

# CUs Doing Well!

## But Why? And What Now?

Is your credit union thriving in spite of the recession? That ironic success is not a fluke.

The safe and sound practices CUs have demonstrated have served them well.

Credit union executives offer their opinions on the rationale behind this success and offer suggestions for keeping the momentum alive.

By **Laura Gater**

**D**espite all the changes and upheavals in the economy over the past 18 months or so, many credit unions find themselves not only maintaining their ground but gaining and pulling ahead in the market.

“The market for credit unions has changed dramatically, with many lenders scaling back or getting out completely. The safe and sound practices the majority of credit unions have practiced and continue to practice have positioned us to now thrive,” explains Doug Schneider, vice president of marketing at Credit Union of Colorado in Denver, Colo. “While other lenders repair their balance sheets, we are moving forward. It’s not that we are taking on more risk; we will simply continue our practice of granting loans to deserving members at great rates.”

Joe Gillen, CEO of Pinnacle Financial Strategies in Houston, Texas, agrees. Credit unions are thriving despite the economy because of the type of lending in which they specialize. Unlike large, multi-regional financial conglomerates, credit unions do not engage in commercial lending and were not involved in real estate lending or “creative” mortgages. They stayed out of those volatile arenas mostly because of their size. Instead, credit unions focus on small business lending to “mom and pop” small businesses. But the real source of strength for these institutions is their concentrations of auto and personal loans, Gillen says.

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— *Jim Gowan*

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“Credit unions are the primary auto lender now, particularly after the hit that major auto finance companies have taken in the last few years. Credit unions picked up their slack and forged an even deeper niche in the auto lending area,” Gillen explains

A lot of credit unions have retrenched over the past 18 months or so. Many of those that are located in areas hit hard by the real estate slump are now focusing on home loans. This newfound focus serves them well as people rush to purchase foreclosed homes and take advantage of dropping home prices. The negative press given to the banking industry has helped boost credit unions’ reputation, according to Jim Gowan, execu-

tive vice president and chief operating officer of Credit Union 24 in Tallahassee, Fla., a national credit union service organization (CUSO).

“We’re doing extremely well. Right now, we have exceeded our annual [lending] goal by 68 percent,” says Steve Donahue, assistant vice president of mortgage origination at Technology Federal Credit Union in San Francisco, Calif. “All the negative press about other lending institutions and banks has helped. People have always looked to credit unions for local service.... What has happened in the loan business has helped us. If credit unions are not in the mortgage business, then they need to explore it (that arena).”

For reasons of capital preservation, a number of credit unions are actually looking to slow the rate of growth, according to Bill Handel, vice president, research and development at Raddon Financial Group in Lombard, Ill. They have ratcheted back their growth objectives, both deposits and loans, to preserve capital in the face of corporate stabilization costs and growing loan losses.

“While we understand the reasons for this [pullback], we feel that [it] is causing many credit unions to forego the opportunity of a lifetime in regard to growth. We see more of a growth opportunity in the next 12 to 24 months than at any point in our lifetimes, but we need to be aggressive to take advantage of this [opportunity],” Handel states. “Given this, we feel that credit unions need to maintain a focus on two critical issues.

“First, [they must] identify the key borrowing markets that are emerging or will re-emerge. One example is small business lending. Small business formation tends to accelerate in recessionary environments, and many members may be establishing their own small businesses, either due to layoffs or simply the perception of new opportunity. If you do not have SBA [Small Business Association] authority, you should explore that option. Look to identify individuals who have worked in the commercial or small business lending space and are now available to your organization, and bring these people on board to help build your business-lending and deposit-taking capabilities.”

Another market that will re-emerge in later 2009 or in 2010 is automobile lending, says Handel. Many of the most significant players in automobile financing have left the space. As the number of credit suppliers has declined, the remaining suppliers gain leverage. “Look to revamp your dealer relationships so that



as automobile purchasing revives, you are in prime position to generate growth,” he advises.

Handel adds that credit unions shouldn't neglect the Gen Y group, whose size rivals the Baby Boomer generation that so greatly influenced our economy beginning in the 1980s.

### Don't Neglect Profitability

“Capital preservation and growth is key to your ability to grow the credit union, and we believe there will be no greater opportunity to generate significant membership and balance growth in your lifetime than in the next 12 to 24 months.... First, focus on margins through effective deposit pricing. Second, focus on non-interest income through revisions of your non-interest income programs, but avoid raising fees if possible. Third, improve your efficiencies by monitoring performance metrics at the institution and branch level,” explains Handel.

### CUs Better Positioned

Consumers are more cautious these days, points out Tansley Stearns, vice president of sales and services at Connex CU in New Haven, Conn. As a result, Connex CU has maintained its equilibrium in order to help its members save money. The credit union has realized a lot of growth this year in indirect auto lending and attributes that success to “being picky with the dealers [with] whom we partner.”

Credit unions are saddled with the cost of the corporate

credit union bailout. For the most part, however, credit unions will be able to satisfy the lending needs of consumers and small businesses, points out Handel.

Equally important, he says, Raddon Financial Group's research shows a clear indication that consumers are looking local in regard to financial service providers. "Our interpretation of this finding is that consumers are feeling more uncertainty than at any point in the past, and [they now] want a financial partner rather than simply a provider of services. This [trend]

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should be beneficial for credit unions, who can stress the fact that they are locally owned and that decisions are made locally."

Gillen says credit unions are better oriented to serve members. "Credit unions are better positioned to help consumers with lending and banking needs because it [that mentality] is ingrained in their business model. Credit unions are member oriented, and most members are active in one credit union [as opposed to] having a variety of banks handling their checking, savings and mortgages. Credit unions have been very smart about marketing to consumers for the products in which they specialize. They understand the markets they serve and tend to focus on their core competencies," states Gillen.

Most credit unions are in good financial shape and are in a solid position to lend money. Take this financial strength and add in generally lower rates for loans, higher rates for deposits, fair-minded fee policies and the fact we are not for profit, and it is no surprise that credits unions are more relevant than ever, says Schneider. "Credit unions seem to be unafraid to lend," Gowan adds.

### Changes Resulted in Credit Unions Thriving

The economy has been a big driving force in bringing about credit unions' prosperity, acknowledges Paul Armstrong, president/CEO of Statewide Federal Credit Union in Flowood, Miss.

Last year, when the banks failed, it really opened doors for credit unions. In fact, it was one of the best years Statewide FCU ever had in terms of loans and deposits. The trend of consumers turning away from banks made Statewide become more aggressive in marketing and pursuing loans.

"Now, while convenience and technology are still important, other factors have begun to emerge in the consumer's mind," explains Handel. "To an extent, the typical consumer feels as though the financial rug has been pulled from beneath them, and they are looking more closely at who they will select as their financial partners. The term 'trusted financial partner' may have been a buzzword in the past, but we feel that it has significantly more meaning now. When your retirement savings have been decimated by 30 percent to 40 percent and your lines of credit have been arbitrarily cut or suspended, you begin to reconsider who you do business with."

Again, Raddon's national research reflects this trend, acknowledges Handel. "Perceptually, the 'big four' of the retail banking space are Bank of America, Chase, Wells and Citibank. Approximately 50 percent of all consumer households nationally have some level of relationship with at least one of these institutions. Interestingly for this group [of banks], one-third of their customers indicate that either they are not certain they will retain this relationship or they are thinking of terminating the relationship. These are significant numbers, and [they] reflect the degree of fluidity that exists in financial relationships today," he points out.

Gillen says that while bank mergers have largely halted now, in the past five years consolidation by regional, national and even community banks was widespread. Those acquisi-

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**Credit unions are seen as a trusted financial partner.**

*– Doug Schneider*

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tions, he notes, reduced competition in the marketplace, but the broader impact to credit unions is that the larger the institution, the less it tends to focus on consumer products. Large national or regional banks have to focus on larger institutional lending to

support their infrastructure. As a result, consumer products and member relationships tend to suffer. Credit unions have filled that niche.

“Bank bailouts have created a black eye for the banking industry. The public sees big banks as a business that got greedy, took too much risk and then would have failed, bringing down the entire economy [in the process] without our help. It is no surprise the public is ‘rediscovering’ credit unions as a trusted financial partner,” explains Schneider.

The entire mortgage lending environment has changed, agrees Donahue. Technology Credit Union, like many other CUs, boasts a portfolio that is 75 percent real estate based, although it does still offer auto, personal and home equity loans. He admits that loans other than mortgages have “dried up.”

“We’re very aggressive on home equity loans now and are currently offering them at four percent. In the last three to five years, the market itself has changed, and it has really helped us now.”

### Credit Unions Coming Out Ahead

Schneider says that credit unions have stayed true to their core values and remain focused on the needs of their members. “While others regroup, it is a great time to spread the word about credit unions. Consumers need us now more than they have in years; we need to let them know we are here!” he enthuses.

Gowan acknowledges that credit unions always tend to do well when coming out of economic downturns, and this time is no different. Their history as a “safer haven” for people’s financial needs puts them in a positive light during tough times.

This positive performance, however, isn’t without its detractors. “Some credit unions are also having tough times now. More and more legislative issues are popping up now for credit unions. They have to be able to change and adapt quickly in order to change and stay afloat. We’re never going to go back to where we were,” says Gowan.

In addition to small business and auto lending, credit unions also do a lot of personal lines of credit and second mortgages. They’ve effectively diversified their lending portfolio, according to Gillen, learning one important lesson from the recession. Concentrations in commercial real estate are what caused the financial implosion of many national, regional and even some community banks, says Gillen.

“The most obvious answer is we have good rates; [we] haven’t tightened our lending standards as nearly as much as banks [have]. We do business as usual,” explains Armstrong. “Credit cards didn’t really change at all – we maintained the same rates and continued forward. We did issue more credit cards this last year, at less than 10-percent interest. The Bank of America bumped its rates and we benefited from that. People called us, told us that Bank of America bumped their rate, asked what our interest rate was and switched to us.”

Donahue reiterates that “people just don’t have a lot of confidence in the big lenders right now,” while credit unions have the knowledge, expertise and local identity to effectively meet members’ needs. Although some credit unions have not fared as well as others during the recession, those that were absorbed by larger credit unions have done well. This strategy served to increase members’ trust, while credit unions’ traditionally conservative business approach has benefited everyone.

### Take Advantage of This Opportunity

Looking ahead, credit unions should continue to focus on their core competencies and live their foundation of being member-

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Credit unions will come out better and stronger.

– Jim Gowan

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centric with a customer focus, says Gillen. They are the retail “banks” of today and tomorrow. In a very real sense, credit unions and community banks are filling a void left by regional and national conglomerates.

“Credit unions have been successful in this economic and financial environment because they are member owned, and [they] are closely attuned to consumer wants and needs,” he explains. “That is evident in their lending practices, but [it] can also be applied to the manner in which they administer overdraft privilege programs for their members. In credit unions, products like overdraft programs couldn’t exist if members didn’t want them. All consumers want to understand what products they have access to, how they work, the cost, and [they want to] have the ability to not choose the program. This transparency

and attention to member needs is what disclosed overdraft programs and credit unions are all about, and many credit unions have adopted disclosed programs for this reason.”

Stearns emphasizes that now is the time for credit unions to broadcast their message and services to their community and to expand their marketing strategy and operations. It’s a great time now for consumer to be first-time homebuyers, and credit unions can help those new homebuyers by letting them know what services are available through their local credit union. It’s an excellent opportunity to attract younger members and to become a resource for them when they make really important financial decisions for the future, like buying their first home or their first brand-new car.

Donahue points out that members need to be reminded of the many services their credit union offers. “Any member that has a real estate loan typically has three to four other loans. Let any member with a real estate loan know of other loans and rates you offer,” he advises. “As an industry, we dwell on the fact that we have better services, so we have to look at members with real estate loans who are generally more stable. [We need to] take advantage of it (that stability) by letting them know what we have and that we’d like to help them. Over the years, credit unions have always been looked down on as ‘not as good.’ Now is our time.”

This repositioning is all part of being there for members, notes Armstrong, and with the economy the way it is, that’s where credit unions need to be now. They may need to restructure their lending practices to accommodate the unemployed, but that’s all part of being there to help.

“Position yourself now to capture the emerging segments, such as Gen Y, as well as [the] re-emerging markets, such as automobile lending and small business. Solidify your operating performance to improve earnings and build capital so you can take advantage of the growth opportunity that you will have over the next 12 to 24 months. This means learning to price deposits effectively and re-evaluating all sources of non-interest income,” Handel says.

Credit union management often forgets that the vast majority of consumers who do not use a credit union don’t know what a CU is and what the difference between it and a bank is. “Most of your existing members will understand how you are different, but most non-members will not. Marketing plays a crucial role

in building your brand over the next 12 months among current non-members. We would strongly encourage you to do research, especially focus group research, among both members and non-members. [That way, you can] better understand how you are perceived by both groups to better build your brand,” he adds.

Katz agrees that credit unions need to be at the forefront for their members and must reassure those members that they are stable and available to help with their financial needs. “Remind people that your credit union’s not going out of business, [that it] is safe, and continue to reinforce the fact that becoming a member isn’t restricted. I don’t know how much of the population knows that credit unions are open to new members,” explains Katz.

“Have systems and technology in place to handle a large workflow and don’t mess up mortgages. More than 10 loans a month is so paper intensive that credit unions need to have a process and workflow in place to limit errors and maximize efficient loans. Not every credit union is convinced that its volume will remain this high, so they don’t want to commit money for software to help with that [elevation]. [As a result,] some outsource their mortgage operation.”

Whenever credit unions can help members financially in their time of need, those individuals will be thankful. “I think working with consumers and getting through the tough times will pay off real positively for credit unions in the long term. Credit unions are more willing to work with their members, more so than banks,” says Gowan. “I really think credit unions will come out better and stronger. This [recession] has caused credit unions to focus their strengths. Consumer lending has caused credit unions to go back to the basics and what they’re good at.”

*Laura Gater is a freelance business and medical writer based in Northeast Indiana. She has written articles for a variety of trade and consumer publications, including “For the Record,” “Corrections Forum,” “Podiatry Management,” “Healthcare Traveler,” “University Business” and “Diversity/Careers in Engineering and IT.”*