclusive decision-making is still fairly young, says Garand, but it’s already making strides in pockets across the organization, from member services to marketing.

For example, in a major project to revamp VSECU’s website, instead of leaving the project solely in the hands of the marketing department, the project team included employees from across the organization with a stake in the new website and user experience. The project kicked off with stakeholder interviews that helped shape the project for future development.

“The people within the working environment create this space for great things to happen, and it’s this culture that brings the brand to life,” Garand says. “Our culture is about being inclusive and belonging. When we look at the 180 to 200 people who work at VSECU, we embrace differences and different points of view. Surrendering your own knowledge and expertise, accepting different points of view, and getting comfortable with it is what we call ‘VSECU tension.’”

The word “tension” often carries a negative connotation, but when a team freely processes tension, it leads to innovation, the marketing executive says.

“The more inclusive we are, the higher performing we will be as a credit union and the better we will be in meeting the needs of our members,” Garand says.

Miller agrees.

“Culture is vitally important,” Miller says. “It might be the most important thing we’re focused on because it enables us to accomplish so many other things.”

LOOKING TO THE FUTURE

VSECU celebrates its 75th anniversary in 2022, but the credit union is more likely to be looking toward its future

than reveling in its past. It aims to continue growing its VGreen programs and is talking with other credit unions to share its knowledge of emerging green energy lending practices. Miller says that cooperation could lead to joint ventures outside of the state and advance VSECU’s goal of making a true impact on global climate change.

At the same time, the state is implementing rules for recreational cannabis sales, approved in 2021 by voters in Burlington, Montpelier, and at least 16 other towns. As the only financial services firm in Vermont providing banking services to the medical cannabis industry, VSECU’s experience will likely prove valuable as lawmakers implement the program in 2022.

And with COVID-19 numbers waning, employees are settling into a new normal workplace, with some working in the office, some working remotely, and others on hybrid schedules. Regardless of desk location, VSECU will focus on engaging employees and fostering an inclusive culture.

Likewise, it will foster an inclusive environment for members who chose to bank remotely. The credit union expects consumer adoption of digital banking services, which accelerated during the pandemic, to continue to increase, posing a challenge to any institution that delivers personal service through a branch.

“The good news is technology allows us to become a lot better at using information and data in our systems about our members,” Miller says. “We’re increasingly focusing on how we can use that to make the member experience better.”

Branches will not go away, Miller predicts, but they will change.

“Their role is changing from what historically has been centers of transactions to centers of advice, counseling, engagement, and relationship building as well as a projection of our brand in the community,” the CEO says.

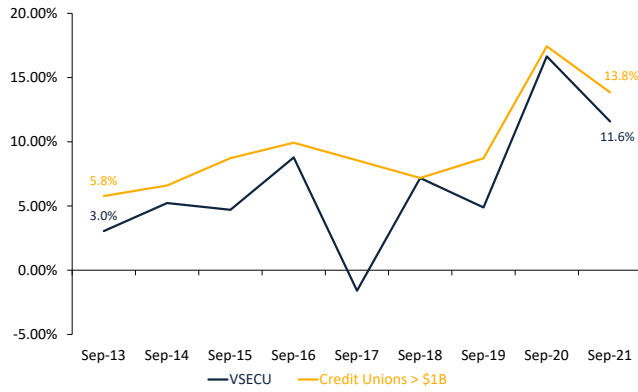
For more than a decade, VSECU’s main goal has been to fulfil its vision to serve the entire state of Vermont. As the credit union looks to the next decade, its horizon is even broader.

“We built branches, we developed products and services to meet needs, and we spent down capital; I think we’re seeing some of the benefits of those decisions,” Miller says. “Now, it’s time for the next leg of the journey. That’s what we’re focused on today.” ▲

ASSET GROWTH

FOR U.S. CREDIT UNIONS >\$1B | DATA AS OF 09.30.21

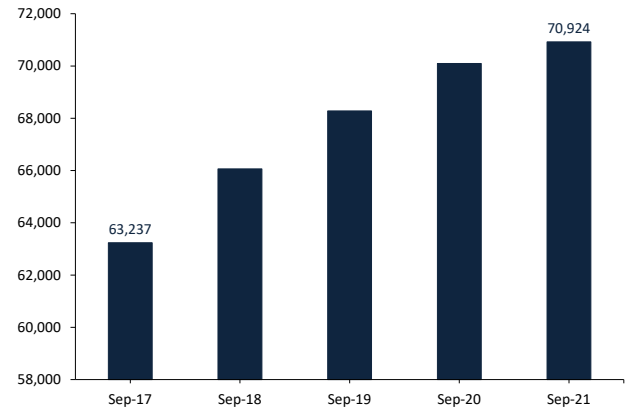
VSECU changed its charter and expanded to a statewide membership in 2009. Since 2013, the credit union's total assets have grown more than 70%, topping \$1 billion in January 2021.



MEMBER GROWTH

FOR VSECU | DATA AS OF 09.30.21

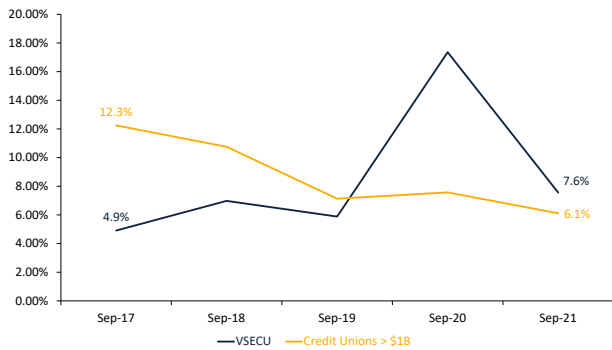
Despite Vermont's low population growth during the past decade, VSECU has added more than 10,000 members in the past five years, reaching 70,924 as of Sept. 30, 2021. That means approximately one in every nine Vermonters is a member of VSECU.



LOAN GROWTH

FOR U.S. CREDIT UNIONS >\$1B | DATA AS OF 09.30.21

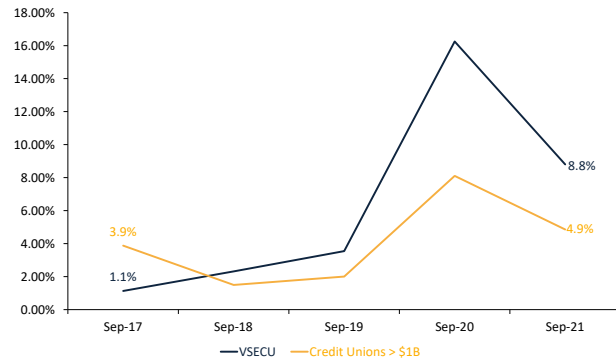
Loan growth at VSECU has tracked higher than at asset-based peers since 2019. Low interest rates have underpinned a steep rise in mortgage loans and refinancing in the past two years. Energy efficiency loans balances have expanded 30% to 50% annually.



AVERAGE MEMBER RELATIONSHIP GROWTH

FOR U.S. CREDIT UNIONS >\$1B | DATA AS OF 09.30.21

Average member relationship growth at VSECU has consistently outpaced peers since early 2019. It was 8.80% annually at VSECU as of Sept. 30, 2021, versus 4.86% for credit unions with more than \$1 billion in assets and 6.23% for all U.S. credit unions.

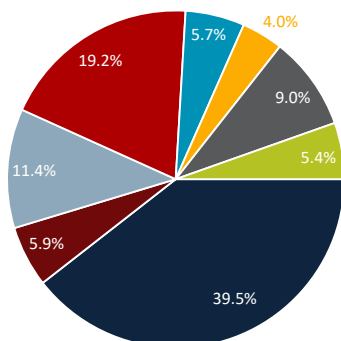


LOAN PORTFOLIO COMPOSITION

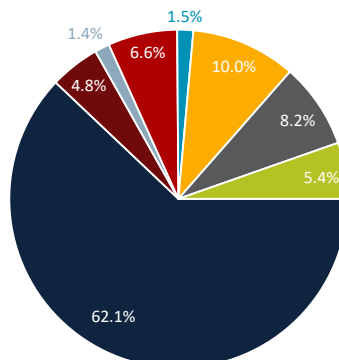
FOR U.S. CREDIT UNIONS >\$1B | DATA AS OF 09.30.21

VSECU's underwriting approach to energy efficiency loans is supporting a larger volume of unsecured loans, which accounted for 10.04% of VSECU's portfolio in the third quarter of 2021. By comparison, the average percentage held in unsecured loans for credit unions with more than \$1 billion in assets was 3.98%.

U.S. Credit Unions > \$1B



VSECU



- \$ 1-4 Family 1st Mortgages
- \$ 1-4 Family Other Real Estate
- \$ New Auto Loans
- \$ Used Auto Loans
- \$ Unsecured Credit Card Loans
- \$ All Other Unsecured Loans/LOC
- \$ Commercial Loans
- All Other Loans

SOURCE: CALLAHAN & ASSOCIATES

THE BRAVE NEW WORLD OF GREEN LENDING

Energy efficiency loans, zero-carbon goals, underwriting, and strategic partnerships drive lending growth at VSECU.

BY E.C. HARRISON

Wintering in Vermont is no picnic. The average lows in January hover around a frosty 10 degrees and the average annual snowfall exceeds 90 inches. With the chill of Jack Frost in the air, energy efficiency isn't just a nice idea — it's a matter of survival.

VSECU (Vermont State Employees Credit Union, \$1.1B, Montpelier, VT) began offering energy efficiency loans to members more than 15 years ago, and it didn't take long for demand to grow. The credit union's green lending portfolio totaled \$2.5 million within a decade and today has grown to \$92 million. The program supports weatherization, solar arrays, home battery backups, green vehicles, and even electric bikes.

"VGreen loans are for anything that eliminates or reduces fossil fuel usage," says Laurie Fielder, who became director of VSECU's VGreen program in 2013. "Our products are designed to maximize these purchases, so they have discounted interest rates compared to our regular loan offerings and either extended terms or specialized terms to maximize the economic benefit."

For example, VSECU can offer lower initial payments for a solar loan while borrowers wait for the government to process and refund their federal investment tax credit. Borrowers also can apply that government subsidy to the loan principal to pay back the loan faster. And through a partnership with the Vermont Energy Investment Corporation (VEIC), VSECU can buy down interest rates and offer a home energy loan for as low as 0% for qualifying members.

Relationships with contractors, VEIC, Efficiency Vermont, and other organizations are driving VSECU's investments in solar and energy efficiency loans. Member concerns about climate change and more frequent severe weather events play a part, too.

"People are being cost conscious and resilient," Fielder says. "We're seeing more solar projects that are including a home battery storage component. It's not just solar, they're investing in something that's going to be a backup in the event of a power outage."

Over the years, VSECU has created a variety of loan products to meet Vermonters' needs. To date, its portfolio includes short-term and 20-year energy improvement loans, state-subsidized home energy loans, loans for vehicles with

a fuel efficiency of 35 miles per gallon or more, energy equity loans, and business energy loans. It also offers off-grid mortgages for members who want to completely unplug.

Solar lending for businesses also has been growing, and a typical loan amount today can easily reach \$50,000, says Greg Huysman, director of business lending and services at VSECU. That's notable, but the cooperative isn't stopping there.

"We're also looking for opportunities to do more electric vehicle financing," Huysman says. "We financed a small fleet of about three vehicles just a couple months ago. We're looking for those opportunities as more people want to switch to electric or even hybrid."

A NEW APPROACH TO UNDERWRITING

The VGreen business represents a new approach to underwriting loans at VSECU. The majority of these loans are not collateralized, which means the amount of unsecured debt on VSECU's balance sheet has climbed along with loan growth. In September 2021, other unsecured loans accounted for 10.04% of VSECU's portfolio. For comparison, the average is 3.61% for credit unions with more than \$1 billion in assets.

According to Huysman, estimated costs savings and cash flow for paying down the loan are two key factors in underwriting green energy loans.



VGreen Solar Loans and Energy Efficiency

At VSECU, we know how important it is for everyone living in the Northeast to save money on energy. After all, we're Vermonters! We are committed to helping you make smart investments in your homes, communities, and even in your state. VGreen provides financing for any project or purchase that improves the energy efficiency of your home or transportation. If you're considering a solar energy project, weatherization, a heating system upgrade, energy efficiency appliances, a new bike, or a new high-efficiency heat pump, there's a VGreen loan option that can help you achieve long-term energy savings.



MULTIPLE OPTIONS

Whether you're financing a green vehicle, a green home, a bicycle, or a solar energy project, VGreen has an option that can work for you.



FLEXIBLE TERMS

We want you to benefit from your energy improvements immediately, so we structured our terms to let you do just that.



DISCOUNTED RATES

As part of our environmental mission, we offer discounted rates to help make clean energy affordable for you.

VSECU's solar and energy efficiency program has grown to \$92 million in 15 years. The program supports weatherization, solar arrays, home battery backups, green vehicles, and even electric bikes.



“ We’re seeing more solar projects that are including a home battery storage component. It’s not just solar, they’re investing in something that’s going to be a backup in the event the grid goes down. ”

– LAURIE FIELDER, VGREEN PROGRAM DIRECTOR, VSECU

“Your analysis is a little bit different from traditional loans,” the business lending director says. “The big difference for lenders is it’s not collateral-based. You’re really looking at the cash flow.”

Accurate analysis is especially important for this kind of lending because borrowers might hear a wide range of estimates on costs and cost savings.

“They want to go to a trusted source,” says, Valerie Beaudin, senior vice president of lending at VSECU. “We are a trusted source.”

To provide members with green savings options, VSECU offers two VGreen money market accounts, one for individuals and one for businesses. VSECU, then, uses those deposits to fund its energy efficiency and renewable energy projects and purchases.

investment tax credit for the array, so VSECU simply buys and retires the solar net metering credits produced by the array to offset the credit union’s power bill.

“Almost all of VSECU is using the same utility except for one branch, so that solar array and the power we produce offsets pretty much all of our electricity except for a couple of small components,” Fielder says.

VSECU also is looking to expand its green energy business outside of Vermont. In 2017, the credit union formed a common bond partnership with the Northeast Sustainable Energy Association (NESEA) to offer services to members of the association who live in the six New England states of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut plus New York, New Jersey, Delaware, and Pennsylvania.

“We collaborate with NESEA and go to each other’s events,” Fielder says. “That’s going to be key in our continuing plans to grow the program.”

WALKING THE SUSTAINABILITY WALK

In 2016, VSECU invested in a solar power array with a local contractor to reduce the credit union’s carbon footprint. As a nonprofit, VSECU couldn’t easily access the



FIXED RATES

Fixed rates give you easy to manage, predictable payments that can help make getting into a green car even easier.



DISCOUNTED RATES

Discounted rates make it easier for you to buy a hybrid, electric, or other high fuel economy vehicle.



UP TO 110% OF NADA

Our Green Vehicle loan will let you finance up to 110% of the high NADA book value of your new car.



6YR USED/8YR NEW

We offer 6 year terms for used vehicles and 8 year terms for new vehicles.



HYBRID VEHICLES

Gas/Electric hybrids are popular high-efficiency vehicles; our Green Vehicle Loans are a great way to join the crowd.



ELECTRIC VEHICLES

Electric vehicles are becoming more popular than ever, and we even have one of our own.



ALTERNATIVE FUELS

Alternative fuels like fuel cells, ethanol, natural gas, propane, and hydrogen qualify for the Green Vehicle Loan.



HIGH EFFICIENCY

This loan can finance vehicles with combined city/highway MPG higher than 35 as defined on www.FuelEconomy.gov

VSECU’s green loan for vehicles offers lower rates and extended terms to make financing hybrid, electric, and alternative fuel vehicles more attainable for individuals as well as businesses. “We financed a small fleet of about three vehicles just a couple months ago, says Greg Huysman, director of business lending and services at VSECU. “We’re looking for those opportunities as more people want to switch to electric or even hybrid.”

MAKING A COMMUNITY IMPACT IN VERMONT AND BEYOND

Member-directed giving, values-based programs, and the cooperative spirit all guide VSECU's efforts to leave a positive impact on its community.

BY E.C. HARRISON

As one of the largest credit unions in the state of Vermont, VSECU (Vermont State Employees Credit Union, \$1.1B, Montpelier, VT) supports a range of groups and projects to improve the lives of the members and communities it serves. To elicit member feedback and encourage their involvement in the decision-making process, the credit union employs a democratic process to direct some of the funding.

Under its member-directed We Care 2 program, VSECU donates \$50,000 a year to five nonprofit organizations that provide for the essential needs of people, which VSECU defines as food, shelter, heat, financial literacy, and a sustainable environment. Organizations apply for grants, and VSECU selects five to receive funds. To determine how much each finalist receives, however, the credit union asks members to cast votes during its annual meeting in March.

“Everything we do at VSECU is based in values and, really, based on the community impact idea,” says Simeon Chapin, community impact officer at VSECU. “The cooperative principles are in our DNA, and we’ve layered this idea of sustainable banking on top of that strong foundation. Both of those principles guide how we make choices, how we do strategy, and how we measure our own performance.”

Last year, members directed funding to a community group that provides emergency aid for food, fuel, and primary medical care, a recovery center to combat substance use, a group of youth and adult volunteers who provide basic housing repair services, an emergency shelter for survivors

of domestic and sexual violence, and a support group for the resettlement of refugees and immigrants.

“The fact the gift came directly from our neighbors, friends, and supporters at VSECU is a great testament to the community support of refugee resettlement,” says Amila Merdzanovic, director of U.S. Committee for Refugees and Immigrants Vermont.

The agency, formed in 1980, has found new homes for more than 8,000 refugees from war-torn countries such as Bosnia, Iraq, Sudan, Somalia, Syria, and Vietnam. VSECU has played a role in providing financial education, credit advice, and translation services. Several refugee families have even joined the credit union.

“Vermont is generally welcoming to new Americans, who bring so much to our state,” Chapin says. “Currently, the refugee resettlement community is preparing to welcome Afghan refugees who are looking for a safe place to be.”

Hunger relief is another major thrust for VSECU. Since 2018, VSECU has been the lead sponsor and producer of the Point to Point, a charitable cycling and running event that raises funds and awareness for the Vermont Foodbank’s mission to fight hunger. The credit union offers employees eight hours a year of volunteer time off to support this event or participate in other volunteer opportunities in their community.

HOME HEATING FUEL DISCOUNTS

In addition to its community service efforts, VSECU also offers a program called VHeat exclusively to members. Through the program, VSECU partners with several participating fuel dealers for a variety of home heating fuel types to make heating homes and businesses easier and more affordable. Last year, 2,700 members enrolled in VHeat, each saving an average of \$343 on their heating fuel costs. The program added up to nearly \$1 million in savings in 2020 and \$3.3 million over the past four winters.

“We’ve been able to leverage the power of a membership organization to create lower fuel prices,” Chapin says. “That’s money in everyday Vermonters’ pockets to spend on other things that help make their lives better.”

VSECU entered the fuel-buying business when it bought a cooperative group, then expanded the service statewide



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ABOUT VSECU FINANCIAL ENVIRONMENTAL COMMUNITY

BECOME A MEMBER

We Care 2—Member-Directed Giving



We Care 2 is a member-directed giving program that distributes \$50,000 to five non-profit organizations that positively impact Vermonters' essential needs in the areas of food, shelter, heat, environment, or financial education. The five finalists will be chosen by the Selection Committee from applying organizations and will receive funds based on votes cast by the VSECU membership on the 2022 Annual Elections ballot.

APPLICATIONS ARE NOW CLOSED. Finalists will be announced in late January/early February.

Organizations who have been awarded We Care 2 funds in the past three years will not be selected for this year's program. Voting results will be announced at VSECU's Annual Meeting on Wednesday, March 30, 2022.

Through We Care 2, VSECU gives \$50,000 to five non-profit organizations that positively impact Vermont. A credit union selection committee chooses five finalists, and members direct the final funding by casting votes during the VSECU annual meeting.

“ The best experiences we’ve had are when we’re able to do more than just make a donation and are able to actually partner with that organization.”

— SIMEON CHAPIN, COMMUNITY IMPACT OFFICER, VSECU

by bringing in new fuel dealers. Through VHeat, members receive regular fuel deliveries on an automated, convenient, hassle-free schedule. A payment system automatically debits fuel costs from participants’ accounts after each delivery. And just in case a program participant has insufficient funds in their VHeat Clearing account, the credit union automatically covers the amount due via the VHeat Credit Line overdraft protection.

“It’s a win-win for everybody,” Chapin says. “Members get a lower cost on their fuel and guaranteed warmth. The fuel dealer gets a guaranteed market.”

INVESTING IN THE COOPERATIVE MOVEMENT

VSECU invests in cooperatives to support local communities through a program launched in 2016 called Co-Op Capital. Vermont state law allows state-chartered credit unions to invest directly into other credit unions and cooperatives both inside and outside of Vermont.

The statute enables credit unions to invest equity of up to 10% of their shares, deposits, and surplus into cooperatives, without counting against the 12.25% business lending cap. Investments generally take the form of preferred stock, non-voting shares that can pay a dividend.

Since the inception, Co-Op Capital has invested \$148,000 in a worker-owned cooperative herbal clinic, a startup commercial hydroponic greenhouse, and, most recently, the Springfield Food Co-op. A community staple in Springfield, VT, for more than 25 years, the Springfield Food Co-op last year expanded in a new downtown location on Main Street that offered more shelf space, community space, and outdoor seating.

The move cost more than \$700,000. The co-op’s 2,300 members, a local community development group, and the private sector funded the venture, but one key investment of \$125,000 came from VSECU’s Co-Op Capital fund.

“Cooperatives, especially food cooperatives, source from their local communities, the local farmers and serve the local people,” Chapin says. “That’s really why we have this interest in supporting them.”

VSECU also provides direct donations and grants to community partners. For example, it helped a community group launch a seed capital fund with a \$15,000 donation

for solar development. As the money is repaid into the fund, it can be used for other community projects. VSECU has already provided funding for homeless youth programs, a homeless shelter, and an incubator program for startup companies serving the energy efficiency market.

“The best experiences we’ve had are when we’re able to



Since 2018, VSECU has been the lead sponsor of Point to Point, a charitable cycling and running event that raises funds and awareness for the Vermont Foodbank. In 2021, the event raised more than \$100,000.

do more than just make a donation and are able to actually partner with that organization,” Chapin says. “If we can bring either community volunteer staff or loan capital to that program, then we’re able to leverage more of the credit union’s ability.”

10 WAYS VSECU EMBRACES COMMUNITY IMPACT

From lending off the grid to feeding appetites and wallets — and much more in between — VSECU supports quality of life for members, business, and communities across the state of Vermont.

BY E.C. HARRISON

VSECU participates in a number of programs to improve the lives of the members and communities it serves. Serious support for a range of groups and projects should not be surprising coming from the second-largest credit union in Vermont — one that prides itself on being a values-based organization that publicly focuses on member economic prosperity, community wellbeing, and the total quality of life.



Green Energy Loans

Through VGreen, VSECU members can finance a solar energy project, green vehicle, green home, or bicycle with discounted rates and, possibly, a subsidized 0% interest rate.



Business Energy Loans

Businesses members of VSECU can finance energy efficiency and thermal upgrades in a low-interest loan program with Efficiency Vermont.



Green Savings

The VGreen money market account allows members to invest in a product that uses 100% of deposits to support renewable and energy efficiency projects.



Off-Grid Mortgages

Not feeling the gridlock? No problem! VSECU members can purchase or refinance mortgages for a primary residence that is not powered by a traditional power source.



Cannabis Banking

VSECU offers a range of banking services to legally operating hemp and medical cannabis businesses, enabling them to make deposits and issue paychecks to employees.



Discounted Heating Fuel

Members participating in VSECU's VHeat program can take advantage of reduced pricing negotiated by VSECU, automated payments and fuel delivery, and a VSECU credit line for those financially lean months.



Heating Donations

Members of Fuel Your Neighbors can direct private donations to cover the costs of home heating and food for people in need, with a focus on senior citizens and children.



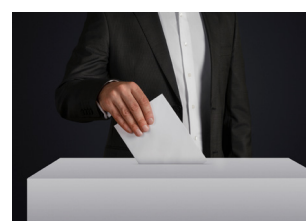
Cooperative Investments

VSECU's Co-op Capital program supports local cooperatives with long-term capital investments designed to help startups as well as established cooperatives.



Local Investment Capital

Powered by VSECU, Milk Money offers local investment platform that enables everyday Vermonters to invest in local entrepreneurial or small business ventures.



Member-Directed Giving

Through We Care 2, VSECU distributes \$50,000 to five nonprofit groups every year, with members voting on funding levels for each charity during the VSECU Annual Meeting.

THE COVID CRISIS THEN AND NOW

Inside VSECU's pandemic response effort and remote working strategy.

BY E.C. HARRISON

The U.S. changed in March 2020 as the COVID-19 pandemic raced around the world. Facing the first government-imposed lockdown, VSECU (Vermont State Employees Credit Union, \$1.1B, Montpelier, VT) formed a pandemic response team on March 13.

“We updated our disaster recovery plan in 2019, so the first thing we did was go to that,” says Terry Field, VSECU’s senior vice president of finance and chair of the pandemic response committee. “I give a lot of credit to our IT staff. They have put the infrastructure in place over the years for us to quickly go to a remote workforce.”

Prior to the pandemic, only a handful of employees worked remotely; within two days of forming the response team, VSECU moved more than 100 employees to a work-from-home arrangement. The credit union also closed branches to walk-in lobby traffic; however, it kept its drive-thrus open.

To serve members virtually during the lockdown, VSECU accelerated the rollout of interactive teller machines (ITMs). It already had ITMs located inside branch vestibules, keeping the machines secure and out of the harsh Northeast winter weather, but the credit union quickly moved to replace traditional drive-thru services with ITM video services in some branch locations.

“The pandemic catapulted many strategic initiatives forward, such as the deployment of ITMs and the accelerated adoption of digital member services,” says Yvonne Garand, VSECU’s senior vice president of

marketing and business development who oversees the branch member experience and services.

Before the pandemic hit, VSECU was in the process of upgrading its data center infrastructure and digital banking program to accommodate credit card integration that allowed members to see all transactions in one place. VSECU also launched a mobile app to give commercial customers access to online services. In 2020, 83.7% of VSECU’s online users converted or enrolled in these new digital platforms.

LIFELINE FOR LOCAL BUSINESSES ... AND MAIN STREET MEMBERS

Local businesses also faced a dire situation during the coronavirus lockdown, but VSECU stepped in to support small enterprises across the state. The credit union provided \$25 million in loan originations through the government-backed Paycheck Protection Program (PPP) — becoming the No. 1 PPP lender among credit unions in the state. VSECU opened up the program to any business in the state regardless of membership, and its PPP loans — which averaged \$34,600 — supported the retention of thousands of jobs. Additionally, as a certified lender for the Small Business Administration, VSECU facilitated a variety of grants and programs that totaled \$160,000 for small businesses.

VSECU has a dedicated team for business lending, but the effort to support these businesses during the lockdown extended across the entire organization.

“We had to pull in resources from other departments,” says Greg Huysman, director of business lending and services at VSECU. “We did all the origination with a staff of six or seven people. It was a lot of work, a lot of long hours, but we got it done.”

Local businesses are the lifeblood of a community, and VSECU worked diligently to support them, but the credit union wasn’t about to let individual members suffer in silence. The credit union stepped up to meet their needs by modifying loans of all types, not just mortgages, eliminating fees on its skip-a-payment program, and deploying the Member Emergency Loan program. Through March 2021, when the credit union closed the program, VSECU issued



Alvah Newhall, Branch Manager at the Montpelier branch, stands ready to help members through the early days of the pandemic.

“ I give a lot of credit to our IT staff. They have put the infrastructure in place over the years for us to quickly go to a remote workforce. ”

— TERRY FIELD, SVP OF FINANCE, VSECU

nearly \$1 million in emergency funds with an average loan amount of approximately \$2,000.

“Our members were frightened by what they were hearing in the media and what they were experiencing themselves,” says Valerie Beaudin, senior vice president of lending. “Our emergency loan was intended for members, but we were able to remove that requirement and offer the loan to any Vermonter who experienced loss wages, even if they were a self-employed Vermonter.”

As a result of the wider scope, new members brought in by the program accounted for 17.48% of program borrowers. To offer loans to the wider market, VSECU partnered with several nonprofit groups including the Vermont Community Foundation to create a loan loss reserve. As of Oct. 31, 2021, the emergency loan program had a delinquency rate of 4.28% and a charge-off rate of 4.30%, which VSECU lowered to 1.85% after applying the partner-funded loan loss reserve. By comparison, the delinquency and charge-off rate for all VSECU loans was 0.44% and 0.07%, respectively.

LESSONS LEARNED

According to Field, navigating the COVID-19 pandemic and pandemic response brought to light a number of areas no one could have anticipated during disaster planning.

“When we think in terms of disaster recovery and business continuity, we think in terms of losing our system or a branch getting flooded,” says the pandemic response committee chair. “We don’t think in terms of people not being available to come to work.”

In that kind of environment, communication becomes a top priority.

“For nearly a year, marketing and communications pivoted almost exclusively to supporting the constant-changing environment,” Garand says. “Everything was designed to ensure people had access to their financial resources and accounts and communicate that the health and wellbeing of our workforce and members was our priority.”

Field also was surprised by how quickly staff members adapted to remote working. That comfort level is now playing a role in returning to on-site work.

In the spring of 2021, as COVID-19 numbers finally started to decline, VSECU considered what policies it needed to set for bringing staff back into the office. Field says



CEO Rob Miller and Member Service Consultant Hanna Morris greet members at a newly installed ITM machine.

he and the team evaluated how other financial services firms as well as other sectors were handling return to work, and they decided against issuing a credit union-wide mandate.

“We pretty much left it up to the managers,” Field says.

If a manager can handle their staff and productivity and wants to keep their staff working remotely, then they can choose to do so. If a manager wants to bring back their team, then the credit union has a few guidelines to keep in mind. And if a manager wants to operate with a hybrid model, then they need to develop a plan for that, Field says.

Field’s own accounting department staff members, for example, continue to work remotely.

“They come into the office once a month as a group,” he says. “They have a great time. They love seeing one another.”

The bottom line, Field says, is that there is no one-size-fits-all solution. Some employees will need to work in the office, whereas others will prefer the office over working from home.

“It really is about transparency,” Field says. “And it’s about trusting our managers and the people who are dedicated to our credit union.”

THE BUDDING CANNABIS MARKET IN THE GREEN MOUNTAIN STATE

After stepping up to serve medical marijuana dispensaries, VSECU is positioned to lead the state in banking services for an explosion in recreational sales.

BY E.C. HARRISON

In October 2022, Vermont is scheduled to join 18 other states in legalizing recreational sales of cannabis — setting up a potential gold rush of new dispensaries and growers. The state’s Cannabis Control Board recently estimated that recreational marijuana could reach \$225 million annually by 2025.

Many regulatory questions must still be answered, but the new market is expected to far exceed Vermont’s existing medical cannabis industry, which consists of only five dispensaries. Although state regulators have years of experience in medical cannabis, only one Vermont financial institution has experience in cannabis banking — VSECU.

VSECU (Vermont State Employees Credit Union, \$1.1B, Montpelier, VT) began providing banking services to medical cannabis businesses five years ago for one simple reason: No one else would do it.

Federally regulated banks have traditionally been wary of the industry because of federal laws criminalizing cannabis possession and sales. Without a state-chartered entity like VSECU stepping forward, cannabis businesses would have no access to accounts for depositing their cash-only sales or issuing paychecks to employees.

“The original reason we got involved was not based on a point of view on cannabis and whether it should be legalized, whether medicinal or recreational,” says Rob Miller, CEO of VSECU. “We were quite neutral in that, but we did see a financial inclusion issue. That’s why we got involved. We believe all of our members should have access to the financial system, particularly if they are legal entities operating within our field of membership.”

WORKING WITH REGULATORS

VSECU’s foray in cannabis banking was the result of a board decision made after substantial research and due diligence, says Greg Huysman, director of business lending and services at VSECU. As part of developing the new program and fees, Huysman consulted with other credit unions in legal cannabis states.

“We’ve learned a lot the past few years,” Huysman says. “We definitely had some stumbles as we were learning to serve the industry in the way all the federal and state

regulators would like us to, which is difficult because there’s never been clear guidelines on cannabis. We have a tight program now to ensure all the money that’s flowing through is legitimate cannabis revenues and not black market stuff, which is what the auditors are concerned about.”

As of the third quarter of 2021, Vermont’s five medical cannabis dispensaries held deposit balances of \$785,000 at VSECU and total loan balances of \$62,000. VSECU charges a small percentage fee on total monthly deposits to cover the additional expenses required for serving the industry plus a small margin to compensate for the risk associated with cannabis banking.

Looking ahead to recreational sales in 2022, Huysman says he expects VSECU to continue to be the only local institution that provides services to the industry.

“Until the friction between state and federal laws is resolved, it’s going to be a concern for new lenders or new credit or financial institutions to come into the cannabis market,” Huysman says. “We’re preparing to take on as much market share as we can.”

THE GUESSING GAME

Neighboring states have already adopted recreational sales, so Vermont will be a relative late comer to the market. Miller says it’s still too early to tell how many new dispensaries will open for recreational sales, but he notes that VSECU has already made key investments and put processes in place for medicinal sales. He expects VSECU will need make more investments, especially in the compliance area to ramp up for recreational.

“We still need to see the proposed rules from the newly formed Cannabis Control Board to have a better sense of how many permits they’re planning on issuing, to whom, the qualifications, the fees, and those types of things,” Miller says. “Frankly, once we get that information, we might have a sense but I’m not sure we’ll really know what the volume is going to be and how much of that volume we’re going to be able to meet, particularly in the early days.”

WITH GRATITUDE

Callahan & Associates wants to thank the following individuals for sharing their time and insight. VSECU is a growing, innovative credit union leading the way in areas such as sustainability and community impact. VSECU's decision to expand its services throughout the state and lean into environmental issues and values-based banking continues to win the hearts of Vermonters and exemplify the credit union mission. We hope readers will find value and take inspiration from VSECU's accomplishments.



ROB MILLER
CEO



TERRY FIELD
SVP OF FINANCE



VALERIE BEAUDIN
SVP OF LENDING



YVONNE GARAND
SVP OF MARKETING AND
BUSINESS DEVELOPMENT



GREG HUYSMAN
DIRECTOR OF
BUSINESS LENDING
& SERVICES



LAURIE FIELDER
DIRECTOR OF
VGREEN PROGRAM



SIMEON CHAPIN
COMMUNITY IMPACT
OFFICER

THANK YOU,



VSECU