



Anatomy of

SPIIRE FEDERAL CREDIT UNION





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“ This was one of the **most effective professional development events** that I have ever attended. The roundtable was supremely organized so that the entire meeting was **participant-centric**. The setting and format optimized focus and discussion on the most relevant issues important to our industry and discipline. The **sharing and collaboration was incredible** – you walked away with a greater gauge of what is moving and shaping Credit Unions around the country and – most importantly – **established meaningful network connections** of diverse expertise that you can draw upon. ”

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

CALLAHAN
ASSOCIATES

WE HELP CREDIT UNIONS THRIVE.

A STRATEGIC INTENT

FOR NEARLY EIGHT DECADES, SPIRE FCU HAS PROVIDED FINANCIAL SERVICES TO THE TWIN CITIES REGION. BUT IN THE PAST THREE YEARS, THE CREDIT UNION HAS ADOPTED A NEW, MULTIFACETED STRATEGY TO WIN A LARGER PIECE OF THIS COMMUNITY'S HEART.

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MANY PIECES, ONE VISION

SPIRE's expansive strategic planning process ensures that the right people, processes, and technology never fall through the cracks.

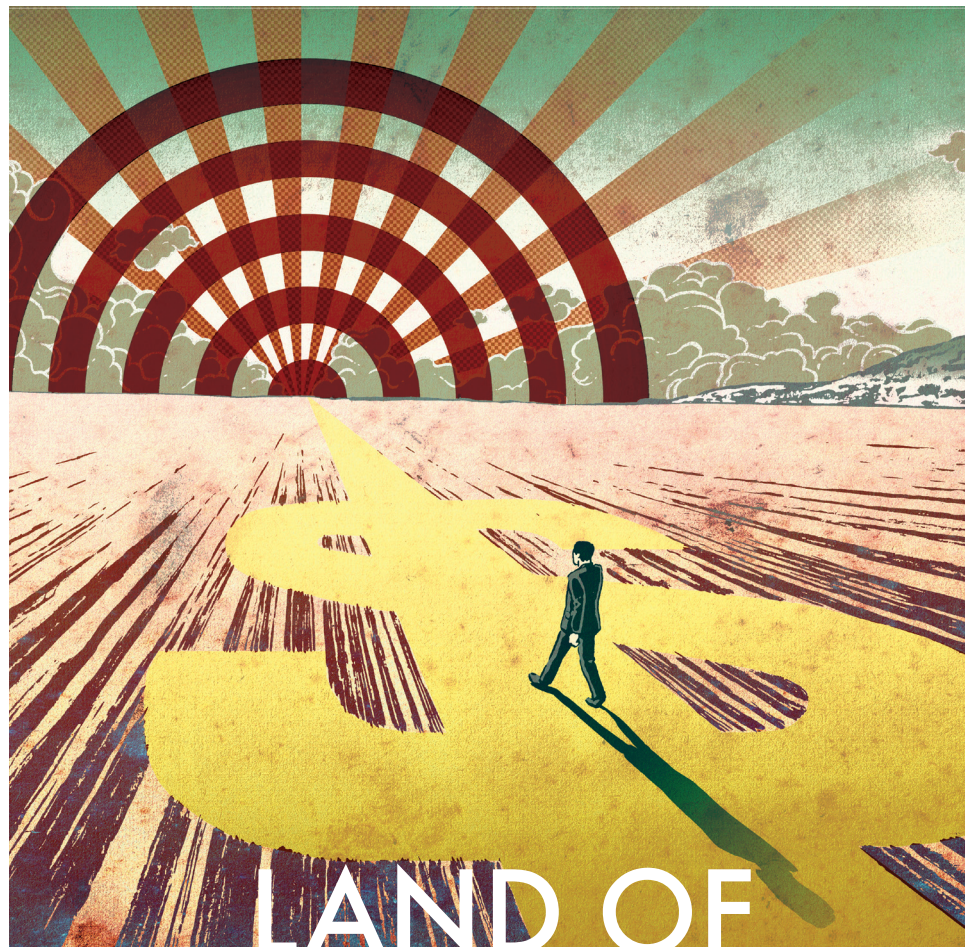
NEW INCOME. NEW MARKETS. SAME MISSION.

SPIRE FCU is diversifying its income streams and investing in core competencies to succeed in today's competitive lending environment.

WHERE EVERYBODY KNOWS YOUR NAME

SPIRE FCU got residents of the Twin Cities to fall in love with its brand. Here's how you can do the same.

WITH GRATITUDE



LAND OF 10,000 OPPORTUNITIES

MINNESOTA'S SPIRE FCU RAN A TIGHT OPERATION TO SURVIVE THE RECESSION. AND WHEN THE ECONOMY TURNED AROUND, THE CREDIT UNION HAD A PLAN IN PLACE TO TAKE ITS FINANCIALS, ITS MEMBERS, AND ITS COMMUNITY TO NEW HEIGHTS.

BY AARON PUGH →



FOR A FEW MONTHS every year, bone-chilling weather is a fact of life in Minnesota. Average winter temperatures in the Twin Cities of Minneapolis and St. Paul typically hover around zero degrees Fahrenheit, according to Weather.com, but the lowest temperature ever recorded for the region was an astounding 41 degrees below zero back in 1888. And in 2010, a record snowfall even caused the partial collapse of the roof of the iconic Minneapolis Metrodome.

Despite its wintry obstacles, the region works and plays no matter what the thermometer reads. And from spring to fall, the community comes alive as agriculture thrives, tourism booms, and patrons of the arts, die-hard sports fans, and outdoor adrenaline junkies all flock to their respective venues.

Perhaps the best-known tourist destination in Minneapolis is the Mall of America — a shrine to retail therapy that covers 4.2 million square feet, houses more than 500 stores, and includes an indoor rollercoaster. But locals know of another important pillar in the community; one that doesn't show up in visitors' guidebooks.

LESSONS FROM THE PAST

For roughly eight decades, generations of Twin Cities residents have come to a cooperative institution now known as SPIRE Federal Credit Union (\$596.7M, Falcon Heights, MN) for their financial needs.

SPIRE's history stems from the financial aftermath of the Great Depression, when a man named Edgar Archer grew tired of being bounced from one bank to another in search

of a loan. Concerned that existing financial institutions were either refusing people outright or charging exorbitant double-digit fees that created more financial woes than they solved, Archer and six colleagues banded together to solve the issue themselves. In 1934, with a \$50 loan infusion to get the cooperative on its feet, Twin City Oil Co-Ops Credit Union was born.

The next 70 years brought a progressive stream of organic growth complemented by strategic mergers with Ellerby Company Employees Credit Union in 1960 and Pioneer Plus Credit Union in 2001. The credit union proved its dedication to member service and technology when it became one of the first Minnesota financial institutions to offer online banking in 1996 and was also the first in the state to offer instant issuance debit cards in 2006.

In 2008, the cooperative rebranded, transitioning from its original moniker to the name SPIRE Federal Credit Union, a name meant to sig-

nify the journey of both members and the institution toward their financial summit. Yet the arrival of the Great Recession ensured this new brand's climb to the top would not be easy.

"We had hit a period where everything was going hunky dory and we, as an organization, were probably too complacent," says Jim Taglia, a board member at SPIRE for the past 13 years. "The economy woke us up. It pointed out those things we probably should have thought about a lot better at the time we did them."

In 2009, the credit union lost roughly \$11.5 million, partly related to economic complications in its previously burgeoning MBL portfolio. Later that year, longtime CEO John Gisler left the organization. Economic demands fostered an immediate belt tightening, and SPIRE developed better financial reporting processes — such as branch scorecards — to quantify and justify each aspect of its operation.

"We needed to be able to put exact numbers to every single service and loan," says Dan Stoltz, who joined the credit union in 1999 as the chief financial officer. Stoltz served as an interim leader following Gisler's exit before becoming the full-time CEO in 2010.

As a new leader taking the helm during a period of turmoil, Stoltz had to immediately address myriad finan-

CU QUICK FACTS

SPIRE FEDERAL CREDIT UNION

HQ: FALCON HEIGHTS, MN

ASSETS: \$596.7M

MEMBERS: 64,410

12-MO SHARE

GROWTH: 5.73%

12-MO LOAN GROWTH: 2.97%

ROA: 0.88%

cial challenges, yet after cutting nearly \$3 million in expenses, SPIRE and its membership emerged from the recession relatively unscathed. Rather than returning to old habits, Stoltz and his team learned from the recession. They re-examined each component of SPIRE's business model — people and processes, marketing and brand development, loan and income strategies, nothing was off limits — to determine how the credit union could turn previous weaknesses into its most important strengths.

LOOKING FORWARD TO TOMORROW

The credit union's journey of self-examination is just beginning, but early results indicate SPIRE is indeed on an upward climb toward new heights.

By 2010, the credit union had returned to well-capitalized status and had hit a record of nearly \$2 million in income after corporate assessments. It topped this achievement with two more earnings records in the years following — including \$2.4 million in income earned in 2011 and \$4.6 million as of 2Q 2013. SPIRE expects to end this year with a capital level of more than 8% and aims to achieve a capital level of 10% within 10 years.

“A growing balance sheet eats into your net worth, so we're trying to take a measured approach in that,” says Stan Edwards, executive vice president. “At the same time, we've been reasonably aggressive in trying to get new deposit accounts.”

Although much has changed in the past three years at SPIRE, Edgar Archer's dream of creating a financial institution that is open to all has once again taken center stage. Now that it has a clear path for measured, strategic growth, as well as the financial and cooperative resources to make that vision a reality, the credit union is reentering the community in a big way. “In difficult environments, like the

one we are in now, people are not as complacent about their relationships,” Stoltz says. “This is when credit unions really get the opportunity to shine.”

As a result of the environment, SPIRE has taken a different route than what it was doing before. It is more aggressive in its marketing and in sharing its value proposition.

With 147 employees, 10 branches, and more than 64,000 members, the SPIRE brand has grown in both size and scope to be the fourth-largest credit union in the Twin Cities region. It has achieved 50% checking account penetration — which is a valuable indicator the institution is a member's primary financial institution — and new offerings such as merchant services, credit cards cobranded with other cooperatives, and mobile apps are continually expanding the definition of what the credit union can be.

“Prior to joining SPIRE, I was on The Cooperative Foundation board,” Stoltz says. “The value of being a cooperative resonates with me, and we've had some chances to do great things with others as a result of this model.”

For example, as both an income strategy and a way to give back, SPIRE now consults on balance sheet issues for six other credit unions. Three of these formerly troubled institutions have since been removed from the prompt corrective action status imposed by NCUA prior to their work with SPIRE.

“We've gone from being an institution that was scrutinized to helping other credit unions and being a model for those in our market on how to correct certain issues,” Stoltz says.

As he looks toward the future, Stoltz makes it clear SPIRE is not looking for growth. Rather, it's looking for the strategic, measured performance that creates long-term excellence.

“We want to become the best financial institution in the state of Minnesota, not necessarily the biggest,” he says. ▽

MARKET QUICK FACTS

POPULATION

Minneapolis	392,880
Minnesota	5,379,139
United States	313,914,040

EDUCATION

HIGH SCHOOL GRADUATES, % OF PERSONS AGE 25+	
Minneapolis	88.0%
Minnesota	91.6%
United States	85.4%

BACHELOR'S DEGREE OR HIGHER, % OF PERSONS 25+	
Minneapolis	44.7%
Minnesota	31.8%
United States	28.2%

ECONOMY

CURRENT UNEMPLOYMENT RATE	
Minneapolis	4.7%
Minnesota	5.3%
United States	7.6%

HOMEOWNERSHIP RATE	
Minneapolis	50.4%
Minnesota	73.6%
United States	66.1%

MEDIAN HOUSEHOLD INCOME	
Minneapolis	\$47,478
Minnesota	\$58,476
United States	\$52,762

PERSONS BELOW POVERTY LEVEL	
Minneapolis	22.3%
Minnesota	11.0%
United States	14.3%

SOURCE: U.S. CENSUS BUREAU QUICKFACTS, 2011 AND 2012 ESTIMATES, US BUREAU OF LABOR AND STATISTICS, MAY 2013

TOP INDUSTRIES IN MINNEAPOLIS

MALES:

Professional, scientific, and technical services (10%)
 Educational services (9%)
 Accommodation and food services (9%)
 Finance and insurance (6%)
 Administrative and support and waste management services (6%)
 Health care (6%)
 Construction (6%)

FEMALES:

Health care (15%)
 Educational services (15%)
 Professional, scientific, and technical services (10%)
 Accommodation and food services (10%)
 Social assistance (6%)
 Finance and insurance (5%)
 Administrative and support and waste management services (4%)

SOURCE: CITY-DATA.COM, 2009 STATISTICS

2013 HONORABLE MENTIONS

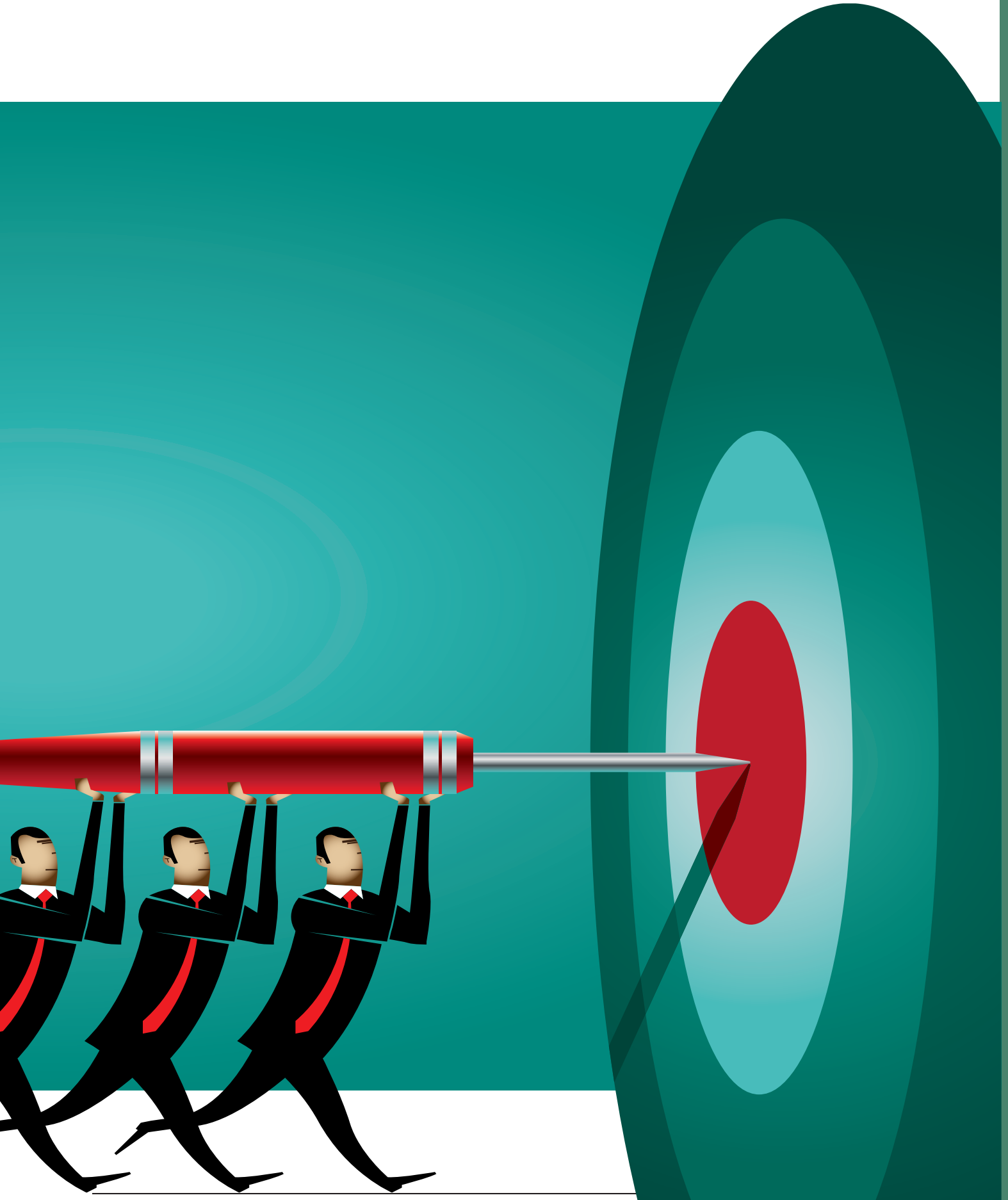
- #1 — Healthiest, Fittest City, usatoday.com
- #1 — Best City For Bicyclists, bicycling.com
- #1 — Place To Raise A Family, www.ziprealty.com
- #5 — Best City To Get Rich, creditdonkey.com

MANY PIECES, ONE VISION

SPIRE'S EXPANSIVE STRATEGIC PLANNING PROCESS ENSURES THAT THE RIGHT PEOPLE, PROCESSES, AND TECHNOLOGY NEVER FALL THROUGH THE CRACKS.

BY AARON PUGH





THE FINANCIAL CHALLENGES SPIRE Federal Credit Union (\$596.7M, Falcon Heights, MN) experienced during the recession did not occur by chance or by economic circumstance alone; but then again, neither did its subsequent recovery and success. Its turnaround was largely the result of a methodical, ongoing strategic planning process implemented by CEO Dan Stoltz, who assumed the position in 2010.

“One of my favorite quotes is, ‘A person who aims at nothing is sure to hit it,’” Stoltz says. “After the recession, we discovered we needed to establish specific goals for one, two, three, and five years out as well as find better ways to track our progress.”

Major components of the credit union’s strategic plan now include transitioning to zero-based budgeting, bolstering allowance for loan loss analysis capabilities, drafting a long-term vision for technology and human capital, developing and refining branch and product profitability scorecards, and readying for possible merger and acquisition opportunities. Each of these investments help build what Stoltz calls a “decision science engine,” whereby the credit union is able to seamlessly harness and weigh hard financial data and statistics, member and employee feedback, and other quantifiable resources to inform key decisions.

GETTING MORE OUT OF THE NET PROMOTER SCORE

The credit union already has an

established reputation for high-quality service.

But in order to improve, SPIRE needed to go beyond what it knew it was doing well and focus on identifying what it could do better.

“When you have a strength, it’s not good enough to just accept it,” Stoltz says. “Instead, you want to work to make it even stronger.”

To achieve that goal, SPIRE turned to the Net Promoter Score (NPS), which measures member loyalty by asking the key question of how likely members are to refer someone and helps foster insightful two-way communication. Implemented just two years ago, the credit union has already reached a Net Promoter Score of 70. NPS scores can range from negative 100 all the way up to 100 depending on the industry, but top performers typically score somewhere between 50 to 80, according to the company behind the NPS system.

“We’re continually sending out relationship and transactional surveys,” says Scott Jax, director of strategic management. “We send between 120 and 150 surveys that are triggered by

transactions every day. There’s also a random sampling that goes to between 100 and 150 members every day. And on a quarterly basis, we send our general relationship surveys.”

But to get the full benefits of this program, collecting information is only half the battle, Jax says. The rest is about taking action.

“Between the two types of [NPS] surveys, relationship and transactional, there’s about 1,500 members we’ve been able to follow up with,” he says. “Members are often surprised that we are following up on their suggestions or concerns.”

Through discussions spurred by surveys, the credit union has addressed several key issues for members and implemented new products or policies. For example, members identified expanded business hours as a bigger priority than the credit union thought they were, so SPIRE began staggering branch staff to keep half of its locations open on Saturdays.

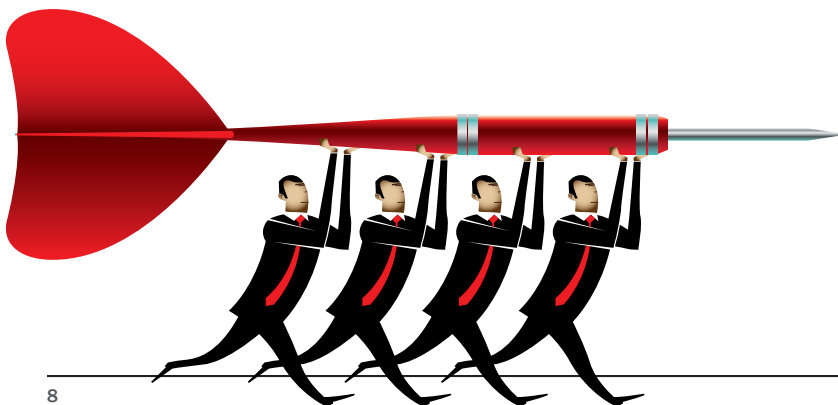
A FIVE-YEAR FACILITY PLAN

SPIRE currently has 10 brick-and-mortar branches, but the credit union relies on other resources, such as shared branching, to make its footprint feel larger than it is.

“A lot of our members will go to Arizona, Florida, or other warmer climates over the winter, so our shared branching partnership has increased options for these members to roughly 5,600 locations,” Stoltz says.

In addition to the ATMs it has at each of its branches, SPIRE promotes the availability of ATMs in area KwikTrip convenience store locations to get maximum channel impact at a minimal cost.

“KwikTrip’s strategy is ... no matter who you are, wherever you bank, the ATM units in these stores are free,” says Kellie Eaton, vice president of retail and card services. “So we market that option heavily to our members.”



Lastly, partnerships with several area cooperatives that use SPIRE for merchant services have opened the door for free ATM placement at many of these locations.

Over the next three years, the credit union plans to hold off on market expansion in favor of strengthening its current branch footprint, Stoltz says. So far, renovations and small-scale relocations have proven effective in unlocking the full potential of struggling locations.

A prime example is the credit union's Maple Grove branch. For roughly two decades, this location was effectively buried within a strip mall retail slot. In early 2013, the credit union moved the branch to a newly constructed stand-alone building. Since then, the branch has seen a steady 25-30% lift in both loans and transactions. According to Eaton, the last new branch the credit union opened took two or three years to reach the same level as the reopened Maple Grove location.

"We constantly have members say, 'I'm so glad SPIRE is finally in Maple Grove,'" Stoltz says. "We've been in Maple Grove for years, so it just goes to show that the branches need to be out there front and center."

AN INVESTMENT IN HUMAN CAPITAL

"Because of our size and the complexity of our operation, we have an obligation to the membership to get people on board who have the skills or the ability to develop the skills SPIRE needs to succeed," says Jeff Streiffer, vice chair of SPIRE's board of directors.

And as part of its HR strategy, SPIRE has taken a keener interest in the acquisition, training, and assessment of individuals at every level.

Part 1 — EMPLOYEES

The lessons gained in the recession have stuck with SPIRE from an oper-

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We want to better understand where there are gaps in our institutional skill set so when we recruit for any of these roles, there's some intent to whom we bring aboard and why.”

DAN STOLTZ, CEO, SPIRE FEDERAL CREDIT UNION

ational perspective. Although recent successes have lessened the financial pressures and opened new doors, ongoing economic and regulatory challenges mean the credit union must continue to get the most out of every available resource.

"I'm a strong believer that we do not blame poor service on an extra piece of paperwork or regulations," Stoltz says. "When we serve our members, we should avoid using outside issues as a crutch for longer wait times on a loan app or poor service at the counter."

Each of SPIRE's 147 full-time employees serve 438 members versus a peer average of 348, according to Callahan & Associates' Peer-to-Peer analytics, without sacrificing either service or loan generation to get there.

"For the most part, our employees are universal," Eaton says. "But we've found that the success of this model depends on both the size and makeup of the organization as well as your rate of employee turnover."

Part 2 — EXECUTIVES

Siloed thinking doesn't just affect the front line, it can be equally rampant in the corner office. That's why SPIRE has retooled its communication structure for executives so no

one party or group of interests dominates the process of putting together a compelling vision for the organization. Each August, Stoltz goes on a group session listening tour. The tour includes one-on-one time with the board as well as mid- and lower-level managers, and although the vice presidents are in attendance at these sessions, they remain silent and allow their employees to provide unfiltered feedback.

Likewise, Executive Vice President Stan Edwards holds his own group sessions with the vice presidents. Stoltz does not attend these meetings, which allows his team to have a more off-the-cuff discussion.

"We match up the best insights from these sessions to see where our VPs and other groups, as well as we as a team, feel we should go," Stoltz says.

During an all staff meeting on Presidents' Day, credit union management educates the entire staff on the year's key issues and initiatives. SPIRE also shares this information with members during its annual member appreciation day event.

Part 3 — THE BOARD

The board at SPIRE is about as diverse as they come. And that's a trait the credit union wants to develop in the years ahead.

"My saying is 'If we're not here, who can we help?'" so I personally put on more of a business hat than a co-op hat," says Jim Taglia, board member. "But we also have an engineer, an attorney, and a couple of people that were in human resources, so we all look at things a little bit differently."

In addition to studying traditional board packets and high-level updates from the CEO, the board is also expected to stay apprised of both industry-specific as well as general events, publications, and resources according to their personal interests and strengths.

"Because I'm a lawyer, I pay par

ticular attention to the legal side,” Streiffer says. “I’ll take newsletters from my industry and webinars on the latest with the Consumer Financial Protection Bureau or Dodd-Frank and share those with management so everyone is up to speed from a regulatory perspective.”

The board has also become more involved in building its own transition strategy as well as a self-appraisal process. Term limits have proven to be a successful tool in creating a balance between fresh perspectives and seasoned, experience directors, says Stoltz. The next step for the credit union will be to develop volunteer channels outside the traditional board structure that can serve as a source for qualified board candidates when an opening becomes available.

Part 4 — BRINGING IT ALL TOGETHER

“As we continue to grow, we want to better understand where there are gaps in our institutional skill set so when we recruit for any of these roles, there’s some intent to whom we bring aboard and why,” Stoltz says.

Every employee at SPIRE now participates in the StrengthsFinders assessment program, which highlights a person’s top five dominant strengths out of a total range of approximately 34 different profiles. The credit union also offers two hours of coaching with a program specialist so employees can improve the traits they have, diversify their skills, or simply discuss any personal or professional issues.

These assessments have already played a role in increasing departmental efficiency, and they will play a larger role in team building strategies and staffing decisions in the years ahead. The credit union is also in the process of turning its NPS lens inward by creating an employee version of the survey (eNPS) to stimulate new idea generation and proactive issue resolution, as well as benchmark how

employees support one another.

“Strengths that are too strong can also be your biggest weakness,” Stoltz says. “The next level is to use this information to continue to create desired diversification in all of our key groups.”

A THREE-YEAR TECHNOLOGY PLAN

Although it identifies itself as a technology fast follower rather than an innovator, SPIRE is more than willing to invest in proven tools to help its members and employees. One of these investments was Niel Devasir, the credit union’s new chief information officer.

In the 75 days since his hire, Devasir has implemented new technology, such as a mobile app, as well as formulated strategies to build out the credit union’s other remote channels. The credit union already has a contact center that handles calls, chats, and soon, email interactions from a singular interface.

Approximately 30% of SPIRE members participate in the credit union’s Internet banking, and although it is too early for a solid read on mobile penetration rates, the future integration of iPad technology within the branch environment will help increase members’ exposure to this option.

“The demographics of SPIRE are right in that middle age group,” says Matt Ball, branch supervisor. “Since we’re trying to expand and reach a younger audience, one of the best ways to do that is through our mobile application.”

New channels also mean new vulnerabilities, particularly when it comes to members’ personal devices, which are outside the institution’s control. Education remains one of the most effective ways to counteract fraud, but the credit union is also exploring the option of including a free anti-malware resource that automatically installs alongside any future SPIRE applica-

tions for Android mobile devices.

Another important initiative is the continued development and enhancement of data warehouses that can support more large-scale analytic activities.

“By linking together our various information resources, we can use data to make decisions rather than our gut,” Devasir says.

SPIRE’s IT team is also ramping up its support and development capabilities to provide technology directly to members as either a value add or as an additional income strategy.

“In the business world, we can provide a business user with a check scanning machine,” Devasir says. “If it is a pizza place, maybe we could provide point-of-sale terminals and charge a fee for it.”

The last piece of this IT transition is to help other credit unions with technology, whether through a subsidiary or a specific product that other cooperatives would want to buy outright.

A MERGER-READY MINDSET

SPIRE’s various investments in its business model are designed to keep the credit union out of a merger of necessity, but the credit union has also set the groundwork to identify and move on complementary opportunities when they appear.

“The merger-acquisition phase is still going to be strong over the next five years,” Stoltz says. “We were entertaining a merger a year ago, but it wasn’t the right fit and both parties agreed to that in the end.”

Since that time, enhancements to SPIRE’s analytic capabilities allow it to rapidly compare future opportunities and project the long-term implications of these actions to filter out a potential mismatch.

“If these discussions come our way, we certainly are going to look at them,” Stoltz says. “But now we have a process to more quickly see if they are something worth pursuing.”



NEW INCOME. NEW MARKETS. SAME MISSION.

SPIRE FCU IS DIVERSIFYING ITS INCOME STREAMS AND INVESTING IN CORE COMPETENCIES TO SUCCEED IN TODAY'S COMPETITIVE LENDING ENVIRONMENT.

BY AARON PUGH

WITH 2.97% ANNUAL loan growth and 0.88% ROA as of second quarter 2013, according to Callahan & Associates' Peer-to-Peer Analytics, SPIRE Federal Credit Union is hitting its lending stride. But the Minnesota-based cooperative is doing so in a different way than it has in the past.

"We need and want to grow, but it has to be controlled growth," says Jon Seeman, vice president and chief financial officer.

As of midyear, SPIRE (\$596.7M, Falcon Heights, MN) had 0.62 loan accounts per member and an average member relationship of roughly \$15,000. This compares to an average of 0.51 loan products per member and an aver

age member relationship of \$6,700 at similar-sized credit unions.

One contributing factor to the credit union's lending success is its approach to sales incentives. In addition to maintaining role-specific benchmarks for individual staff members, SPIRE offers quarterly goals, which include both a loan and checking account component, for all employees across the institution.

"Every quarter, as part of this program, we develop tier one and tier two loan goals, and then we have reminders every week about where we are on this gauge," says CEO Dan Stoltz. "If we hit those goals, every employee gets the same dollar amount, from the CEO, to the managers, to the front line. And if we lose, we all lose together."

The timing of these payouts is also important, as SPIRE wants employees to remember exactly why it is rewarding them.

"A lot of bonuses are done on an annual basis, so the employees have to wait until January to see the benefit," Stoltz says. "But if every quarter they see there's something extra in their paycheck, it helps continue that momentum."

According to Kellie Eaton, SPIRE's vice president of retail and card services, the credit union leans heavily upon the credit bureaus to help deepen member relationships.

"Whenever new members come in or an existing member fills out a loan application, we go through their credit report and find out how we can save them money," she says. "We call it 'steal a deal.'"

Although building a more effective sales culture is an important factor in SPIRE's success, its lending philosophy – which started evolving in 2010 when Stoltz became CEO – goes much deeper than that. For example, SPIRE has doubled down on new strategies to safeguard and bol-

ster income streams in areas of the portfolio that have always performed well. And in historically weaker areas, SPIRE has stripped down and rebuilt entire departments from the ground up. Lastly, it has launched new departments focused on meeting the evolving needs of businesses and other cooperatives.

"People aren't borrowing as quickly as they have in the past," says Miriam Wells, branch manager at SPIRE's Maple Grove location. "So we are looking for ways to be inventive

and help all our members with their changing needs."

DO WHAT YOU KNOW — REAL ESTATE

As a member-owned institution in a highly regulated era, SPIRE needed to anchor itself in its core strengths before exploring riskier revenue streams. Fixed rate first mortgages, which have grown 32.4% year-over-year at SPIRE as of second quarter 2013, was one of those anchors. Yet because of its real estate focus, SPIRE must address evolving rate challenges.

"We want to be competitive when it comes to rate, but we don't want to be a loss leader," Seeman says.

Although SPIRE periodically runs rate promotions to attract new members, it is careful to focus on areas where it has a maintainable pricing advantage.

"Auto rates are so competitive, you need to go down to about 2% for a rate promotion, so it's hard to see a real gain in that area," explains Mike Schrader, vice president of consumer lending. "On the other hand, with real estate, we've been able to roll out some low loan-to-value, shorter-term options with no closing costs that still present the yields we're looking for."

As a primarily fixed rate lender, the credit union balances interest rate risk by avoiding longer-term loans, and although 30-year mortgages are nowhere on the horizon, SPIRE is considering booking more 15-year or less products in anticipation of the expected rise in rates. In addition, it sells almost all of its first mortgages to the secondary market.

"We sell [first mortgages] for the origination plus the service release fee, which has been one of the primary drivers of our other operating income," Seeman says.

SPIRE has tapped into its market opportunity and is continually adjusting its real estate strategy, particularly

“

If we can help [SPIRE business members] save \$30,000 a year, they might be able to hire another employee or purchase a piece of equipment that will change their business.”

Cliff Wantz, Vice President of Business Services, SPIRE Federal Credit Union

with regard to attracting new purchases.

“Today we’re seeing 30-40% purchase and 60-70% refi, whereas not too long ago it was at around 90% refi,” Schrader says.

As of second quarter 2013, SPIRE averaged 6.3% mortgage penetration among its membership, compared to just 4.5% among similar-sized peers. This focused model proves that sometimes, it’s not about offering everything to everyone; it’s about offering the right product at the right time.

DO WHAT YOU DID, BUT DO IT BETTER — MBL

Many times, an institution creates a member business lending department by reassigning a portion of its consumer or real estate lending staff to the commercial division. Unfortunately, a majority of those employees typically have little to no commercial lending experience, says Cliff Wantz, vice president of business services. In its earlier iterations, SPIRE’s business lending department was no different.

“You can select individuals who may be strong lenders, but if they don’t understand the commercial world, it can quickly lead to some stubbed toes and bad decisions,” Wantz explains.

SPIRE’s lack of expertise limited the department’s initial effectiveness and – combined with unpreventable downturns in the marketplace – lead to significant losses during the recession. Even today, the department is still working through a small handful of problem loans from this earlier era.

Despite these initial challenges, the credit union was not deterred from the potential it saw in the MBL market, particularly in regard to commercial real estate. To correct the situation, SPIRE hired Wantz and other key staff from the commercial banking world and has invested roughly \$250,000 a year since 2010 in related enhancements, such as:

1

Hiring outsiders that understand and can anticipate the nuances of this market; these outsiders can help train others as well.

“When you do business lending, you need to understand both the national and local economy as well as the submarkets,” says Ryan Panariso, director of business services. “You also need to have expertise in a range of industries and business models and be able to understand complex financials.”

2

Establishing an MBL committee to help executive and departmental leadership set the correct course for the department.

SPIRE’s current committee includes a former FDIC examiner and a board member with business expertise.

3

Focusing almost exclusively on business loans between \$100,000 and \$2 million, made to businesses who can secure the loans with existing property.

Investment properties, industrial warehouses, multi-family apartment units, and retail or office space typically fall under this guideline. The credit union steers clear of riskier construction and development options like hotels or golf courses.

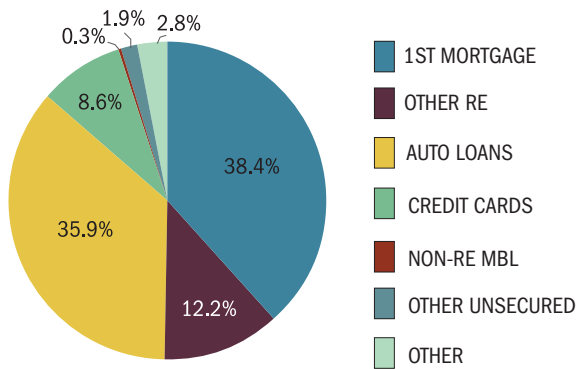
“You have to pick your niche, not just go for whatever is out there that’s tempting,” Stoltz says. “For example, we have lot of restaurant owners in our membership, but that business is very volatile, so we might have to help them find funding from another source rather than taking on that loan ourselves.”

4

Building out supporting resources, such as the new in-house underwriting system, that are tailored to the distinct analytical needs of commercial lending.

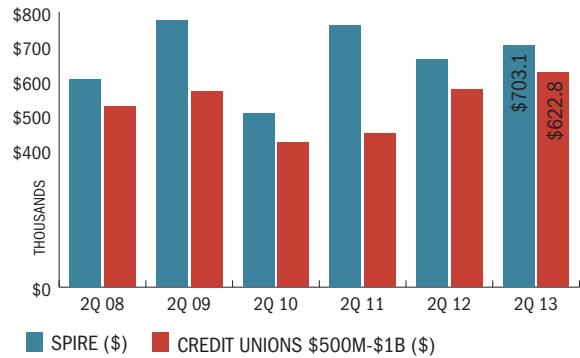
“We looked at other third-party options for underwriting these loans,” Wantz says. “When they didn’t have the complete package, we built our own. This system lets us better hold and manage loans, monitor the value of the properties, and even do complete, comprehensive global cash flow analysis of all these businesses’ financials.”

NEW INCOME. NEW MARKETS. SAME MISSION.



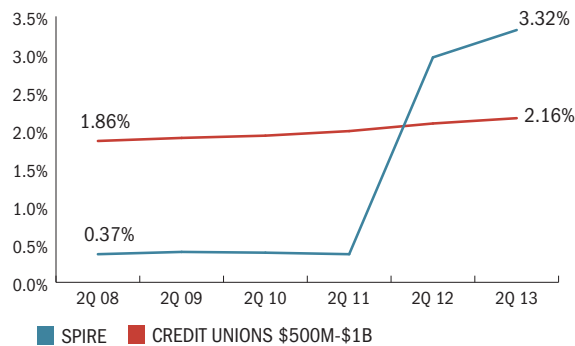
LOAN PORTFOLIO COMPOSITION | DATA AS OF JUNE 30, 2013

While auto loans, along with RE loans, have historically made up a large portion of SPIRE's portfolio, increased rate competition has pushed the credit union to further develop its other RE, unsecured, and member business efforts.



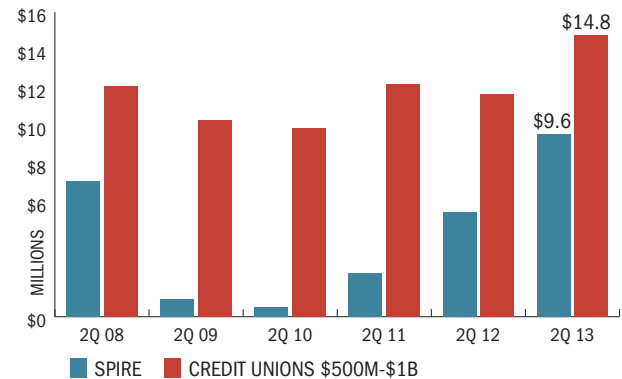
LOANS PER EMPLOYEE | DATA AS OF JUNE 30, 2013

SPIRE lending success has been supported in part by its aggressive, institution-wide incentive program. This strategy rewards each and every employee equally regardless of rank or role.



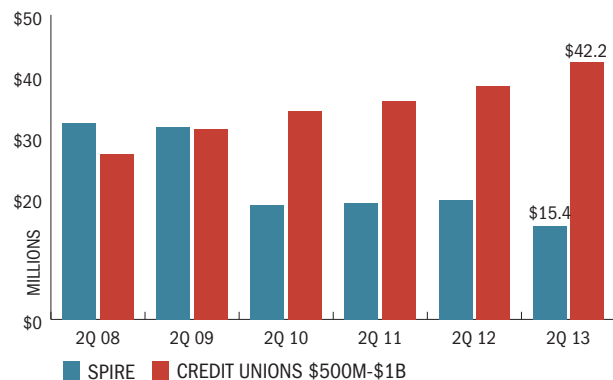
REAL ESTATE LOAN PENETRATION | DATA AS OF JUNE 30, 2013

Increased brand awareness in the Twin Cities region and efforts to adjust offerings to member preferences, such as shorter-term, fixed-rate loans, has yielded considerable real estate market share for SPIRE.



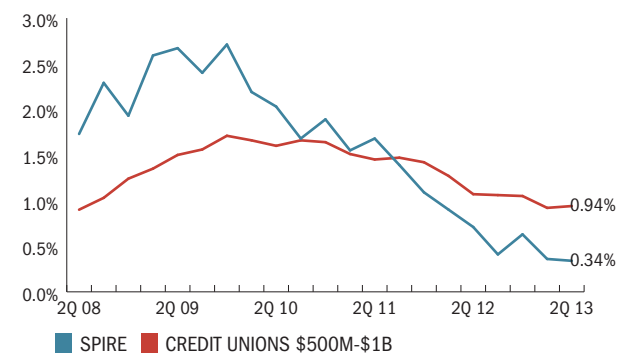
NET MBL ORIGINATIONS (ORIGINATIONS & PURCHASED LOANS, LESS LOANS SOLD YTD) | DATA AS OF JUNE 30, 2013

Investments made in the MBL department over the past three years are starting to show real results on the balance sheet for SPIRE.



MBL PORTFOLIO - OUTSTANDING MBL & PURCHASED BUSINESS LOANS | DATA AS OF JUNE 30, 2013

Although SPIRE is almost entirely focused on commercial real estate, it is looking to expand MBL participation opportunities among other cooperatives and community banks.



DELINQUENT LOANS/LOANS | DATA AS OF JUNE 30, 2013

Fresh memories of the recession have helped SPIRE embrace opportunity while steering well clear of unnecessary risk. At 0.34%, its delinquency rate is roughly one-third the average for its peer group.

SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS

The credit union's \$16 million MBL portfolio offers a more secure book of business than its earlier iterations as a result of these changes.

SPIRE held off from aggressively pursuing new business during this repositioning, but now that the foundation is set, the reformed commercial department is ramping up new relationships and beginning to contribute significant, diverse income streams to the bottom line. Roughly 150 of the credit union's 2,000 business members have a loan product with the credit union, so the energized department has a lot of ground to cover. And by partnering with key brokers in the Twin Cities region, SPIRE has ensured a steady pipeline for new loans to bid upon.

"MBL is currently about 4% of our assets," Stoltz says. "We see that climbing closer to 10% over the next five years."

This department has the potential to also serve the commercial lending needs of other cooperatives. For example, SPIRE is currently looking to attract participations from both cooperatives and community banks and might eventually offer its new origination system as a turnkey solution for others with similar commercial needs.

"We've even developed a relationship with the NCUA, offering up our assistance to credit unions who are struggling in this area," Seeman says. "So we've swung the pendulum ... and actually have regulators as our proponent in this process."

DO SOMETHING NEW — MERCHANT SERVICES

The credit union's merchant services represent both a valuable income strategy as well as a tool to increase loan volume among targeted demographics, such as small business owners. Bolstering supplemental earnings through non-interest income on services members want to

pay for — rather than those charged as the result of a negative action — has been and continues to be an ongoing priority for SPIRE, even as loan activity rebounds.

For example, through a partnership forged with the New York-based merchant services company Newtek, SPIRE offers local businesses several different cash management packages, including payroll services, web design and hosting, card processing, remote deposit capture, and commercial insurance. Despite its own growing expertise, SPIRE can offer these products less expensively through the third-party than if it were to build them itself. And if SPIRE business members can find better pricing on these products and services, Newtek will pay them \$250. To date, though, Newtek has never needed to issue such a payment.

"If we can help [SPIRE business members] save \$30,000 a year, they might be able to hire another employee or purchase a piece of equipment that will change their business," Wantz says.

Plus, Newtek's cash management services are an excellent complement to the card partnerships SPIRE already offers to several fellow cooperatives in the Twin Cities region.

"We've always been very involved with other cooperatives," says Casey Carlson, vice president of marketing and strategic planning. "We'll sometimes present at their annual meetings and our CEO even serves on the board of The Cooperative Foundation, which helps us get to know these businesses and their needs."

SPIRE's first cooperative partnership was with The Wedge, a well-known Minnesota grocery cooperative. In the late 2000's, the two organizations produced a cobranded credit card product that SPIRE still underwrites, holds, and services today. Fee income generated from the card is split between the two parties.

On the heels of The Wedge success, SPIRE has expanded the concept to include several other food co-ops.

"This has been beneficial for both the co-ops and the credit union," Panariso says. "It increases brand awareness, allows us to cross pollenate membership, and increases everyone's profits."

SPIRE isn't focusing on the cooperative business sector by accident. The credit union was originally founded to serve members of non-financial cooperatives, and it continues to embrace new opportunities in this marketplace today. According to SPIRE's board vice chair, Jeff Streiffer, Minnesota has more cooperatives than any other state in the country. Its more than 1,000 organizations and 3.4 million members generate approximately \$10 billion in revenue annually.

The fee revenue from cobranded cards totals approximately \$25,000 a year for the credit union, but merchant relationships as a whole create a ripple affect in the business community and drive new activity to the MBL portfolio.

"Merchant services isn't heavily regulated, so this is an intimate topic for business owners," Panariso says. "Being able to offer both extra savings and a local point of contact gives us a significant edge. If we can do right by them, they'll give us more opportunities down the road."

The credit union is examining expanding these services to other types of businesses, but it does not want to move into an area in which it does not have a long-term plan or the expertise to be successful.

"You have a lot of referral potential in the business world, so we don't want to do anything halfheartedly," Wantz says. "If we don't think we can do something well, we will stay out of that arena completely." ▴



WHERE EVERYBODY KNOWS YOUR NAME

SPIRE FCU GOT RESIDENTS OF THE TWIN CITIES TO FALL IN LOVE WITH ITS BRAND. HERE'S HOW YOU CAN DO THE SAME.

BY AARON PUGH

WHEN MINNEAPOLIS RESIDENTS think of SPIRE Federal Credit Union (\$596.7M, Falcon Heights, MN) it might be as a name on their debit card, as a home for their savings account or mortgage, as a source of philanthropy and community support, or as a brand they've seen advertised at their local grocery co-op or on TV.

"One of our greatest strengths today is our brand awareness," says SPIRE CEO Dan Stoltz.

Second quarter performance data supports that assertion. In addition to posting 12-month membership growth of 2.47%, according to Callahan & Associates' Peer-to-Peer analytics, SPIRE also reached its highest membership on record this year: 64,410.

The credit union has a closed charter and is eligible to serve more than 400 SEG groups throughout the state. With so many organizations that qualify for membership, SPIRE's makeup and outreach more closely resembles that of a community-chartered credit union.

"Today, we're focused on being a visible part of the community, whereas before that wasn't really an emphasis," says Casey Carlson, vice president of marketing

and strategic planning.

SPIRE's positive quarterly performance is a welcome change to the struggles it faced during the recession, which included losses in its business loan portfolio, and the departure of its longtime CEO. Its return to prominence has hinged upon dozens of factors, but here are six succinct examples of what the credit union did right.

SOMETHING TO ASPIRE TO

"One of the most significant changes for us from a brand perspective was our name change, from Twin City Co-ops to SPIRE," Carlson says.

Prior to embarking on the two-year rebranding process, the credit union spent five years evaluating the strengths and limitations of its original moniker. For example, SPIRE discovered having the term "co-op" in its title was confusing to people, who sometimes mistook the credit union for one of the area's many cooperative food markets. There were even a few times when people walked into the credit union looking for groceries, Carlson says. Additionally, market research revealed the "Twin City" label did not distinguish SPIRE from its financial competitors.

"We tested every element of that name to see if change was truly needed," Carlson says. "Sometimes, if you are built around one specific SEG or brand, you'll get members pushing back against a name change. But in our case, members were all for it."

The eventual arrival at SPIRE Federal Credit Union as well as its new tagline "Banking At A Higher



Cooperative Thought Leadership Driving Credit Union Prosperity

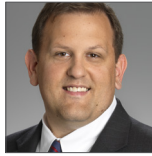
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- Credit Union Investing
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Jay brings deep strategic understanding of the credit union industry to Callahan & Associates and specializes in:

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Level” provides a literal description of what this evolving institution is all about.

“Today, at least two-thirds of the people I talk to in this area know the brand,” says Niel Devasir, the credit union’s newly arrived vice president and chief information officer. “That hasn’t happened to me since I left Capital One in 2005, so I’m feeling good about my choice to be a part of SPIRE.”

RELAX, WE’VE GOT THIS

Positive exposure never comes easy, and in a competitive market, it doesn’t come cheap either. To pump up its brand exposure, SPIRE has increased its educational and promotional spend by more than fourfold since midyear 2010, going from \$162,472 at that time to \$659,645 as of midyear 2013.

SPIRE can afford this extra investment partly because of its three-person in-house marketing team. With job descriptions you might find in a typical ad agency — such as a copywriter, special events coordinator, and

video editor — the trio helps reduce SPIRE’s reliance on costly ad agencies and vendors, which allows the credit union to direct funds toward community events, member education, and philanthropic partnerships.

“We’re a small team, so we help one another with the planning and execution of the marketing strategy,” says Sama Sandy, digital marketing specialist.

Creativity and humor have also played a big role in the unit’s success. One prime example is the credit union’s Said No One Ever campaign. Ads begins with sentiments like “I love driving a car so rusty I need a weekly tetanus shot” or “I have absolutely no use for an extra \$25” before delivering the punch line “said no one ever” and providing information on how SPIRE can remedy or improve the member’s situation.

GETTING ONLINE IN LINE

“I view our digital marketing as a bridge between IT and marketing,” Sandy says. “But there’s also an educa-

tional component to almost everything we do online.”

To build and maintain legitimacy on its website and in social media channels, the credit union provides a consistent mix of financial information and promotional material. Its redesigned website offers a seamless, secure experience for members, and the recent unveiling of a new mobile app has further expanded opportunities for the marketing team to reach individuals wherever they are. New site visits to spire-banking.com have increased by roughly 1,200 per month. The credit union credits the redesign as well as its social and mobile outreach for this increase. It has also found success with a sophisticated retargeting strategy and frequently follows up with surfers who have clicked on ads.

For SPIRE, being a fast follower and waiting until technology is fully established has not only saved money but also improved service levels.

“Those who rolled out remote deposit capture (RDC) systems early on had to have members mail in

**ON THE ROAD WITH ARCHIE**

When it comes time to put a “face” with SPIRE, more often than not, people think of a 1952 work truck called Archie. Named after the credit union’s founder, Edgar Archer, this branded SPIRE vehicle often appears at parades, car shows, and other community events. The credit union salvaged Archie from the West Coast and fully restored it to pristine condition. Now, Archie is a rolling billboard that has captured the community’s attention and loyalty.

the check afterward,” Devasir says. “Because we waited for RDC to fully mature before introducing it, we don’t require that step.”

SPIRE’s new mobile solution also features an integrated option for PayPal transactions, which the credit union hopes will boost fee income and ROI for this channel.

TRADITIONAL CHANNELS WITH A TWIST

“In addition to online and mobile, we cover all the traditional marketing channels,” Sandy says. “But we do it strategically and stay true to who we are.”

For example, the credit union has self-produced several commercials that run as often as four to five times a night in the Twin Cities market. One of the ads even won a 2013 CUNA Diamond award despite competing against submissions from much larger institutions.

“By featuring real people like a local college student and a business owner, we covered many different situations and financial concerns that people actually encounter in their own lives,” Sandy says. “The commercials really have a great hometown feel.”

A SPIRE MEMBER AND MORE

As part of its merchant services partnership with The Wedge and other grocery co-ops, the credit union offers a cobranded credit card and returns a portion of the interchange income to the grocer. And when it comes to cooperative members — both its own as well as its partners’ — the credit union is always looking for ways to say thank you. For example, SPIRE produces a coupon book tailored to the needs and interests of individual member groups and includes special discounts on SPIRE products and services.

“We work hard to find mutually

beneficial relationships that help everyone,” Carlson says. “We want our members to feel they have a substantial value from their membership outside of the financial services they receive.”

For example, member businesses can post their information to the credit union’s online directory, and all SPIRE members get access to special offers from national companies such as roadside assistance, cell phone carriers, and satellite TV providers as well as discounts for things like sporting events or the local renaissance fair.

ARE YOU READY SPORTS FANS?

Far too often, consumers consider financial and banking decisions a mandatory and unenjoyable chore. By aligning with non-financial activities consumers do consider fun, SPIRE encourages members to think about financial matters in a host of additional scenarios.

For example, the credit union partners with several local and professional sports organizations, including the WNBA’s Minnesota Lynx, the American Association of Independent Professional Baseball’s St. Paul Saints, and the 3M Golf Championship. And after gleaning best practices from a Texas credit union that has a relationship with the San Antonio Spurs, SPIRE also secured status as the official checking account of the NBA’s Minnesota Timberwolves.

“When we deal with the public, we want to look big,” Carlson says. “And aligning with such a well-known brand allows us to do that.”

In addition to being able to offer a co-branded Timberwolves debit card, the credit union has access to the Target Center arena for game time promotions. In one particularly well-received promotion, the credit union drops cash attached to SPIRE branded parachutes from the skywalk.

“We wanted a way to literally make

money rain down from the ceiling,” Carlson says. “It creates a nice buzz while our signage is being displayed. The Timberwolves even have people calling them to ask when’s the next time SPIRE will be dropping money.”

Such promotions have attracted not only new members but also new employees.

“I was introduced to SPIRE through the Timberwolves,” says branch manager Miriam Wells. “I was at a game and somebody handed me a coozie that said SPIRE on it. I had no idea what that was, but I researched it because I was looking to refinance my mortgage.”

SPIRE and the Timberwolves frequently work together to hold a Season of Giving toy drive and other events for sick and underprivileged kids. And when it came time for the grand reopening of the credit union’s Maple Grove location, the attendance of point guard Alexey Shved helped draw a crowd of more than 300 people, despite frigid temperatures.

The credit union has capitalized on the popularity of athletic figures in other ways, too. For example, it has added inspirational keynote speakers — most recently, Jamaican bobsledder Devon Harris — to its annual meeting and member appreciation day festivities.

“We knew we could either continue to do those events the way we had before — keep attracting the same people and keep getting the same results — or we could go bigger,” Stoltz says.

These popular speakers, along with a \$25 payout for attendance, have increased member turnout for the event from a few hundred to more than 2,000 last year.

“Our annual event is one of the best chances we have to showcase SPIRE to members,” Stoltz says. “We’re always looking for ways to dial that up.”

THANK YOU TO THE EXECUTIVE TEAM, BOARD, AND STAFF OF SPIRE FEDERAL CREDIT UNION.

You've shown us that when you have a vision, and are willing to align yourself with the strengths of the community and the cooperative model, anything is possible. We commend you on your recent successes and wish you the best on this continuing journey onwards and upwards.

A SPECIAL THANKS GOES OUT TO THE FOLLOWING INDIVIDUALS FOR THEIR TIME, INSIGHTS, AND HOSPITALITY.

EXECUTIVES:

DAN STOLTZ, PRESIDENT/CEO

"Our mission statement is to improve the financial wellbeing of our member owners, but I like to think that we improve their whole lives. If we can take the hassle out of banking and make it a better experience, then we're accomplishing our vision."

STAN EDWARDS, EXECUTIVE VICE PRESIDENT

"There are new opportunities out there if you're willing to take a look. But you've got to build the foundation first and build it right."

CASEY CARLSON, VP MARKETING/ STRATEGIC PLANNING

"We feel that if we are very good at what we do and we're the best at delivering products and services to our members, we're going to grow naturally. Everyone has a part to play in that."

NIEL DEVASIR, VP/CIO

"The openness of membership to new technology correlates directly with how easy it is to use. So my philosophy has been let's find technology that makes their lives easy. If its high-tech great, and if its low-tech, that's great as well."

KELLIE EATON, VP RETAIL/CARD SERVICES

"We're working on ways to recapture some business from credit reports and maybe do some outbound calling for those opportunities where we can save our members money."

MIKE SCHRADER, VP CONSUMER LENDING

"One of my goals this year was to sell more additional items like GAP insurance, mechanical breakdown insurance and payment protection. It's not a huge dollar amount individually but it certainly adds to the bottom line when you sell a fair amount of them."

JON SEEMAN, VP/CFO (NOT PICTURED)

"We believe that change is mandatory and with opportunity comes a certain degree of risk. Our mantra is to be conservative but not necessarily risk averse."

CLIFF WANTZ, VP BUSINESS SERVICES

"It's been really rewarding to find a place where you're helping the members and really have their best interests in mind as opposed to just trying to make a profit off them."

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SAMA SANDY, DIGITAL MARKETING SPECIALIST

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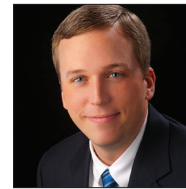
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