STRATEGIC INSIGHTS FOR POLICY MAKERS

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Nussle: Stage Set for Regulatory Relief

CU system must unite to register advocacy victories, CUNA President/CEO says.

CUNA President/CEO Jim Nussle sees 2017 as a prime opportunity for credit union advocacy victories to score regulatory relief victories.

With a new presidential administration interested in reducing regulations and a pro-credit union majority in Congress, Nussle says the industry is poised for an even more successful year than 2016. In the past year, CUNA, the leagues, and their member credit unions achieved a number of significant victories, including reduced frequency of examinations, new field-of-membership rules, and more.

To capitalize on this favorable political climate, in January the CUNA/league system launched the Campaign for Common-Sense Regulation, a coordinated advocacy effort to activate the entire credit union system—CUNA, leagues, credit unions, and their members—to attack excessive regulations with one voice.

In this discussion, Nussle outlines credit unions' opportunity to make a real dent in regulatory burden this year.

Q: The CUNA/league system recorded significant advocacy victories in 2016. How hard-fought were these wins?

Nussle: We certainly built up considerable momentum heading into 2017. I'm proud of the way the credit union movement came together to fight for issues like exam frequency, member business lending, and field-of-membership rules. We've worked hard on these priorities for some time, often against considerable opposition.

> 'HAMMERING OVERREGULATION WILL BE THE CENTRAL FOCUS OF OUR ADVOCACY WORK.'
> JIM NUSSLE

In Congress, we made solid progress in key committees and the full House on a number of important issues. Not to mention, 97% of the 364 candidates credit unions supported through the Credit Union Legislative Action Council won election in November. In the end, we prevailed in many of the areas we focused our resources.

Q: How does this success set the stage for 2017?

Nussle: When the dust settled after the elections, credit unions were left with a pretty favorable political environment for reducing regulations. This is something we can't take for granted, which is why hammering overregulation will be the central focus of our advocacy work.

With full buy-in from the entire credit union industry, including our members, we have a huge opportunity to make changes that will shake credit unions free from cumbersome regulations so they can really thrive.

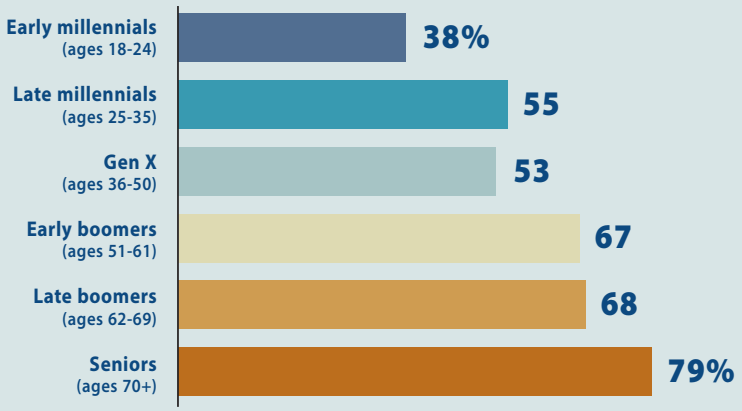
Q: Have Congress and an administration ever been so aligned on prioritizing regulatory relief?

Nussle: I can't find anyone who can remember a time when, as an industry, we've had an opportunity to make such substantive improvements to credit union operating environments. In 1998, we passed H.R. 1151, the Credit Union Membership Access Act, but many would suggest that was a defensive effort. This year, with our Campaign for Common-Sense Regulation, we're going on the offense, and I believe this approach will enable us to move the needle on Capitol Hill in ways we haven't seen before.

QUICK TAKE FOR YOUR NEXT BOARD MEETING

The Branch Remains a Crucial Channel

Although consumers increasingly access financial services through digital channels, 44% prefer to visit a branch to conduct standard daily transactions, compared with 39% who prefer online and 12% who prefer mobile, a Fiserv study indicates. Consider that a majority of consumers in all but one age range visited a financial institution's branch within the past month:



Source: *Fiserv* (fiserv.com)

- CUNA Governmental Affairs Conference, Feb. 26-March 2, Washington, D.C.: *cuna.org/gac*
- CUNA Member Activation Program: *cuna.org/map*

Q: Which specific issues will the industry push with the 115th Congress to achieve regulatory relief?

Nussle: From listening to members, we know they have the biggest issues with the Truth in Lending Act-Real Estate Settlement Procedures Act integrated disclosure (TRID) rule, the Home Mortgage Disclosure Act (HMDA), and the Military Lending Act (MLA).

MLA has been a nightmare for credit unions and TRID and HMDA, rules written for the big banks, are hitting credit unions—particularly smaller credit unions—with costs that plainly make it more difficult to serve members and expand services to broader areas of the community.

We're keeping our eyes on several pieces of legislation in the making, but we'll work with Congress to pursue any laws that ensure regulators treat credit unions like credit unions, and big banks like big banks.

Q: Why is it important for credit unions and their members to tell their stories to legislators?

Nussle: From my experience in Congress, I can tell you that no message rings louder than a note or call from a constituent. My voters literally shaped my legislative agenda when I was in office. Nothing is more powerful than sitting down with your member of Congress and telling her or him that, for example, regulations are forcing you to withhold products or services from your members or limiting your ability to serve your community.

Q: What are the best ways for credit unions and their members to make their voices heard?

Nussle: Start with the CUNA Governmental Affairs Conference and your league's Hike the Hill trip. These events present a perfect opportunity to walk into your legislators' offices and tell them, face-to-face, about what's important to your credit union and how they can help.

Beyond these events, participation in the CUNA Member Activation Program is the perfect way to get members involved. Through easy steps, we send you content that you can use to educate members about the issues, and later to give them tools to easily contact their congressional representatives.

To get involved in CUNA's Campaign for Common-Sense Regulation and access a toolkit that includes an explanatory webinar, visit *cuna.org/commonsensereg*.

- CUNA & ACUIA Internal Audit Certification School, March 27-30, Orlando: *training.cuna.org/iacs*
- CUNA Regulatory Compliance Certification School, April 23-28, San Antonio: *training.cuna.org/rcs*

Boards Must Hold Vendors Accountable

Work with the supervisory committee to ensure third-party compliance.

Why must directors and supervisory committees confirm their credit union's vendors are compliant?

"Because if they're not, vendors aren't the ones that will get spanked by examiners," says attorney Frank Drake. "You're the one that'll get spanked."

Boards and supervisory committees must work in unison to ensure a thorough review of vendor contracts. This involves "asking questions that will make vendors uncomfortable," says Drake, who addressed the CUNA Supervisory Committee and Internal Audit Conference.

Being entirely vendor compliant is no small task because of the volume of contracts you must review and the degree of scrutiny you must apply. Drake says credit union leadership should ask:

- **Does your credit union** have certification of its lawyer's bar license, current-year malpractice license, and document retention and destruction policy on file?
- **Has the credit union** shredded every piece of paper it places in its dumpster?
- **Do you** have a closed-door, locked-desk policy to protect against untoward access to documents or electronic information?
- **Do you** have a copy of your indirect auto lenders' document retention and destruction policy on file?

If you answered "no" to any of those questions, you are noncompliant, Drake says. He would know, because he trains regulators to look for those and similar offenses.

"They regulate through you what they cannot regulate directly," Drake says.

Evaluating every vendor contract the credit union holds consumes time and money, acknowledges Drake, who insists that "nobody should sign any third-party contract without knowing eyes [attorneys] seeing it first."

He advises credit unions to prioritize their audit: "Make sure the degree of diligence matches the degree of risk."

Credit unions should vet third-party vendors similarly to how they evaluate member business loan applications: Request an unaudited annual income statement, check with state authorities to ensure they're licensed to do business in your area, and make onsite visits to "find out if they are who they claim to be," Drake says.

Also, create an electronic library of vendor policies and procedures you've requested, and stop using paper as much as possible. "The existence of paper documents is an unnecessary risk," he says.

Increase the Strategic Value of Your Board Meetings

Establish a structure that produces forward-looking discussions.

The board packets that credit unions distribute to directors before monthly meetings contain a lot of information. Sometimes, those packets contain so much information that it's not easy to fully digest all of the material and consider it thoughtfully.

Your credit union board takes seriously its responsibility for providing oversight and safeguarding members' interests. But you should also aspire to work hand-in-hand with the CEO as a strategic force, and recognize that reviewing mounds of paperwork at your monthly meetings interferes with that goal.

At one credit union I worked with, the CEO and the board chair aimed to create a successful format for meeting agendas. The new arrangement balances the board's conventional roles (governance, audit, compliance, and finance) with an effective alignment toward strategic issues.

Today, this credit union's board meetings revolve around updates, input, and strategy:

- **Updates.** Matters that relate to financial performance, operating results, and business-as-usual land on the consent agenda.

The board doesn't dismiss these reports; directors are expected to carefully review and understand the activities and results of the past 30 days.

Instead of a page-by-page analysis, conversations during the "update" segment center on clarifications, insights, and any new demands that might affect daily operations.

"The update allows us to prepare and understand well ahead of our meeting, and participate during the meeting in ways that leverage our strengths," the board chair says.

"Our meetings have become more focused on ideas, not numbers," he adds. "Comprehending, but not dwelling on, the past enables us to concentrate on what our CEO needs for the future."

- **Input.** This credit union incorporates into the monthly meeting agenda a handful of issues where the CEO specifically desires board input before making a decision. This ensures that during the deliberation process, a CEO takes board members' interests into account and considers strategic alignment.

Case in point: The credit union was having tremendous success with its unsecured personal loans. The risk- and loss-adjusted margins were healthy, portfolio concentration limits were managed, overall profits were impressive, and capital was well above peer. But an examiner wasn't content because these loans carry risk.

"Am I to stop lending to our members and avoid a write-up, or do I continue to serve our credit union's members?" the CEO asked.

He went to his board for input. After discussing several scenarios, the board supported the continuation of the well-managed and profitable lending programs. The CEO moved forward with his decision, knowing the board understood the subtleties involved.

- **Strategy.** Successful partnerships between boards and CEOs rely on strategic support and self-confidence with the pace of change required to serve members. As such, close to half of this credit union's board meetings focus on strategy.

"The bulk of the strategy segment centers on strategic updates and discussion of board-approved objectives," the chair says. "It's a great way to keep the board focused on objectives, expectations, and priorities."

The credit union industry continues to change quickly, the board chair points out, "and we need to understand more than just what we're doing. We need to know what we should consider doing."

To that end, every other quarter the board asks the CEO for an update on strategic prospects and pressures that might affect the credit union.

That report allows the board to better understand which trends support current strategies or suggest refinement.

"Because of our substantial focus on strategy, we've never overhauled our strategic plan," the chair says. "We've continually refined its focus and tasked our CEO with developing and executing the ever-evolving nature of strategic relevance."

The model of "update, input, and strategy" creates a standard that recognizes the facts of today while preparing for the realities of tomorrow. It's the chance for all leaders to look the same direction—forward—during every board meeting.

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National CU Roundtable for Board Leadership, Aug. 11-13, Las Vegas: *training.cuna.org/boardroundtable*

CUNA volunteer resources: *cuna.org/volunteer*

Adapt Succession Plans to Fit Your Situation

Boards have many options when determining how to replace a CEO.

When designing and executing a CEO succession plan, credit union boards should understand they have several options of equal merit.

The correct path depends on a variety of factors, including the circumstances behind the transition, the relationship between the outgoing and incoming CEO, and the credit union's health and viability.

Consider the experiences of three former CEOs as they transitioned out of leadership.

Going a different direction

Frank Berrish helmed Visions Federal Credit Union for 38 years, guiding the Endicott, N.Y., institution from $24 million to $3.2 billion in assets.

Berrish regularly recruited his top two senior staffers to take over board meetings to familiarize the board with potential successors. Eventually, the board opted to pass over internal candidates and use a national recruiting firm to find his replacement.

Berrish says he spent all of two days debriefing his successor. "It was like the Navy—you bring a new captain aboard and the old one leaves," Berrish says. "I can't say it was a bad plan."

That said, Berrish did stay on as a consultant for six months, which he spent introducing his successor to friends and business contacts in the community, as well as representatives from large business accounts.

Elevating a chosen successor

Larry Wilson recruited his eventual successor, Chuck Purvis, to Coastal Federal Credit Union 10 years prior to deciding to retire. Wilson gave the board a year's notice of his plans to step down at the $2.7 billion credit union.

"They asked me for my recommendation of who should take my position," says Wilson, whose endorsement of Purvis met with approval from the board.

Coastal Federal formally announced the succession plan to staff and the community six months in advance of Wilson's retirement.

As with Berrish, one of Wilson's key responsibilities in his waning months was to connect Purvis with his many contacts in the business, community, and nonprofit world. That strategy successfully maintained Coastal Federal's tradition of community service and its status as the No. 1 mortgage lender in the Research Triangle area of North Carolina.

Transitioning as partners

Patsy Van Ouwerkerk retired from Travis Credit Union in 2014 after 38 years in the industry, the last 12 as CEO of the $2.6 billion asset credit union in Vacaville, Calif.

She considered it part of her job to prepare and groom CEO candidates, so she provided reports to the board about her senior leadership team twice annually to familiarize them with the talents of those staff members.

Van Ouwerkerk gave Travis 18 months' notice of her plans to retire, which she had put off until the credit union emerged from the Great Recession. Working with an outside consultant, she interviewed each board member and matched the candidates' capabilities to their list of preferred skills and traits, discussing areas in which the candidates might need additional development.

Travis announced six months in advance of Ouwerkerk's retirement that Executive Vice President Barry Nelson would succeed her. The credit union's highly documented, six-month transition plan emphasized regular communication with staff and a collaborative approach to succession.

"We made a lot of 'we' decisions and 'we' announcements," Van Ouwerkerk says. "It made for a smooth transition."

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