



Anatomy of

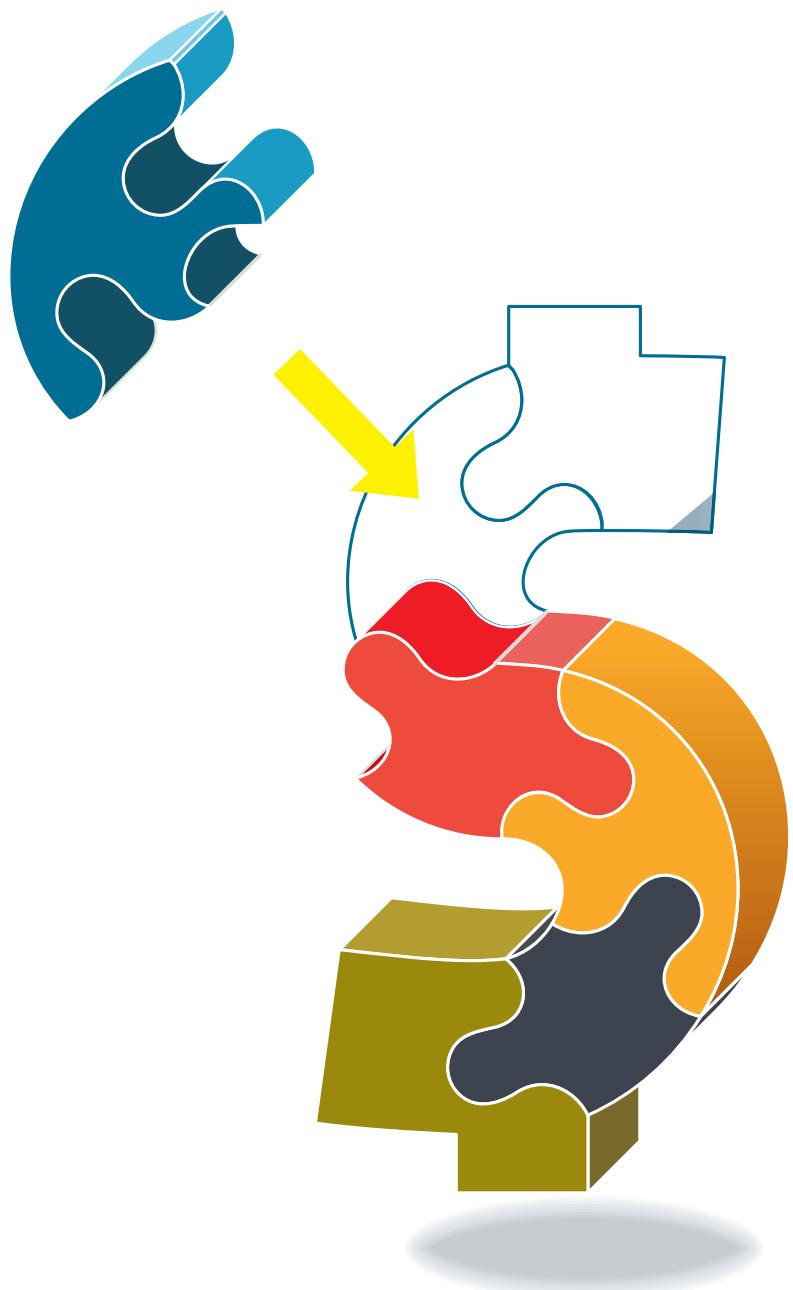
STATE EMPLOYEES CREDIT UNION



By Rebecca Wessler

Anatomy of a LOAN

State Employees' Credit Union of North Carolina throws open its doors for an in-depth examination of how it takes Southern sensibility to a whole new level.



On a cold, overcast morning in early February, members walking into any of the 227 branches of State Employees' Credit Union in North Carolina likely take little notice of the human-sized mirrors bearing the slogan "Meet SECU's Owner... You're Looking Good." The mirrors are present in most branches and they reflect not just the membership but also the true philosophy of the credit union.

"We try to practice what we preach," says Jim Blaine, president and CEO of SECU. "We treat members as human beings, just like you want to be treated."

SECU began as a short-term lender, and it continues to meet the needs of its members today by providing loans at a low, reasonable cost. Indeed, lending – that is, being a source of credit – is the primary function of many credit unions. For SECU, providing loans at a reasonable cost means throwing the idea of risk-based pricing out the window. Many credit unions initially embraced this philosophy, but as they grew automation became the name of the game. SECU, on the other hand, still considers every loan application on a case-by-case basis... even as its asset base grows to more than \$19.5 billion.

The credit union's lending program is designed so that every member has a voice, and the credit union listens. When approving or denying loans, every care is taken to consider why members are where they are financially and the reasons that support why members can, or can't, repay a loan. Members that have good reasons for credit blemishes but still represent an acceptable risk to the credit union will likely earn the chance to repair their history and re-establish, or begin establishing, clean credit. It's one way the credit union uplifts its members and puts them on a level playing field.

"When you charge a higher rate to somebody who is struggling, it's like throwing a drowning person a cement block," Blaine says. "You're helping to sink them. I think our system helps those that may have had some difficulty. It gives them a much better

chance of regaining their stature."

Year over year, SECU grows its loan portfolio simply by loaning to its members, be they strong "A" paper borrowers or borrowers that need a little more faith put in them. This philosophy will serve the credit union well as it moves through 2010. If 2009 was the year of the bailout – when corporations and industries looked to the government to stabilize the pillars of the economy – then 2010 is the year of the consumer. The political agenda is packed with items addressing consumer policies and consumer protection as well as unemployment stabilization and benefits.

On the horizon are programs and recovery efforts geared toward improving the consumer condition. Now is the time to initiate programs in lending, and with smarter and more efficient efforts, credit unions can lead the lending market, even in the face of returning competition.

"We have to lend in order to get out of this recession," says Spencer Scarboro, senior vice president of mortgage lending. "That's what we've done in the past. I'm not sure why we should stop doing that, members need us more now than they did when things were prosperous."

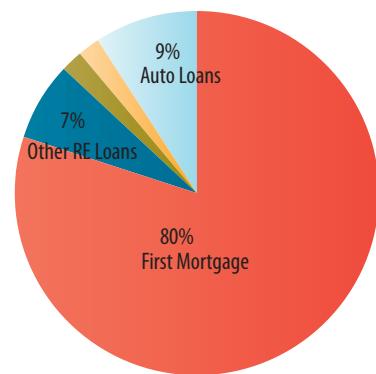
Blaine agrees.

"We have not restricted our policies," he says. "We have not made credit less available. Credit unions are there for two purposes: to help create thrift and to provide lending. It's not something we come in and out of. It's something that we need to provide every day, all the time, at a fair and attractive, affordable rate."

And providing fair and attractive lending programs at an affordable rate is something SECU plans to keep on its agenda for the foreseeable future, but the desire to grow loans will not come at the expense of member financial health.

"We try not to push members into any particular loan," Scarboro says. "We try to do what is best for them, give them options and provide guidance if they need it, but we don't push

2009 Loan Portfolio Composition



All graphs from Callahan's Peer to Peer Software

them into any particular product and we certainly do not push them to get a loan when they might not need it."

SECU's careful approach to consumer lending has not gone unnoticed by its membership.

"I think credit unions are one of the best-kept secrets; you feel like you're part of a financial family," says Richard Mizelle, a psychology instructor at North Carolina Central University who joined SECU in 1972. "I'm not going to be left out there in a lurch like some people. When times get better, we'll get better."



It's all starts with the credit union's philosophy of doing right by the member. This rings just as true in the lending process as it does in other facets of the credit union business. In fact, the power behind SECU's lending program is in its treatment of the exception, not the rule.

"Just because a loan may not fit into the box nice and neat, when you look at it as a whole, does the loan make sense?" Scarboro says. "Is it something we can make an exception on?"

SECU originates loans at branches as well as online and through its call center. Whether a member chooses to visit a branch in person, complete an



application online, or contact SECU's Raleigh-based call center and talk with one of nearly 270 representatives, they are guaranteed the same treatment and respect.

Financial services officer, or FSOs, are the front line of SECU's lending program. When a member wants a loan, the FSO reviews their financial situation, identifies possible problem areas, and highlights strengths in the loan application. Far from being removed from the day to day operations of the credit union, FSOs are in the credit union mix, which helps them better relate to their members.



Financial Services Officers

"We handle everything from member service requests and teller functions not involving cash to lending requests and mortgage applications," says Holly Carroll, a senior financial services officer who has been with SECU for seven years. "We can pretty much handle it all."

For loans, FSOs gather as much information as possible as early as possible. When they fill out the loan application, they sit down with members for an in-depth interview to determine what the member is trying to achieve and identify the products that will best help them. During the interview, FSOs discuss the member's employment situation, length of employment, bankruptcies and delinquencies (if any), debt to income, and credit report. As FSOs talk with the member, they can enter application information and check for ratios and standards that are outside the credit union's normal policies.

Although credit is important, "that's not our deciding factor," Carroll says. SECU doesn't make loan decisions based on automatic underwriting standards, and it doesn't participate in risk-based pricing. On the contrary, loan decisions are made at the local level, at individual branches, and as such, FSOs can typically inform members about loan decisions on the same day the member applies for the loan.

"A lot of times we can take all the information needed during that first interview and go ahead and make a loan decision immediately," Scarboro says.

Of course, some loan requests may require a second set of eyes. For example, an FSO looking at a mortgage application with 100% financing

and little disposable income, a high debt-to-income ratio, or blemishes on the credit report would want to obtain approval from the branch's vice president as well. No matter who is approving the loan, though, SECU can exert such control over its decisions because it keeps its loans on its books and services the loans in-house.

"You know as a member of the credit union you can come visit me," Carroll says. "And if I initiated your loan, I will be able to service your loan and answer any questions or concerns you have."

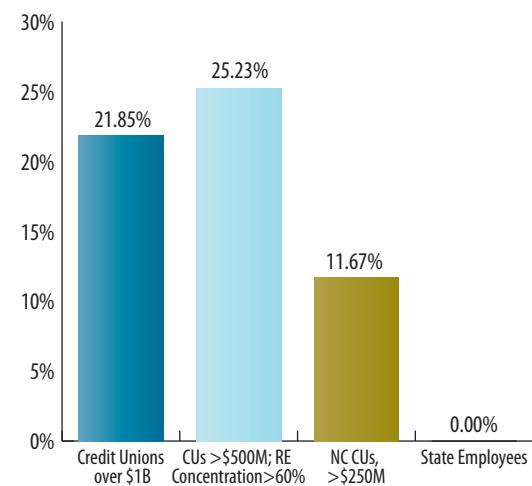
To ensure the system runs smoothly, efficiently, and to the benefit of the credit union and its members, SECU has established several safe guards. First, FSOs must complete a robust training program. Also, there are several levels of financial services officers, and each level comes with differing lending limits. As a new FSO, officers can open accounts and work on small loans; then as they are promoted through the ranks, their responsibilities likewise increase.



Training and Lending Limits

SECU gives financial services officers the latitude to make decisions knowing mistakes will be made. The value of those mistakes lies in the FSOs' abilities to learn from their own mistakes,

% of 2009 Originations Sold to Secondary Market | Data as of Dec. 31, 2009



 **WAIT THERE'S MORE...**

There's more to lending at State Employees' Credit Union. Go online for video exclusives and hear about how it all works, straight from the SECU employees themselves.

as well as the mistakes of others, and use that experience to better evaluate future loan requests. All SECU employees participate in training modules, and FSOs have a series of basic and advanced lending classes instructed by senior loan staff, administration, and branch managers. From the training modules, FSOs learn essential job functions such as what to look for on a credit report, how to calculate income from various sources such as paystubs or tax returns, and what should raise a red flag on an appraisal. The credit union also uses classes to keep its FSOs apprised of advancements in the industry and updates in regulation. The call center combines the classroom setting with a mentoring program designed to get FSOs out on the front lines; in fact, across the credit union, mentors play a major role in supporting FSOs as they familiarize themselves with the strategy and standards of SECU's lending program.

"The best and most successful way we train folks is by giving them the opportunity to sit with experienced people in the branch," says Hill Scott, senior vice president of the Raleigh Stonehenge branch.

"The only way you're going to learn is by doing it," Carroll agrees. "We have a great support network; that's a good feature of our lending program."

Despite the training program's best laid plans, FSOs still have lending limits. Lending limits are determined by branch senior vice presidents and vice presidents, who across the credit union may have differing systems of assigning limits to new FSOs. SVPs have the authority to approve loans up to the stated maximum for the loan program. They, in turn, may delegate their approval authority to VPs, who, with the support of the SVP, then assign lending officer limits.

"We have a strong VP level here," Scott says. "We depend on the VPs to do an excellent job to make sure the branch runs well and problems are answered."

Typically, new FSOs take preliminary information from borrowers and conduct first-round interviews. Again, beginning approval limits are set by individual branches and are narrow in scope, such as the authority to approve an unsecured loan of up to \$1,000 or possibly an auto loan of up to \$5,000. Depending on the loan type and amount, the FSO might need to refer the application to a senior officer who can make the final lending determination.

"We're given limits for a reason," Carroll says. "If we do make a bad decision or if something happens and the member is not able to repay the

loan, that's the risk we take as loan officers."

It's a risk new FSOs must learn to navigate. SECU employees become financial services officers because they want to serve the members, but they must learn to balance that desire with responsible loan decisions. Good decisions ultimately lead to increased lending limits.

"Lenders who demonstrate the ability to make sound lending decisions will be assigned increasingly higher authority as they gain more experience," says Stacey Waddell, Vice President, Computer Drive Branch.



Oversight & Underwriting

Policies and standards give FSOs guidelines for approving loans, and SECU's loan servicing software provides another layer of oversight. If the loan fails a policy guideline, such as exceeding the normal as debt to income ratio, the system notifies the loan officer.

"It doesn't mean we don't want to do the loan," says Bobby Gardner, senior vice president for personal lending. "It [the servicing software] will just come back and let the FSO know there's a failed policy guideline. The FSO can override it and move on with the loan if they feel like there are compensating factors that make it a good loan for the credit union and for our member."

Depending on the lending environment, SECU might tighten or loosen standards, but overall, the policies are in place to do right by the member. From there, it is up to the FSO to interpret the variables of the entire loan – from income and credit to collateral, character, and the capacity to repay – and reach a decision.

"We have a few things that are built in, but some things are at the discretion of the individual loan officer," Gardner says. "We give them [FSOs] that kind of flexibility."

For mortgages, after the FSO collects the pertinent information from the member, the loan package goes to mortgage lending, where under



"The philosophy of the credit union has always been to do the right thing and keep it simple. That's pretty much what we try to do in rolling out new products."

Spencer Scarboro, senior vice president of mortgage lending

writing staff reviews the loan.

"We're just making sure all the documentation is there, that we're in regulatory compliance and complying to our own policies," Scarboro says.

Underwriting ensures all the Is are dotted and Ts crossed, but Scarboro's duty does not end there. He plays a hands-on role in helping members with out-of-the-ordinary circumstances fit into programs and still meet compliance standards. His first-hand interaction with loans that SECU can't approve better enables him to identify where the credit union could adjust its policy.

For major policy changes, the Board can review the policy, make adjustments, and get the revisions back out to the branches within a month. For minor exceptions, as the senior vice president of lending, Scarboro has the authority to sign off on a specific loan for a specific member. In cases like that, Scarboro turns the exception into a learning opportunity. He reviews the loan with his staff and explains his thought process so they understand why that loan was an acceptable risk. This enables the staff to field calls from the branches and identify future situations in which SECU might or might not be able to accommodate a loan.

Like the underwriting departments in every financial institution, SECU does have to deal with its share of misinformation, but the staff knows how to handle such situations. Whether is misinformation coming from the FSO or the

member, SECU tries to do right by the member. This means its next course of action can vary from making the loan to talking with the member about how different, verifiable information can change the risk acceptability of a loan.



Loan Review

SECU's philosophy of member treatment extends into all facets of the credit union. It's a way of thinking and treating members, as well as employees, that encourages its more than 3,000 volunteers to stay active.

"I've always been delighted with the number of volunteers that are involved in this organization," Blaine says. "They're not compensated. It's hard work. It's complex business. There are tough decisions, and they get in there and they struggle with them. And over all these years, they have always made the right decision. I'm just amazed by that."

A major role volunteers play in SECU's lending program comes in the form of oversight. Members who feel their loan was unjustly denied can appeal to a volunteer, three-member loan review committee. During the loan review, a



A Loan for Every Need

SECU was founded in 1937 to be a source of credit at a fair and reasonable rate for members. Today, that philosophy is unchanged and still drives the programs and services the credit union offers. SECU does not endorse risk-based pricing for any of its lending programs. But the credit union's quest for member service doesn't end at attractive pricing. The institution takes the pulse of its membership to determine what needs are left unmet, then it develops a solution. Here are just a few of the more innovative lending products SECU offers.

Green Car Loans

SECU is involved in a number of eco-friendly initiatives. One such initiative is its Green Car Loan. The interest rate for these loans are lower than the rates of the credit union's other new and used vehicle loans. Members can take advantage of a closed-end, fixed rate loan if they are looking for a loan for a fuel-efficient car with 10,000 miles or less and a combined city and highway miles per gallon rating of 28 or higher. The loan amount cannot exceed 110% of the manufacturer's suggested retail price or NADA average retail value. SECU even offers the Green Car Loan to members looking to refinance as long as the vehicle meets the Green Car Loan parameters.

Processing requirements:

- Signed application
- Credit report
- Income verification when the credit score is less than 660 and the loan amount is greater than \$10,000, or the borrower is self-employed
- Physical inspection and "Motor Appraisal Sheet," unless credit score is 660 or greater or the borrower is purchasing the vehicle from a reputable dealer
- Sales agreement
- Bank signed MVR-6
- Confirmation vehicle is new hybrid or alternative fuel vehicle
- Properly recorded SECU lien
- Vehicle must be insured and SECU recorded as the loss payee with the agent
- A notice to co-signer, closed end fixed rate promissory note, and GAP contract are provided if necessary at closing

credit union representative presents the details of the loan. It is then up to the committee members, who all also belong to the credit union, to decide whether the loan poses an acceptable risk to the institution.

"Maybe in one out of 10 [appeals] it's just quite obvious the member is in debt and doesn't have enough disposable income to meet current debt," says Roy High, an eight-year veteran of the loan review committee. "There's just really nothing you can do other than deny it."

For the other nine appeals, however, it all comes down to weighing the applicant's strengths against their weaknesses. Like FSOs, committee members look at disposable income, credit history, debt repayment, and employment history and stability. Because the field of membership comprises state employees and teachers, SECU's loan review committee frequently sees borrowers whose positions have been reduced or eliminated. The committee takes care to look at the borrower

through a holistic lens, but during these difficult times, any of these variables could make or break a borderline loan.

Loan review committees don't just give loans a thumbs up or thumbs down, however. Like FSOs, the committee also has the authority to make counteroffers, such as offering a reduced pre-approved amount on an auto loan. The loan review committee might make a counteroffer when an FSO denied the loan, or the committee might make a counteroffer different than one already made by the FSO. Whatever the situation, counteroffers allow the committee to meet the needs of

loan-seeking members while keeping risk at a safe level for the credit union's other members.

If the loan review committee cannot approve a loan on its face and cannot in good conscience present a counteroffer, members can ask for a personal appearance with the review committee. According to High, personal appearances have persuaded the committee to come back on its stance.

"You see a different side of the member," says High, who brings to the committee more than a decade of experience in both credit union regulation and executive leadership. "So in a way, it helps."

State and federal law mandate the role of the committee, but SECU's embrace of the committee as a tool for members has helped create an

"If I initiated your loan, I will be able to service your loan and answer any questions or concerns you have."

Holly Carroll, senior financial services officer

Tax Refund Express Loan

In conjunction with its participation in the IRS's Volunteer Income Tax Assistance Program and its low-cost tax preparation services, SECU also offers a Tax Refund Express Loan. The loan offers a low-cost alternative to refund anticipation loans used by some members. The loan is available only during the IRS tax-filing season. The maximum term for TREL is 30 days and renewals are not allowed. Qualifying members can borrow up to 90% of their anticipated federal income tax refund amount or \$6,000, whichever is less. State income tax refunds are not eligible.

Requirements:

- Signed Tax Refund Express Loan Notice and Identification of Covered Borrower Statement
- Signed application
- Borrowers must participate in the credit union's VITA or low-cost tax preparation services
- Borrowers must apply for the loan at the same time the tax return is being processed
- The entire refund must be direct deposited into the member's share account
- The tax return must show an "accepted" status by the IRS, have "none" listed in the "Debt Indicator Inquiry" field, and indicate the "ELC Indicator" field is blank
- The borrower may not currently be in bankruptcy or have caused a loss to the credit union that has not been repaid
- A Closed End Fixed Rate Promissory Note, Tax Refund Express Loan Notice, Covered Borrower Identification Statement, and MAPR Disclosure are provided if necessary at closing

Salary Advance Loans

Nearly 10 years ago the managers at SECU noticed a troubling trend: more than 4,000 member checks were being cashed by payday lenders, indicating members that were precluded from qualifying for a SECU loan – because of blemished credit, poor debt to income ratios, insufficient disposal income, etc. – were seeking high-rate, cyclical-inducing cash advance services. To meet the needs of those members, SECU developed a loan option similar to its existing line of credit program to serve as a low-cost alternative to payday lenders.

SECU's Salary Advance Loans provide credit at a rate 1.25% higher than SECU's normal unsecured loan rate, which is still considerably lower than payday advance lenders. Its maximum interest rate charge hovers around \$5 per month, which is, again, considerably lower than payday advance lenders. Additionally, SECU partners with a financial fitness program provider to offer members budget counseling at no extra charge, as the members most likely to take advantage of SALO are also likely have budget issues. To date, more than 65,000 SECU members use the salary advance loan every month.

Requirements:

- Signed application (an abbreviated form that requires only the member's name, address, social security number, place of employment, and a recent paycheck stub to verify the paycheck is on direct deposit at SECU)
- The borrower may not currently be in bankruptcy or have caused a loss to the credit union that has not been repaid



efficient, timely path for borderline loans to make their way up the approval chain. And because the loan review committee members have a different perspective, they can identify trends or weaknesses in policy that might otherwise go unnoticed. In this way, the appeal process builds in an additional level of oversight.



Mortgage Assistance

SECU's philosophy of member treatment extends into all its products and services. It's a way of thinking and treating members that encourages borrowers to return and take advantage of other products.

"The philosophy of the credit union has always been to do the right thing and keep it simple," Scarboro says. "That's pretty much what we try to do in rolling out new products."

And SECU offers plenty of products and services to its members.

"We've got to look at ways to make life simpler for our members, less expensive," Blaine says. "I think we've got a lot of good ideas."

Holding its loan portfolio means SECU can implement those ideas using its own standards and rules and requiring only the documentation it deems necessary. The impact of holding onto its loans is particularly evident in SECU's mortgage program. Like several institutions, the credit union offers 100 percent financing; however, its 100 percent financing comes without mortgage insurance premiums.

"It doesn't make a lot of sense for the member to pay us to protect us from them not paying," Scarboro says. Instead, SECU charges a rate differential. The differential is not as much as the member would pay in PMI premiums, but it is sufficient to cover the additional risk posed by high loan-to-value mortgages.

Scarboro sees that program as one of many that make SECU's mortgages attractive to buyers, and it is just one way the credit union has addressed members' needs over the past 18 months.

"We have responded to the downturn in the economy with our own mortgage assistance program different than the HAMP program," Scarboro says.

Being able to save its members the process of cutting through red tape, such as extensive documentation and trial modification, before

qualifying for relief is yet another benefit to holding its mortgage loans in portfolio. In fact, that is one reason SECU stopped selling its mortgages on the secondary market in the first place (the primary reason being SECU's refusal to participate in risk-based pricing, which is a requirement for the secondary market). SECU offers extensions to members who are experiencing temporary problems or have already resolved temporary problems but can't afford to catch up on mortgage payments. It also accepts partial payments and will work with members on term modifications that extend the loan back to its original terms and reduces the member's monthly payments.

In today's tight budgeting environment, members are taking advantage of what SECU offers. The credit union leads the nation in modifying mortgages. According to Callahan & Associates' Peer to Peer Software, through year end 2009 the credit union had modified 4,013 first mortgages, which represents more than 17% of the number of first mortgages modified by the entire industry. Modifications granted in 2009 by the credit union total \$545.5 million, or almost 12% of the industry's total. By contrast, State Employees' asset base represents just 2% of the industry.



Collections

"We take pride in helping our state employees, our membership base, and in making loans to people who may not be able to get a reasonable interest rate from another lender because their beacon score wasn't a certain number or because their paycheck didn't have enough numbers on it," Waddell says. Waddell, who has worked at the credit union for more than seven years, has seen the impact the credit union can make in the lives of its members. Unfortunately, she also has felt the sting of members who cannot make payments and default on loans.

"A lot of our members have lost jobs in the past year or two and they're not as financially able to repay us as they once were," Waddell says.

To keep its delinquencies in check, SECU reaches out to troubled members who are making monthly payments more slowly or are starting to miss payments altogether. Every member of the FSO staff, including the vice presidents, work regularly on delinquency lists to contact borrow-



WAIT THERE'S MORE...

There's more to lending at State Employees' Credit Union. Go online for video exclusives and hear about how it all works, straight from the SECU employees themselves.

- The maximum amount that can be outstanding on the loan is \$500
- The loan must be repaid by the next payday by an internal automated transfer from the deposit account to the loan
- 5% of the advance amount must be deposited into a special savings account; members who withdrawal from the account are not eligible for a SALO advance for six months

SECU ARM Products

Rather than going head to head in competition against the larger mortgage lenders in its market, SECU has carved out a niche for its mortgage program with a reduced product line. Since the 1980s the credit union has offered almost exclusively adjustable rate mortgages. ARMs provide value to members while at the same time address the credit union's asset liability management issues, and by attracting mortgage-seeking members, ARMs also bring the credit union one step closer to becoming their members' primary financial institution.

Two-Year Arm

In 2003 SECU introduced its two-year arm to differentiate itself from competitors and offer a product that added value for mem-

bers and represented a superior service for their needs.

Highlights include:

- Interest rate changes are indexed to the one-year constant maturity Treasury
- Interest rate can increase no more than 1% every two years, or 8% over the life of the loan
- The minimum rate beginning at year three and thereafter is 4.75%
- Low origination fees, no private mortgage insurance

Five-Year Arm

Introduced originally in 1988, SECU's current five-year arm was brought out of retirement in 2007 to serve as an alternative for members who found themselves in subprime loans through other lenders.

Highlights include:

- Interest rate changes are indexed to the one-year U.S Treasury
- Interest rate can increase no more than 1.5% every five years, or 4.5% over the life of the loan

ers before they are 30 days behind on repayment. FSOs establish contact with distressed members, open a line of communication, and find out what is happening in the lives of the member.

"Member contact is absolutely crucial for successful collections," Waddell says. "We want to see where they are with all their creditors and how we can best get them back on their feet."

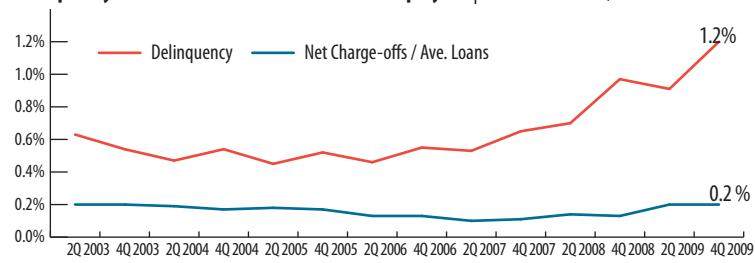
The credit union offers not only mortgage assistance but also relief for consumer loans. SECU has allowed members to make partial payments and has extended the life of members' loans; it even has restructured loans when necessary.

"We do offer extensions in scenarios that require it," Scott says. "We see layoffs and unforeseen circumstances and we want to give those people as much latitude as we can."

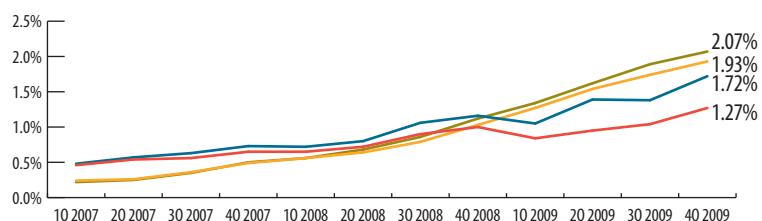
FSOs, vice presidents, and senior vice presidents all participate in collections and they all participate in discussions with borrowers. Sometimes it's the FSO presenting to the member, sometimes it's the SVP, and sometimes it's both; whatever the situation requires. SECU makes loan decisions on an individual basis, and it takes the same care in collecting on them.

Regardless of the assistance and support SECU

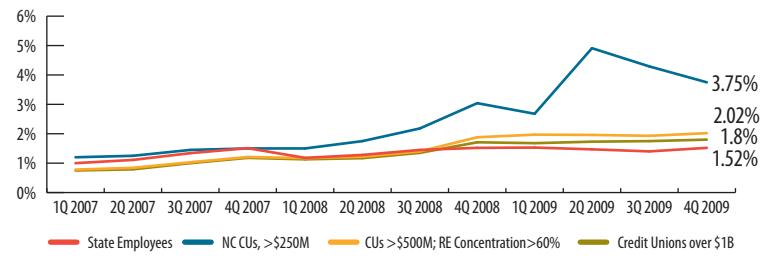
Delinquency vs. Net C-0s/Ave Loans for State Employees | Data as of Dec.31, 2009



Real Estate Delinquency



Consumer Delinquency (Credit Card & Indirect Loans)





provides, there comes a point when it is in the best interest of the member and the credit union to sever the loan ties.

"There are situations where foreclosure is the only option or repossession is the only option because they [the member] have no way to repay us and there is no outlook in the future where they would be able to," Waddell says. "Sometimes it is in the best interest of everyone to move on."



Assessment

To ensure this decentralized lending program is taking the appropriate amount of risk and individual branches are performing to their best employee, senior vice presidents oversee a self-assessment program. SVPs visit their branches to

"This gives us a good eye on how they [the branches] are doing, how they're maturing, how their decisions are being made, and who's making the decisions within the branch," Scott says.

At the end of the assessment, the SVPs and managers discuss strengths, weaknesses, and opportunities for improvement. The assessment not only provides SVPs with essential information to effectively manage their district, but it also gives branch managers a way to stay in contact with their SVPs.

In addition to the quarterly self-assessment, the credit union also conducts branch audits every two years. SECU employees pulled from several districts comprise the audit teams, which typically consist of an internal audit team member, managers, a senior vice president, one or two vice presidents, and a teleservice manager. Within an ever-evolving lending policy, audits provide a way for management to identify problem areas they did not notice on their own, and they provide

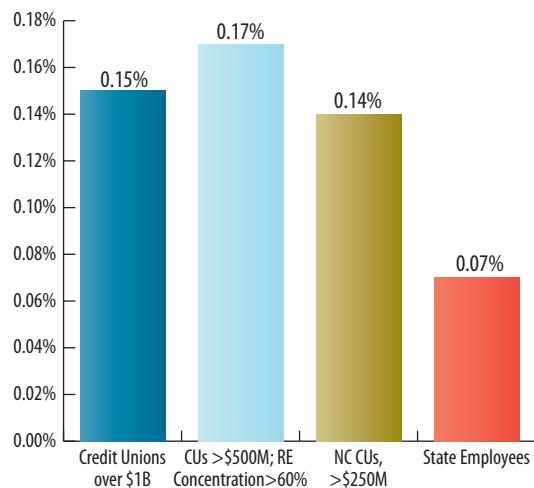
"It's a great exchange of information from the branch to the audit team and then from the audit team to the branch." *Hill Scott, senior vice president*

review lending decisions over the past quarter and ascertain a snapshot of the branch's loan portfolio. SVPs look at personal loans – both secured and unsecured – Visa card approvals, delinquencies and collections.

management with another perspective on how to run a branch or district. Audits also encourage a flow of ideas and sharing of best practices.

"It's not about the audit team going in and just finding what's going wrong," Scott says. "The audit team gets to see the branch's ideas, how it's getting out in the community, what kind of loan decisions its making. It's a great exchange of information from the branch to the audit team and then from the audit team to the branch."

Foreclosed & Repossessed Assets as a % of Total Assets | Data as of Dec. 31, 2009



The decentralized nature of SECU's lending program empowers its financial service officers to make lending decisions and give members a decision right away. To do that, credit unions must conduct face-to-face interviews and take a holistic view of members' credit situations, rather than relying on automated underwriting mechanisms.

SECU officials are the first to admit being able to steer a loan portfolio is a luxury during these rough economic times.

State Employees' 2-Year Report

| Data as of Dec. 31 | This one-page report is available for every credit union in CUSP Online.

	2008	2009	% Chg	2008	2009	% Chg
Assets:						
Cash	\$441,492,087	\$368,591,125	-16.5%	\$687,224,265	\$715,181,980	4.1%
Govt & Agencies	\$0	\$4,149,704,687	inf	\$0	\$0	N/A
Corporate CU	\$29,483,333	\$0	-100.0%	\$95,383,557	\$79,643,099	-16.5%
Banks and S&Ls	\$0	\$0	inf	\$92,320,979	\$94,438,934	2.3%
Mutual Funds	\$0	\$0	inf	\$90,723,257	\$88,631,754	-7.8%
All Other Inv & Ins	\$3,600,095,738	\$1,595,153,507	-55.7%	\$965,652,058	\$972,895,767	0.8%
Total Investments	\$4,071,071,158	\$6,113,449,319	50.2%			
Cash & Cash Eq.						
Real Estate Loans	\$10,351,900,893	\$11,220,822,600	8.4%	\$197,367,173	\$213,700,759	8.3%
Auto Loans	\$1,240,391,936	\$1,132,663,324	-8.7%	\$2,154,281	\$1,744,864	-19.0%
All Other Loans	\$544,138,670	\$549,301,498	0.9%	\$34,789,762	\$37,106,584	6.7%
Total Loans	\$12,136,431,499	\$12,902,787,422	6.3%			
(Loan Loss Allow.)						
\$(120,388,735)	\$(162,597,611)	35.1%				
Foreclosed & Repossessed Assets	\$14,641,187	\$13,793,959	-5.8%			
Land and Building	\$347,925,107	\$387,599,890	11.4%			
Other Fixed Assets	\$97,367,585	\$80,149,324	-13.2%			
All Other Assets	\$97,808,435	\$239,430,983	144.8%			
Total Assets	\$16,639,856,236	\$19,574,613,286	17.6%			
Liabilities & Capital:						
Dividends Payable						
Notes Payable	\$25,760,704	\$22,740,604	-11.7%			
Rev Repurch Agreem.	\$304,897	\$194,256	-36.5%			
Other Liabilities	\$0	\$0	inf			
Total Liabilities	\$118,049,303	\$133,057,101	12.7%			
\$144,114,904	\$155,991,961	8.2%				
Reg Shares & Deposits						
Money Market Shares	\$1,157,201,795	\$1,311,784,450	13.4%			
Share Drafts	\$7,334,953,687	\$9,551,430,128	30.2%			
IRA & Keogh	\$1,600,526,639	\$1,683,711,689	5.2%			
Share Certificates	\$1,809,778,405	\$2,230,734,812	23.3%			
Total Shares	\$3,392,864,761	\$3,480,939,563	2.6%			
			19.4%			
Regular Reserve	\$743,000,000	\$791,000,000	6.5%			
FASB 115 Val Res	\$38,100,036	\$(178,207,16)	367.7%			
Undiv Earnings & Oth Res	\$419,316,009	\$547,227,849	30.5%			
Total Reserves & Undivid Earnings	\$1,200,416,045	\$1,160,020,683	-3.4%			
Total Liabilities & Capital	\$16,639,856,236	\$19,574,613,286	17.6%			
Selected Operating Data:						
Branches				223	225	0.9%
Employees				4,280	4,351	1.7%
Members/Employee				350	361	3.0%
Ave Sal & Ben/Employee				\$46,119	\$49,115	6.5%
Average Share Balance				\$10,210	\$11,638	14.0%
Average Loan Balance				\$22,1706	\$22,614	4.2%



WAIT THERE'S MORE...

There's more to lending at State Employees' Credit Union. Go online for video exclusives and hear about how it all works, straight from the SECU employees themselves.

"We have the ability to do whatever is necessary to help members without having to follow the rules and procedures someone else has set up," Scarboro says. "Not every credit union is going to have the luxury of doing that. They have to have the capital to keep loans in-house, but that has served us well in offering unique products."

But the idea of empowering lending staff to make tough decisions and think about loans in a different way is a take-away the entire industry can learn from. When loan officers see borrowers as individual members and not as assembly line models trying to fit into pre-defined loan parameters, the difference credit unions can make starts to take shape.

"We all have a brand called 'credit union' at the end of our name. Over the past 10 or so years, we've seen practices we don't think are appropriate for a credit union brand," Blaine says, referring to risk-based pricing. "We hope we provide some encouragement to others to change such practices they might have adopted. They don't need to do those kinds of things to be a success."

Looking forward, credit unions have the opportunity to be economic forces in their regions. The financial downturn has had far-reaching effects, but from business lending to job creation, legislation to finances, the country is recovering and building a secure future. Credit unions, as community cooperatives, are an ideal catalyst for the economic development of consumers, businesses, and municipalities. SECU has its sights planted firmly in the future.

"I think we're going to be an economic engine to help the state recover quickly because, being

North Carolina focused, every dollar we raise in this state with deposits is reinvested in this state on cars or mortgages or educating kids," Blaine says.

Lending is one way SECU plans to boost its state's economy. But lending is just one function of the credit union. It also supports state initiatives that aid the environment, healthcare, and education, just to name a few. It's all connected, and it all leads to making life less complicated and less expensive for its members.

"A nonprofit cooperative credit union is the correct answer to consumer finance, and it is the best financial model," Blaine says. "It's not just warm and fuzzy. It is the best, most logical, most viable financial model for consumers to go forth with." ↗

12-Month Loan Growth

