



Anatomy of

MEMBERS 1ST CREDIT UNION





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

WE HELP CREDIT UNIONS THRIVE.

A DIVERSIFIED LOAN PORTFOLIO

MEMBERS 1ST FEDERAL CREDIT UNION KNOWS WHEN IT COMES TO LENDING, ONE PROGRAM DOES NOT FIT ALL NEEDS — FOR NEITHER THE CREDIT UNION NOR THE MEMBER. THE PENNSYLVANIA-BASED CREDIT UNION OFFERS A DIVERSE PRODUCT LINE THAT HAS HELPED IT GROW EVEN DURING A TIME OF SOFT LOAN DEMAND. SO CALLAHAN HEADED NORTH THIS SUMMER TO DISCOVER MORE ABOUT THE PHILOSOPHY AND LOGISTICS BEHIND THIS \$2.2 BILLION INSTITUTION. FROM POINT-OF-SALE MERCHANT LENDING TO HIGH-LIMIT LINE OF CREDIT, BALANCE TRANSFERS TO STUDENT LENDING, THIS CREDIT UNION HAS SOMETHING FOR EVERYONE.

LEARN MORE ABOUT THE BEST PRACTICES OF MEMBERS 1ST FEDERAL CREDIT UNION IN THE VIDEO SERIES ANATOMY OF DIVERSIFIED LOAN PORTFOLIO, ONLY ON CREDITUNIONS.COM

ONE SIZE DOES NOT FIT ALL

A diverse mix of loan products has enabled Members 1st Federal Credit Union to post impressive growth numbers while providing for a community with differing needs.

NOT-SO-RISKY BUSINESS

Individualized attention to decisioning and underwriting ensures Members 1st makes solid loans for every member, every time.

A FORMIDABLE SALES FORCE

Members 1st connects with the community and strengthens its lending portfolio through ongoing face-to-face interaction and education.

THANK YOU



Are you interested in being profiled in our Anatomy section?

Contact editor@creditunions.com and tell us your story.

ANATOMY OF A DIVERSIFIED LOAN PORTFOLIO

THE RIGHT MIX OF LOAN OFFERINGS AND MARKET AWARENESS HELPS A PENNSYLVANIA-BASED CREDIT UNION REACH NEW MEMBERS AND POST STRONGER GROWTH NUMBERS THAN ITS PEERS. BY REBECCA WESSLER

LOCATED IN THE foothills of the Appalachian Mountains, just minutes from the Pennsylvania state capital of Harrisburg, sits Mechanicsburg, PA. The city is home to 9,000 year-round residents, the largest street fair on the East Coast (during which the town's population swells to more than 60,000), and Members 1st Federal Credit Union.

The area enjoys low unemployment and steady housing values courtesy of the proximity of the state government. But according to Bob Marquette, president/CEO of the \$2.2 billion Members 1st, the area's diversity of businesses also goes a long way in creating an economically stable environment.

"The state government is a huge driver," Marquette says. "But you also have several major insurance companies located here. York is more manufacturing. Lancaster is a bit of a combination of agriculture and manufacturing as well as a bedroom community of Philly."

In addition to government, manufacturing, and agriculture, the city is located on a distribution crossroads of sorts. Access to a number of transportation routes puts Mechanicsburg on the "backbone of the East Coast," says Fred Ryerse, senior vice president of lending at Members 1st. The city is located on east-west rail lines that run from coast to coast as well as on Interstate 95, the East Coast's primary north-south roadway.

"A lot of goods are dropped by rail, repackaged on to trucks, and distributed to points in the Northeast," Ryerse says. "We are two hours from Philadelphia, an hour-and-a-half to Baltimore, two hours to Washington, DC, three hours to Pittsburgh, and three-and-a-half hours to New York City. That's a huge swath of the American population you could reach by truck in less than four hours."

The city's access to railways, interstates, and warehouses make Mechanicsburg a major inner-modal transportation hub for both the military and civilians. It's this access that attracted one of the Navy's two sup

CU QUICK FACTS

**MEMBERS 1ST
FEDERAL CREDIT
UNION**

HQ: MECHANICSBURG,
PA

ASSETS: \$2.2B

MEMBERS: 218,497

12-MO SHARE
GROWTH: 12.05%

12-MO LOAN
GROWTH: 11.91%

ROA: 1.08%

ply depots, which represents the roots of Members 1st.

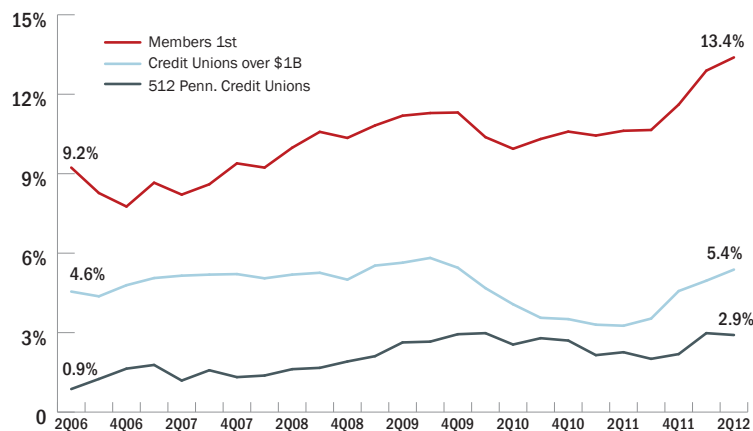
Chartered in 1950 to serve the employees of Mechanicsburg's Navy depot, Members 1st originally catered to the city's defense industry, a stable employee group with a well-paid membership base. From serving the Navy Depot and the US Army War College in Carlisle, PA, the credit union expanded into a multi-SEG institution in the 1980s. It now serves more than 4,000 SEGs — and is adding more than 80 a month — and competes against some of the strongest bank brands in the country. Wells Fargo, Sovereign Bank, PNC, Bank of America, and Susquehanna Bank (a regional institution) all have a foothold within Members 1st's market area. Harrisburg is also home to another major credit union, PSECU, which has \$4.0 billion in assets. But in no way does the performance of area credit unions pale in comparison to their for-profit counterparts.

"The awareness of credit unions, especially in Pennsylvania, has increased dramatically for a number of reasons," Marquette says. "Our state credit union association has an 'I Belong' awareness campaign that we've strongly supported. On Bank Transfer Day we saw an increase in membership that continued into this year. And consumers are becoming more sensitive to fees."

To entice new members, the credit union has 51 branches spread across a seven county area. Its advertising outreach includes billboards and television commercials. And during an awareness survey the credit union conducted several years ago, nearly 97% of respondents recognized the Members 1st logo.

12-MONTH MEMBER GROWTH

DATA AS OF JUNE 30, 2012



For the past six years Members 1st has posted member growth double that of its national asset-based peer group and at least three times that of its state peers.

"Our advertising has been effective in cutting through the clutter and differentiating ourselves," Marquette says.

Not surprising, then, for the past six years Members 1st has posted member growth double that of its national asset-based peer group and at least three times that of its state peers. As the institution adds new members and diversifies its loan portfolio, the average member relationship — total shares and loans per member, excluding business loans — has remained relatively stable.

The credit union gains nearly 25% of its new members through its indirect lending channels. Although that might seem audacious, especially for credit unions skeptical of indirect lending, Marquette reminds leaders the core of the strategy is still basic lending.

"It's nothing more than approving loans," Marquette says. "That's your bread and butter. If you approve every loan a car dealer sends you, you're going to lose your shirt. But if you're lending and underwriting consistently, you're going to be successful. ... I make more money on a loan than I make on my investments, so I'll take that one service member, in the case of an indirect car member — and get what I can out of them."

Instead of worrying about the indirect attrition rate, the credit union instead focuses on its conversion rate. According to a study conducted by the credit union, approximately 38% of members who join the credit union through an indirect channel have an additional product within three years. That's not an insignificant amount of members that move from using a single-product to being an engaged, loyal member. To achieve this, the credit union educates new members about its products and services through a

DID YOU KNOW?

MEMBERS 1ST
FEDERAL CREDIT
UNION HAS
51 BRANCHES,
INCLUDING:

4

SEG BRANCHES

7

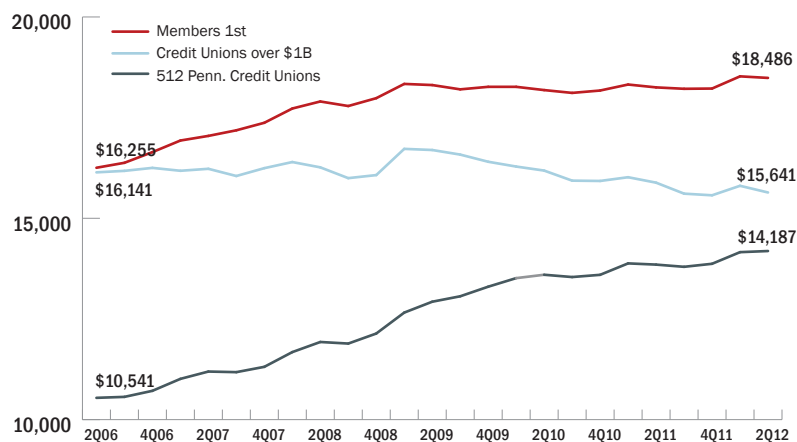
HIGH SCHOOL
BRANCHES

8

IN-STORE BRANCHES

AVERAGE MEMBER RELATIONSHIP (EXCLUDING BUSINESS LOANS)

DATA AS OF JUNE 30, 2012



As Members 1st adds new members and diversifies its loan portfolio, the average member relationship has remained relatively stable.

SOURCE: CALLAHAN & ASSOCIATES' PEER-TO-PEER SOFTWARE

series of mailers and takes a consultative approach in its cross-selling techniques within branches.

Of course, providing members with auto loans is just one way the credit union fulfills its community's credit needs. The indirect lending philosophy of being there for the member when and where they need the credit union is prevalent in Members 1st's real estate products, student lending, and even business services. The credit union doesn't focus solely on one product in its loan portfolio. Instead, it relies on a diverse mix of "home runs" and "solid singles," Ryerse says.

Components such as new auto and first mortgage comprise less of the credit union's total portfolio — 7.36% and 25.49%, respectively — than Pennsylvania credit unions (8.44% and 30.99%) or credit unions of a similar asset size (10.35% and 45.95%). Conversely, components such as other real estate and member business loans comprise more of the credit union's

total portfolio — 27.66% and 14.33%, respectively — than its state peers (24.05 and 3.86%) and credit unions with more than \$1 billion in assets (12.75% and 5.96%).

The result is the credit union has no one component in which it is heavily vested; whereas, for example, first mortgages account for slightly more than 45% of the loan portfolio for credit unions with more than \$1 billion in assets.

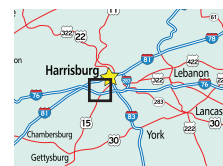
And although the credit union is proud to offer a mix of products, it knows it has limitations.

"We don't try to be everything to all people," Marquette says. "With our membership growth, when consumers start borrowing anywhere near traditional volumes, our growth is going to explode. For now, it's all about promotions. It's all about tapping into what consumers want. You can't create loan demand; what you can do is capture a larger share of what is out there."

MARKET QUICK FACTS

POPULATION, 2011 ESTIMATE

Mechanicsburg	9,045
Pennsylvania	12,742,886
United States	311,591,917



EDUCATION

HIGH SCHOOL GRADUATES,
% OF PERSONS AGE 25+

Mechanicsburg	91.10%
Pennsylvania	87.40%
United States	85.00%

BACHELOR'S DEGREE OR HIGHER,
% OF PERSONS AGE 25+

Mechanicsburg	29.10%
Pennsylvania	26.40%
United States	27.90%

ECONOMY

RETAIL SALES PER CAPITA (2007)

Mechanicsburg	\$11,386
Pennsylvania	\$13,323
United States	\$12,990

MEDIAN HOUSEHOLD INCOME (2006 - 2010)

Mechanicsburg	\$49,789
Pennsylvania	\$50,398
United States	\$51,914

ALL PERSONS BELOW POVERTY LEVEL

Mechanicsburg	7.60%
Pennsylvania	12.40%
United States	13.80%

HOME OWNERSHIP RATE (2006 - 2010)

Mechanicsburg	58.00%
Pennsylvania	71.00%
United States	66.60%

MEDIAN HOME PRICE
(OWNER-OCCUPIED, 2006-2010)

Mechanicsburg	\$160,400
Pennsylvania	\$159,300
United States	\$188,400

UNEMPLOYMENT RATE (JULY 2012)

Cumberland Cty	7.1%
Pennsylvania	7.9%
United States	8.3%



ONE SIZE DOES NOT FIT ALL

A DIVERSE MIX OF LOAN PRODUCTS HAS ENABLED MEMBERS 1ST FEDERAL CREDIT UNION TO POST IMPRESSIVE GROWTH NUMBERS WHILE PROVIDING FOR A COMMUNITY WITH DIFFERING NEEDS.

BY REBECCA WESSLER

DURING THE PAST few years of extended soft loan demand, Pennsylvania-based Members 1st Federal Credit Union has consistently posted strong loan growth. From June to June, the credit union added more than \$170 million to its loan portfolio, growing it nearly 12%. It posted double-digit growth in unsecured credit cards (14.67%), other unsecured loans (28.94%), used auto (12.76%), and fixed as well as adjustable mortgages (17.47% and 20.72%, respectively).

Consumers across the country have taken advantage of record-low interest rates over the past four years, refinancing existing mortgages at better rates. Increased real estate balances on the credit union loan portfolio reflect this trend. Members 1st, however, is taking a different approach to growing loans. The credit union is managing its balance sheet by diversifying its product lines. Consequently,

its total real estate loan concentration decreased from 2008 levels. Its first mortgage loan concentration increased from 20.3% to 25.5% while other real estate loan concentration declined 7.4 percentage points to 27.7%. Also in contrast to national trends, Members 1st increased its auto loan concentration, mainly because of its used auto lending. And student loans, first reported in 2011, are a small but growing segment of the credit union's balance sheet.

The credit union's enviable performance is partly the result of a diversified portfolio that reflects its philosophy to offer great rates and consistent service while developing solutions that fit the needs of today's

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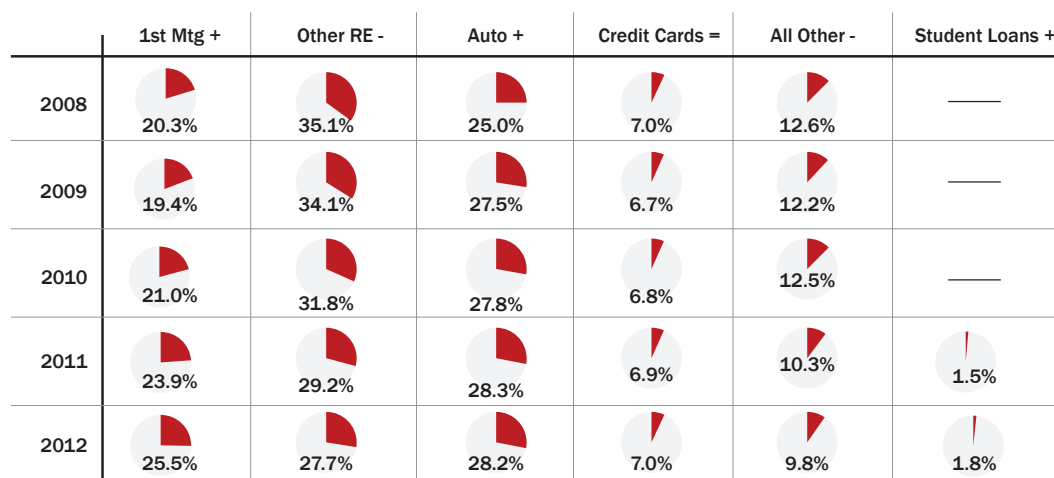
ROA: 1.08%

members. This outlook has allowed the \$2.2 billion institution to build a mix of products based solidly on "home runs" and "solid singles," says Fred Ryerse, senior vice president of lending.

The credit union's willingness to provide what its community needs when the community needs it has endeared it to 218,000 plus members and hundreds of local businesses.

"With today's economy and with the reduced consumer lending, we've had our challenges," says Bob Marquette, president/CEO of Members 1st. "But my management team has stepped up to the plate. We have achieved impressive loan growth by coming up with some unique programs and promotions."

MEMBERS 1ST
LOAN PORTFOLIO
COMPOSITION |
DATA AS OF JUNE 30



SOURCE: CALLAHAN & ASSOCIATES' PEER-TO-PEER SOFTWARE

MEMBER BUSINESS LENDING

Members 1st ventured into member business lending in 2002. Until that point the credit union participated in what Mark Ritter, vice president of business lending, calls “invisible business lending.” These are the loans in which a member uses a personal loan for business purposes. The credit union didn’t offer services, loans, or deposits for small business owners; but it wanted to change that.

“Back in 2002, the concept of going to your credit union for a loan was virtually unheard of in Pennsylvania,” Ritter says. “So our No. 1 goal was to make a credit union a choice and then to make Members 1st the choice for businesses.”

Initially, the credit union focused on members who had small businesses and residential real estate investments. Building on this core of satisfied members, the credit union then expanded into commercial real estate investors and community partners such as non-profit groups, clubs, school districts, and local government services.

“When we had a core of happy business members it was easier to go out in the community,” Ritter says. “We could put a sign on their businesses that said ‘Financed by Members 1st.’ Then people started taking notice and we slowly expanded from there.”

Now, the credit union’s core consists of more complex, middle-market businesses, for example a \$30 million manufacturing company. Still, competition is tough.

“90% of our businesses are within a one-hour radius,” Ritter says. “It’s difficult to be a niche lender in this area, so we focus on being diversified in what I call our ‘small operating businesses.’ They make something; they sell something; they distribute something.”

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► LEARN MORE IN THE ANATOMY OF A DIVERSIFIED LOAN PORTFOLIO VIDEO SERIES.

Members 1st doesn’t just make business loans, it connects credit unions in the mid-Atlantic states who are interested in starting their own programs or exploring participation loans.



■ BEST PRACTICE

MIND THE CAP

Manage the lending cap to ensure continued service to the local community. Members 1st strives to stay \$20 to \$25 million below the cap at all times.

MERCHANT LENDING

Its member business lending services makes Members 1st a resource for community business, and to take that one step further, it also offers a way to help businesses help their customers. The credit union, which participates in indirect lending in the auto market, launched a program this year that allows it to offer indirect lending for other goods and services.

“Merchant lending provides another avenue to not only book more loans but book a higher-yielding loan product,” Marquette says.

Currently the credit union is booking approximately \$100,000 a month in merchant financing. That might seem like a low sum when compared to other forms of indirect lending, namely auto, but merchant loans typically have smaller average balances, \$5,000 to \$6,000, than what an automobile might require.

“We’ve found these loans are popular in medical areas where health insurance doesn’t cover costs,” says Ed Lehman, vice president of consumer lending. “Elective surgeries, braces, dental work. Things like that.”

The option is also popular for home improvement projects, such as installing a heating or cooling system.

“Today, with the drop in home values, I might be an A+ member who just simply doesn’t have any equity,” Lehman says. “It’s a perfect product for something like that.”

Members 1st has learned several lessons over the past year. For example, when it launched merchant lending the credit union thought offering a zero percent interest product would be popular. The credit union soon discovered merchants were not keen on paying the fee associated with that offer; however, pricing and rates need to take into account the fact the loans are higher risk. So the credit union is now promoting its deferred interest loan as a solution for merchants that want to offer a desirable rate for customers without taking a chunk out of their own bottom line to do it.

The merchant lending program includes four repayment options that come with their own interest rate and merchant fee: straight financing, in which payments and interest begin immediately; no payments, no interest for three months; no payments, no interest for six months; no payments for three months, no interest for 12 months. Merchants can offer any combination of the options to their customers.

“It is challenging to get a one-size-fits-all program,” Lehman

says. “We have different products to offer some choices.”

Another lesson the credit union learned is to capitalize on its existing resources. Instead of working with a third-party partner to launch a web portal for a merchant lending program, the credit union instead customized a portion of its existing member-facing site to allow merchants to enter and track loan applications. With creative thinking like that, the credit union was able to keep to a minimum the cost of bringing it to market. And now the credit union has a system in place where it can offer business hours decisioning in 15 minutes or less, according to sales officer Jeff Gillis.

“The process of getting on board was quick and easy,” says Bernie Thomas, of Appleby Systems, Inc., a York, PA, -based company that manufactures and installs energy efficient windows. “Within a week we were able to put through applications. And we appreciate being able to get our customers what they need faster.”

And finally, the credit union has learned to strive for consistency in its underwriting. This is a standard across all the credit union’s lending programs but is especially

■ BEST PRACTICE FOR MERCHANT LENDING

OFFER VARIETY

USE EXISTING RESOURCES

PRACTICE CONSISTENT UNDERWRITING

important in merchant lending. Consistent lenders build better relationships with local business owners who want to know they can depend on their primary source of customer financing from month to month. Members

1st does not approve every loan one month only to turn around and use stricter underwriting standards the next. This ensures the credit union can be there for its merchants now and in the future.

“In the past few years, half our lenders went under or stopped lending or changed their criteria so we were not able to continue to use them,” says Appleby’s Deborah Hulshizer. “We’ve heard complaints from other home improvement companies as well.”

For Members 1st, the credit union is now picking up approximately 1,000 new members a month through all its indirect channels. That’s the value in consistency. [For more on underwriting, flip to page 48]

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■ LEARN MORE ABOUT MERCHANT LENDING IN THE VIDEO SERIES: ANATOMY OF A DIVERSIFIED LOAN PORTFOLIO, SEASON 11.

UNSECURED LINE OF CREDIT

When property values dropped, members who might have opted for a home equity loan to finance a major purchase, renovations, or a child’s college education no longer had that option. To address this need, Members 1st developed a large — up to \$75,000 — unsecured line of credit.

Before the product, the credit union capped unsecured loans at five years. After looking at TransUnion data and conducting a retrospective study on how well credit performance measured defaults, the credit union concluded it could offer a long-term signature loan with a rate bump to cover the risk of having no collateral.

“That’s risky, ok, but we’re strong enough to assume that risk,” Marquette says. “And it was a way to help a member who needed the money get the money.”

It also provided another tool for loan officers to use during decisioning conversations with members. For those members that had great credit but no equity, the unsecured line of credit provided an alternative to the traditional refinance.

The product launched in spring 2011, and even though the credit union has not advertised the option, its unsecured signature loan portfolio has increased 35% on a portfolio of \$55 million in the past 12 months.

“That’s significant growth,” Ryerse says.

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▶ LEARN HOW MEMBERS 1ST TRACKS THE GROWTH IN ITS LOAN PORTFOLIO IN THE ANATOMY OF A DIVERSIFIED LOAN PORTFOLIO VIDEO SERIES.

4.25% HELOC

Sometimes, just being aware of what's going on in the market provides the needed inspiration for the next big product. Home prices in Mechanicsburg and the surrounding area didn't inflate the way other markets did during the run-up to the real estate bubble burst. As such, property values didn't suffer a steep decline, either. After attending a conference, CEO Bob Marquette brought back the idea to offer an easy way for members to tap into their home's equity.

The solution: A great rate for a first position home equity loan.

"Rather than go through the traditional, longer first mortgage process that has stricter regulatory issues, we offered a discounted rate for our home equity product and made it easy for our members to go through the process," Ryerse says.

The product, which the credit union holds in its first mortgage portfolio, offered a 10-year term at a fixed rate of 4.25%. It required a loan-to-value of 80% and an A or A+ applicant credit. The option resonated with members whose mortgage rates hovered in the realm of 5% to 6% and were looking for a way to reduce rate, term, or both and still have an affordable monthly payment. The credit union launched the product in mid-2011 and booked nearly \$50 million in less than eight months. It's winding down, but the product was, according to Ryerse, a "blow-out."

"It was a home run because the membership was looking for an easy way make it through a mortgage refinance process that is inherently complex," Ryerse says.

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■ Learn more about Members 1st's real estate portfolio, including how it operates its construction loan program, in the Anatomy Of A Diversified Loan Portfolio video series.

LOW-RATE BALANCE TRANSFER

If it didn't embrace a trial-and-error approach, Members 1st might not be enjoying the success of its low-rate balance transfer for its Visa credit card. To encourage members to move to a new card product, the credit union launched a cash back initiative on balance transfers.

"We're trying to migrate people to a variable rate product that will re-price as the interest rate environment changes," Marquette says.

The cash back promotion failed to catch on, so the credit union quickly revamped its card offering and re-released it in early 2011. Now, the credit union offers 1.9% on balance transfers and as low as 8.25% (prime plus 5%) on purchases. No teasers. No gimmicks. Just a simple, easy-to-understand product.

"It's on billboards," Ryerse says. "It's on advertising. It's at the forefront of our branches."

PRIVATE STUDENT LENDING

Despite the availability of scholarships and federally backed student loans, Members 1st has identified the need among its members for a student loan option that makes repayment the responsibility of both the parent and the child.

"I'm after those members who have a parent and a child, and the parent wants their child to be responsible for the student debt," Ryerse says. "In the federal program, you can't do that. The Stafford Loan is to the student; the Parent PLUS Loan is to the parent."

Four years ago, Members 1st teamed up with the credit union service organization Credit Union Student Choice to offer private student loans. With these loans, the parent and child co-sign for the loan but the parent can drop off after the loan is in repayment. At that point, the student assumes the loan.

"The student and the parent are in it together," Ryerse says. "That the student is on the loan the whole time is a big selling point of the program."

In June 2012, an off-month for student loans, the credit union grew its student lending portfolio by \$175,000. The credit union booked nearly \$6 million in private student loans last year, and its total private student loan portfolio is at \$23 million.

"That's \$6 million in loans that we wouldn't have gotten had we not chosen to participate in that program," Ryerse says. "That's \$23 million from almost a zero-dollar portfolio." ■

■ BEST PRACTICE

DON'T REINVENT THE WHEEL

Don't overlook the value of turnkey solutions. Members 1st had ventured into student lending in the past but found greater success in partnering with a third party.

NOT-SO-RISKY BUSINESS

INDIVIDUALIZED ATTENTION TO DECISIONING AND UNDERWRITING ENSURES MEMBERS 1ST MAKES SOLID LOANS FOR EVERY MEMBER, EVERY TIME. BY REBECCA WESSLER

MEMBERS 1ST FEDERAL CREDIT UNION (\$2.2B) in Mechanicsburg, PA, has a mix of loans in its portfolio. In addition to the bread-and-butter-of-the-industry auto loans, the credit union books a variety of real estate — ARMS, construction, home equity — as well as credit card, student, and business loans.

“We’re not beholden to any one type of loan,” says Fred Ryerse, senior vice president of lending. [To read more about the lending programs at Members 1st, flip to page 42].

According to Ryerse, the credit union is a “middle-of-the-road” lender. It does not approve every loan application but it does

consider the merits of individual situations and relies only minimally on auto decisioning. After considering an applicant’s income and credit, loan officers make a judgment call on whether the borrower is likely to pay back the loan.

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GROWTH: 11.91%

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“It’s a challenge when you’re doing 10,000 applications a month in 15 minutes or less,” Ryerse says. “But if you take the time on the cases that need taking time for, you can make that happen.”

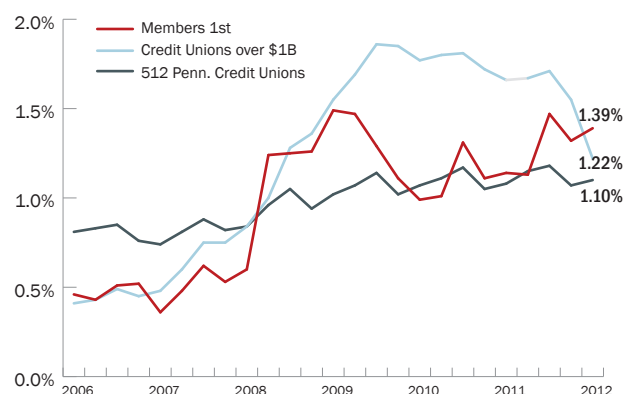
It’s this pushback against auto decisioning that Ryerse says sets Members 1st apart from other financial services institutions. Banks, and

even many credit unions, rely on auto decisioning to save time and money. Members 1st uses the opportunity to add a personal touch, putting its best people on the phone to talk directly with members.

“Loan officers are required to reach out and tell members whether they are approved or denied,” Ryerse says. “They become the contact point. If they’re denying someone, hopefully they are coaching them on why they got denied and what they can do to get approved the next time they need to apply for credit.”

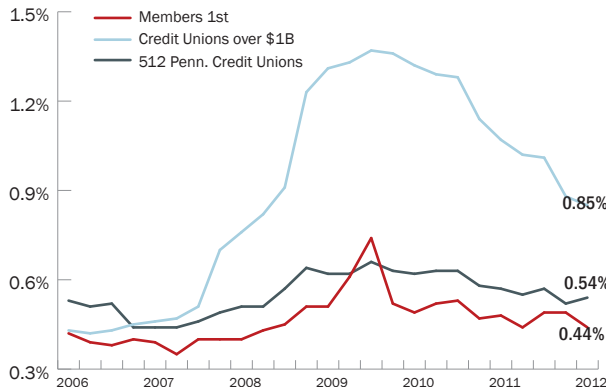
With this strategy, interactions can be quick — the loan officer calls with the approval and asks where the member wants to close the loan — or they can be more labor intensive — the loan officer calls with a denial and

MEMBERS 1ST REPORTABLE DELINQUENCY | DATA AS OF JUNE 30



As credit unions, particularly those in the Sand States, reported increased delinquency throughout 2008, 2009, and 2010, Members 1st remained just slightly above the Pennsylvania average for reportable delinquency.

MEMBERS 1ST ANNUALIZED NET CHARGE-OFFS | DATA AS OF JUNE 30



Members 1st has remained below peers for most quarters in charge-offs, indicating the credit union and the members work through any payment troubles.

SOURCE: CALLAHAN & ASSOCIATES' PEER-TO-PEER SOFTWARE

walks through the hows and whys with the member. Even approved calls, though, offer an opportunity for cross-selling and longer discussions about add-ons such as credit life and credit disability. It's an opportunity to add that personal touch. And although the credit union doesn't reach out to all applicants that come through the indirect channels — doing so would be impractical, Ryerse says — loan officers do follow up if they need to clarify something on an application.

To ensure it is consistent in all its loan approvals or denials, the credit union centralizes its underwriting department. This is an operational as well as a physical decision. Younger employees benefit from firsthand observation of senior staff's expertise. Proximity to other loan officers combined with an onboarding process that includes on-the-job training and job shadowing ensures the credit union's 20-odd underwriters adhere to the same standards regardless of what channel a loan comes through.

From 2005 to 2007, the delinquency ratio of Members 1st closely tracked that of its asset-based peer group of credit unions with more than \$1 billion in assets. As credit unions, particularly those in the Sand States, reported

increased delinquency throughout 2008, 2009, and 2010, Members 1st remained just slightly above the Pennsylvania average for reportable delinquency. Despite being close to peer averages in delinquency, Members 1st has remained below peers for most quarters in charge-offs, indicating the credit union and the members work through any payment troubles.

"After we make a loan decision, I have an active quality control department," Ryerse says. "It's what keeps us consistent."

The quality control department reviews a random sampling of both approved and denied applications to ensure the credit union is using consistent standards. And it reviews approximately 2% of decisions, or 20 a month, from every loan officer, so managers can use the review information to coach staff members on their decision making. The credit union then completes a secondary review on all the closed loans that stay on the books. This ensures the credit union is abiding by all regulations and completing all appropriate paperwork.

"From a regulatory standpoint, we look at every loan," Ryerse says. "From a quality control standpoint, we're looking at a percentage of the applications."

Such attention to detail allows staff to catch errors and forecast possible problems before they arise. According to Ryerse, the quality control position at Members 1st is ideal for someone who is not interested in management or leading a team but has the appropriate credit skills to work and think independently. Members 1st hires people from within the institution, such as from its loan officers who have underwriting experience, to fill these roles. It also hires from outside. In the end, it's not where they come from that matters.

Instead, Ryerse says: "It's all about having the right skill set." ▴

QUALITY CONTROL

FOLLOW THE LIFE OF A LOAN AT MEMBERS 1ST FEDERAL CREDIT UNION

1. A member walks into a branch and meets with a Member Service Representative.
2. The MSR keys in the application.
3. Applicant data goes to a centralized location, where a loan officer picks it up.
4. The loan officer makes a decision based on income, credit, and whether the borrower is likely to pay back the loan. Auto decisions are minimal.
5. The loan officer makes an outbound call to the member. If approved, the loan officer arranges for a closing and cross-sells other products. If denied, the loan officer counsels the member on how to improve credit worthiness.
6. All loans, approved and denied, move to the quality control department. Quality control looks at approximately 20 loans a month from every loan officer and reviews loans for institutional consistency. If quality control finds inconsistency or disagrees with loan decisions, it pulls more loans from that officer for a better sampling, then provides feedback to loan officer managers.
7. Quality control reviews every approved loan the credit union keeps on its books, making sure the credit union is abiding by regulations and completing the proper paperwork.



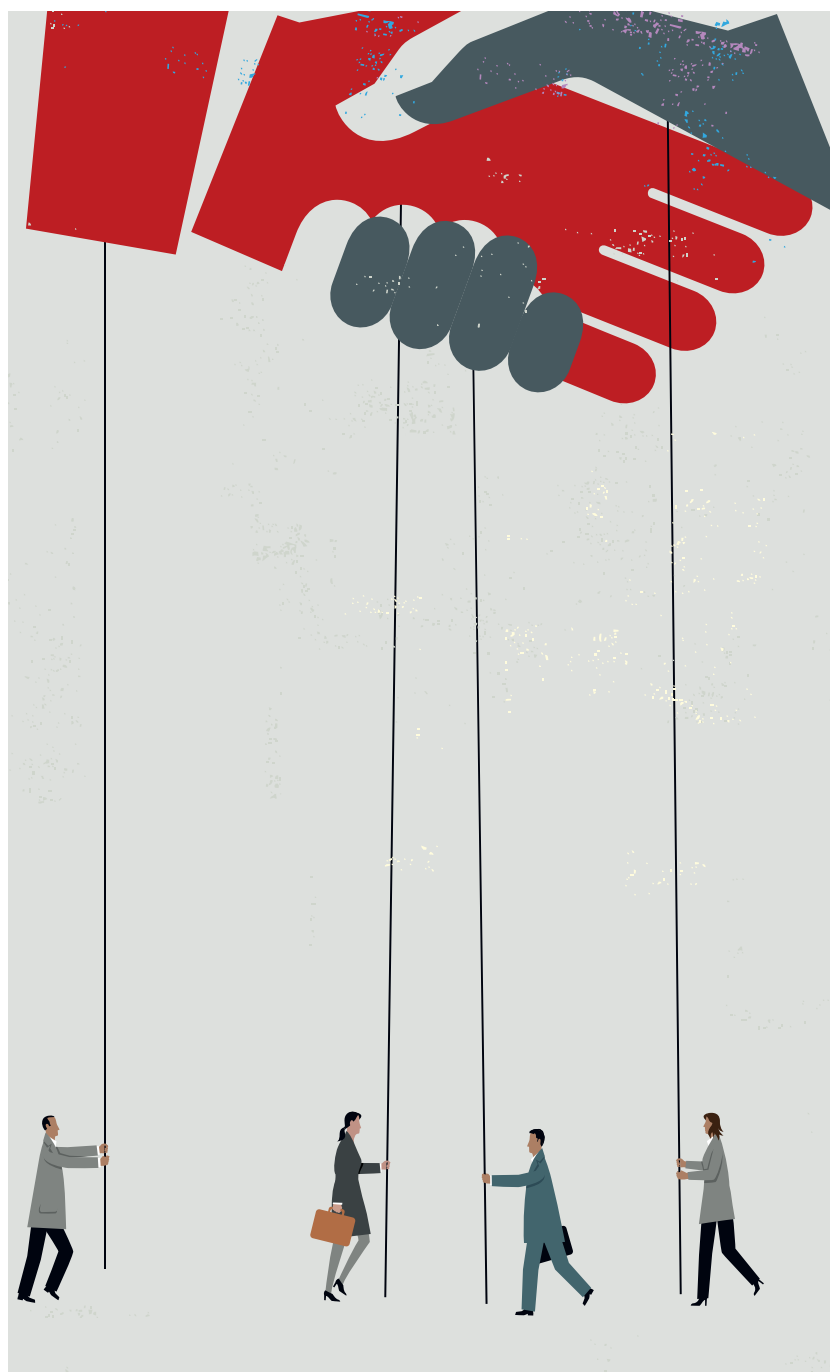
BEST PRACTICE

REPORT REPORT REPORT

To take the pulse of the credit union membership and the larger community, Members 1st tracks the credit quality of all applications (i.e., A+, A, A-, B, etc.) as well as the quality factor of approved applications. This allows the credit union to see, for example, that 60% of its loan applications are coming from A or A+ members and 92% of A+ members are approved. With information like this, the credit union can determine whether the credit conditions for its community are changing and take a deeper look at what factors are playing into a denial for an A credit member.

A FORMIDABLE SALES FORCE

MEMBERS 1ST CONNECTS WITH THE COMMUNITY AND STRENGTHENS ITS LENDING PORTFOLIO THROUGH ONGOING FACE-TO-FACE INTERACTION AND EDUCATION. BY REBECCA WESSLER



GEORGE NAHODIL IS the executive vice president of retail delivery, marketing, and public relations at Members 1st Federal Credit Union (\$2.2B, Mechanicsburg, PA). The credit union has grown its membership at a double-digit rate each quarter for the past two years. It has done this despite spending a similar amount on marketing as its national asset-based peers. One way to measure marketing spend across different institutions is to look at expenses as a percentage of average assets. At mid-year 2012, Members 1st had spent 10 basis points of average assets on marketing. Measured relative to each net new member, this calculates to \$85. Nationally, credit unions with more than \$1 billion in assets spent nine basis points; however, with fewer member gains this calculates to \$237 spent per net new member. What's more, Members 1st isn't just adding numbers — the credit union posts higher penetration rates than its asset and state peers in checking accounts, auto loan penetration, and credit card penetration.

CU QUICK FACTS

**MEMBERS 1ST
FEDERAL CREDIT
UNION**

HQ:
MECHANICSBURG, PA

ASSETS: \$2.2B

MEMBERS: 218,497

12-MO SHARE
GROWTH: 12.05%

12-MO LOAN
GROWTH: 11.91%

ROA: 1.08%

**TELL ME
ABOUT YOUR
MARKET AREA.**

**G E O R G E
N A H O D I L :**
There's a diversity of business here, and we're fortunate that the state government employs many people. It's

a conservative area that's economically stable, which I think has been good for us from a lending standpoint because housing values have stayed consistent. We haven't seen the ups and downs in housing like other markets have.

WHAT HAVE BEEN SOME OF YOUR FAVORITE PROMOTIONS?

GN: We had a 10-year and a 15-year home equity refinance program that revolved around doing the right thing at the right time that generated a significant amount of business. A lot of marketing is being able to identify what's happening in the marketplace and then appropriately reacting with the right promotion.

We have a lot of people that are active in the community, so we get a sense of what is happening. If you sit in your office and you never leave, guess what you know? Nothing. We talk to our members and come back and say, "We need to fix this promotion or try these promotions."

WHAT ARE SOME OF YOUR BEST PRACTICES FOR GETTING OUT IN THE COMMUNITY?

GN: Community outreach is one of the more significant things we do. That exposure has helped our brand and helped us to generate business. But you've got to be consistent and be out there on a regular basis. We have community outreach coordinators that are similar to event planners in that they coordinate sponsorships, arrange check presentations, and set up booths at our charitable and community events throughout the year. We require every associate to do two community or charitable events every year. In 2011, we participated in more than 250 community events, from street festivals to charity walks to Chamber of Commerce functions.

HOW DO YOU DECIDE WHAT EVENTS TO DO OR KEEP DOING?

GN: We want to do more than the year before so our market area grows, but we don't want to do an event if it's not successful. If we go to the event and it's not good, then we take it off the list.

HOW DO YOU EVALUATE EVENTS?

GN: We have a score sheet. We look at the number of participants, how many people visited the booth, and how many people put a slip in the box to win a prize. Some of it is more subjective, meaning we're just getting people to answer, "Would you go again? Was it worth us spending \$500?" Events that are two or three days long we typically try to stay away from because they take too many resources and not enough people come.

"IF YOU SIT IN YOUR OFFICE AND YOU NEVER LEAVE, GUESS WHAT YOU KNOW? NOTHING. WE TALK TO OUR MEMBERS AND COME BACK AND SAY, 'WE NEED TO FIX THIS PROMOTION OR TRY THESE PROMOTIONS.'"

GEORGE NAHODIL, EVP, MEMBERS
1ST FEDERAL CREDIT UNION

SO WHAT ARE SOME OF THE MORE POPULAR EVENTS YOU ATTEND?

GN: There's a ton of them. One is the Business Women's Forum. It's a great event because it's for professional women in this market area, and there are about 800 businesswomen that come to this event. Usually our people are clamoring to go to because it's a good event. You make a lot of connections and generate a lot of new contacts.

Then we have charitable events. There's a polo match for the MS Society that's called Denim and Diamonds, where we're able to meet 200 to 300 people that are influential in the community. We are there with our tent and we also invite prospects and clients. Typically our relationship managers or vice presidents attend the event.

WHAT'S A RELATIONSHIP MANAGER?

GN: We have business development people whose job is to generate both commercial and consumer business referrals. They don't underwrite that business or even take applications as much as they're there as a referral source in the specific markets that we have them in. I don't know that a lot of other organizations have that kind of business development sales and infrastructure.

SO WHAT DO THEY DO TO GENERATE BUSINESS?

GN: They attend Chamber events, Chamber breakfasts, Chamber lunches, Rotary, Lions Clubs, charitable organization events, women's programs. These people are not working 9-to-5. If you're working Monday through Friday, I don't know how you could be successful in the bank-

ing business. They're doing things in the evenings and on the weekends. They're meeting with key people in their marketplace. They've got a list of people they're targeting for business development purposes. I don't know that a lot of other credit unions have sales people on the street doing those things, and I think that has helped us to be successful.

YOU'VE GOT A SALES-FOCUSED CULTURE. HOW DO YOU GET BUY-IN FOR THAT FROM YOUR FRONT-LINE STAFF?

GN: We want to make sure we're educating our members about something we offer that they don't have. The initial phase of doing this is about getting people to have a conversation and become advisors to our members and not just be transactional-oriented. It's an ongoing process. We have new people that come in and need to acclimate, and we've got to constantly remind our staff of what we want them to do. It doesn't just happen. There's constant encouragement and recognition.

WHAT KIND OF ENCOURAGEMENT AND RECOGNITION HAVE YOU FOUND TO BE SUCCESSFUL?

GN: We have sales awards. We have competitions among our branches. We've had competitions between the lending team and the branch team on who's going to sell the most products. We have incentive programs and goals. When we hire people we tell them, "This is our expectation," and then we hold them accountable.

WHAT'S AN EXAMPLE OF A GOAL?

GN: Our tellers have goals for investment referrals, and we sent more than 4,000 investment referrals last year to our investment reps. In our host system, Symitar, we have a propen-

BEST PRACTICE **BE CLEAR**

Members 1st holds monthly training sessions to clearly review expectations and standards for employees representing the credit union at public functions. The credit union reviews everything from how to man a booth — don't sit, stand and talk with passersby, take contact information from people with questions — to wardrobe and behavior.

sity model that shows what product the associate should be educating our member about. So there's a constant push for our associates to provide education.

DOES YOUR MARKETING REFLECT YOUR FOCUS ON EDUCATION?

GN: Yes. Our president, Bob Marquette, is called "The Advice Guy." We have TV commercials where Bob is doing something funny like flying in to help someone move who just got a mortgage with us. If you've ever had a mortgage, you know how nerve-racking it is. And when you're getting a credit card or anything related to finances, it can be very stressful. The humor has helped make people realize we're not like a bank. We're not stuffy. We're just regular people and we're trying to help. It has created a buzz in our community.

WHOSE IDEA WAS THE ADVICE GUY?


GN: Ten years ago we were thinking about how to identify with the marketplace. So we went through this branding process and looked at popular campaigns such as Geico where

it uses the gecko as its corporate spokesperson. We looked at animals. We looked at different figurines. We looked at all kinds of different ideas. Giant Foods had this humorous campaign with its president, Allan Noddle, as its spokesperson. I said to Bob, "What if we use you as our mascot and brand Members 1st around you?" He was willing to dress up as a super hero, and that was the beginning of the whole thing.

YOU HAVE A LOT OF DIFFERENT PROGRAMS, PRODUCTS, AND SERVICES. HOW DO YOU DECIDE WHERE TO FOCUS OR HOW YOU'RE GOING TO POSITION ONE PRODUCT?

GN: Any time we're marketing, especially in the environment we're in now, everything is focused on lending. We've done pre-screen offers for Visa. We constantly do email marketing blasts. We've got propensity pieces in our marketing system that we use to do mailers. We send mailers if someone's car loan is coming due. If someone just bought a house, we'll send something about a home equity loan. From a direct-mail standpoint, the simpler the mailer is, the better. When we've done fancy mailers in conjunction with some basic mailers, the basic mailers have had higher response rates, which is interesting.

HOW DO YOU KNOW WHEN TO TARGET SOMEONE FOR A MAILER?

GN: We have lists that are uploaded into the marketing system. We have new mover lists, and there are local programs, like the Welcome Wagon, that we participate in. We maximize the networks we have." 

THANK YOU

WE'D LIKE TO EXTEND A SPECIAL "THANK YOU" TO MEMBERS 1ST FEDERAL CREDIT UNION FOR SHARING ITS TIME, TALENT, AND BEST PRACTICES. BELOW, INTERVIEW PARTICIPANTS REFLECT ON THE ROLE OF MEMBERS 1ST AS A TRUSTED LENDER IN THE COMMUNITY. BY REBECCA WESSLER

JEFF GILLIS

MERCHANT LENDING SALES OFFICER

"Most of the banks that are doing merchant financing are in the 24% to 30% market. If nothing else, because of the regulatory cap of 18%, we're not as high as they are, plus our zero option is the same. So, from the member's perspective, if they pay off the loan within the year, then they don't pay any interest at all."

ED LEHMAN

VP OF CONSUMER LENDING

"Merchants can offer one or they can offer all [of the repayment options]. There's a lot of interest in the six- and 12-month options. So we're changing those to deferred interest so we can lower the discount fee to merchants."

KARL KRUG

VP OF REAL ESTATE LENDING

"We originate process, underwrite, and close the loans. We take care of the post-closing. We service everything here under one roof, and in my opinion, there's a starvation out there for that

type of service."

BOB MARQUETTE PRESIDENT/CEO

"We don't try to be everything to all people. We try to be consistent and offer great rates. We use credit scores to give the best possible rates to the best possible risks, not to maximize our income."

GEORGE NAHODIL EVP OF RETAIL DELIVERY, MARKETING, AND PUBLIC RELATIONS

"Community outreach is one of the more significant things we do. That exposure has helped our brand and helped us to generate business."

MARK RITTER VP OF BUSINESS LENDING

"We spread our eggs among quite a few different baskets as opposed to being solely an SBA or commercial real estate lender or just for operating a business. Our goal has always been to be a source of financing for the business community."

FRED RYERSE SVP OF LENDING

"It's in the auto decisioning that I think we do something a little differently. You've got a lot of banks and credit unions out there pushing for a larger percentage of auto decisioning

because they think it will save them time and money, whereas we think that personal touch is something we have that they don't."

DEBORAH HULSHIZER REPRESENTATIVE, APPLEBY SYSTEMS

"With past lenders, we've had customers say, 'Can you call the bank and get our [approval]?' We have not had had one of those calls with Members 1st since we started using it. It's one of the best additions we've had in a long time."

BERNIE THOMAS REPRESENTATIVE, APPLEBY SYSTEMS

"Because Members 1st is local, we feel more secure dealing with them than dealing with someone from Utah or Texas. We can find a local branch and talk to somebody without having to talk to 50 people from a huge corporation."