STRATEGIC INSIGHTS FOR POLICY MAKERS

Credit Union National Association CUNA

CREDIT UNION **Directors** NEWSLETTER

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Recess Offers Opportunity to Advocate

Tell legislators specific stories about your credit union's impact.

As summer winds down, elected officials in Washington, D.C., will be heading back to their home districts for the August legislative recess.

These weeks when legislators don't have regularly scheduled meetings and other congressional duties is prime time for credit union advocates to reach out to, meet with, and remind their representatives about the important role credit unions play in the community.

"This is a crucial time for credit unions," says Eric Day, senior vice president of board advocacy and strategic initiatives at $1.5 billion asset Credit Union of Southern California in Anaheim and chair of the CUNA Volunteer Leadership Committee. "The banks are ramping up efforts to put credit unions out of business. They have been working hard on the federal level to have our tax status revoked, and they're now repeating the process in state legislatures.

"This is where directors can be most helpful," Day continues. "We have a unique story to tell. We serve on the board or supervisory committee because we care about our credit unions."

> **'YOU HAVE CREDIBILITY BECAUSE YOU'RE THERE ON YOUR OWN TIME.'**
> ERIC DAY

Being an effective advocate comes down to one key element: building relationships with members of Congress, says Adam Engelman, CUNA's director of federal grassroots.

During the legislative recess, perhaps the most impactful way to advocate for the credit union movement is by meeting with legislators while they're back in the district, whether that involves inviting them to the credit union or meeting with them during their office hours.

Day offers three suggestions for directors meeting with their elected officials:

1. Stay on point. Before the meeting, the legislator and staff will want to know what you'll be asking them to do for credit unions. Remember, you're there representing the credit union movement. Your personal politics don't have a place in this meeting.

2. Talk and they'll listen. Don't be disappointed if you meet with staff instead of your legislator. It's often the staff members who carry out the details, and you'll find they're knowledgeable and eager to assist constituents.

3. Relax and enjoy. Keep in mind your legislators need to impress you, not the other way around. You're there to tell your credit union story and show the human side of credit unions and why they exist. Your stories will back up the big points professional advocates make.

Don't let your advocacy efforts stop once your legislators leave the district. If you can, attend CUNA's Governmental Affairs Conference in Washington, D.C., participate in a hill hike, or organize one at your own state capitol.

"It's an opportunity for credit union professionals, boards, and volunteers to educate legislators about the credit union difference," Engelman says.

You also can make an impact without leaving

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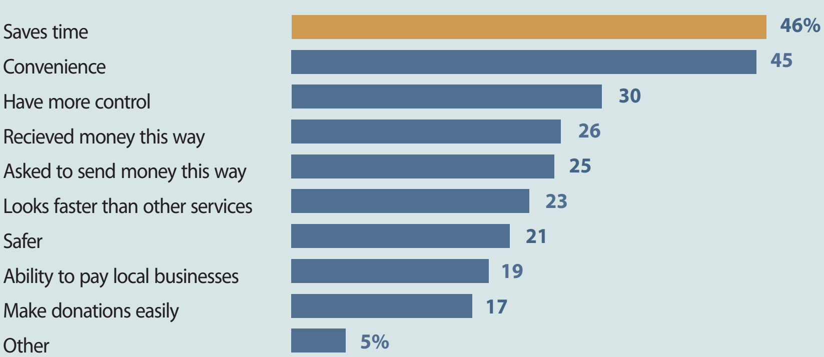
QUICK TAKE FOR YOUR NEXT BOARD MEETING

Why People Use P2P

Seventy-eight percent of people need to pay others at times, which presents an opportunity for financial institutions. Twenty percent of consumers have used a financial institution's person to person (P2P) payment service in the past year, driven primarily by time savings and convenience.



Source: Fiserv's 2019 Expectations & Experiences: Consumer Payments

- CUNA advocacy resources: *cuna.org/advocacy*
- 2019-2020 CUNA Environmental Scan: *cuna.org/escan*

home. CUNA offers various resources, including the Member Activation Program, that allow people to participate in advocacy without making a commitment that involves substantial time or resources.

These efforts make a big difference, as evidenced by some notable advocacy successes ("2018 advocacy wins").

However you interact with your legislators—in person or via email, Facebook, or other social media outlets—"tell stories and be specific about how those regulations impact you directly and your credit union's ability to serve your members," Engelman says.

Directors are natural advocates. Many have served their credit unions for multiple years and know the impact they have on members and the community at large.

At the same time, you're passionate about the movement and what it stands for. Combine that knowledge and passion with the stories you tell your elected officials and you can make a meaningful impact, Day says.

"Tell stories about what your credit union does in your community and the benefits your members enjoy," Day says. "You have credibility because you're there on your own time."

2018 ADVOCACY WINS

1. Economic Growth, Regulatory and Consumer Protection Act (S. 2155) passage
2. No new CFPB rules and regulations
3. Retention of CFPB Credit Union Advisory Council
4. Battled frivolous ADA lawsuits
5. Submitted white paper on CFPB reform process
6. NCUA share insurance fund distributions
7. Delayed CECL implementation

Source: 2019-2020 CUNA Environmental Scan

CUNA Professional Development Online: *cuna.org/cpdonline*

Ratios to Remember

Financial statements—specifically the income statement and balance sheet—hold a wealth of information about the credit union. While this information is essential, these statements aren't all that useful when taken by themselves.

To get the most out of these statements, you must figure out the key ratios. *Credit Union Directors Newsletter* will explore 10 key ratios directors should know, including what the ratio measures, how to calculate it, and why the ratio is important.

The ratio: 60-day delinquency

What it measures: The quality of a loan portfolio based on the percentage of loans overdue by 60 days or more

How to calculate: Dollar amount of delinquent loans over 60 days / total loans

Why it's important: Your credit union's strategic plan will set what's an acceptable range for delinquencies, but the industry standard falls in the 0.50% to 1.50% range. Credit unions that lend to members of modest means will often have a higher delinquency ratio than credit unions that favor borrowers with A or B credit ratings. Some actions to improve the delinquency ratio include tightening underwriting standards, requiring lower debt-to-income ratios, and implementing stronger collection efforts.

Board Governance for the Future

Directors must prepare to respond to changing environments.

Credit union board members continually adapt to meet their changing role. Boards have become less tactical and more strategic, and they have stepped into the governance role they were designed to fill.

Board members have also kept up with the education needed to govern changing rules and competitive environments. The board's desired skill sets and attributes continue to evolve. Just as they have in the past, today's board members must be well trained to provide the proper governance required to lead a successful credit union.

Directors must be forward-thinking, anticipating changing consumer preferences and supporting evolving technology, and they must continue to advocate for the membership and communities they serve.

Effective boards focus on:

- **Governance.** Board members are the fiduciaries who steer the credit union toward a sustainable future by adopting sound, ethical, and legal governance and financial management policies. They also make sure the credit union has adequate resources to advance its mission.

Governance doesn't involve managing day-to-day operations or micromanaging the tactical issues of the business plan. Effective governance is the first lesson a new director needs to learn, and it's just as important to reinforce ongoing training for the full board.

- **Member advocacy.** Members elect directors to represent their best financial interests, and the board's makeup should reflect the diversity of the communities the credit union serves. This is fundamental to member advocacy.

A board that reflects its membership will have a better understanding and appreciation for members' unique financial needs. Many communities credit unions serve have changed by becoming more racially and economically diverse.

It makes sense for credit unions to recruit volunteers from diverse groups to ensure they understand the unique needs of these segments of the community.

From an economic perspective, most directors understand middle- and upper-middle-class members' financial needs, but they may not understand the financial requirements of lower-income communities. There are distinct differences.

Diversity and inclusion are essential to ensure marginalized groups representing the communities each credit union serves have a place at the table.

- **Training.** Training must be a regular part of board development. Credit union budgets should include ongoing and required training for the board. Training resources are abundant, ranging from free basic tools available from NCUA to more comprehensive tools such as CUNA's Volunteer Achievement Program. Leagues also offer excellent volunteer content and conferences for active learning.
- **Recruitment.** There will come a day when long-serving board members will step down, and their seats must be filled. This gives credit unions an opportunity to change the value proposition of board service.

'TOMORROW'S BOARDS WILL FACE A FUTURE THAT LOOKS VERY DIFFERENT FROM TODAY.'

SCOTT BUTTERFIELD

Many baby boomers volunteer out of a sense of duty to give back to a credit union that was good to them, and to represent companies or associations. However, the next generation will be more motivated by serving to fill unique community needs, such as economic development, financial inclusion, and even social justice.

Board recruitment should lead with the community need or cause the credit union is committed to. Examples include financial inclusion of lower-income target populations, affordable housing initiatives, education, and microfinance.

Why it matters

The U.S. financial marketplace continues to evolve. Credit unions need to continue to grow to remain relevant and competitive.

Tomorrow's boards will face a future that looks very different from today. Boards must be well trained to provide efficient and wise governance, take new risks, and remain relevant to the communities they serve.

Invest the appropriate time in board training, recruitment, and development to ensure your credit union continues to serve members for the long term.

SCOTT BUTTERFIELD *is the principal at Your Credit Union Partner* (yourcupartner.com).

CUNA board and committee resources: *cuna.org/board*

- Filene Research Institute: *filene.org*
- CUNA compensation resources: *cuna.org/compensation*

The Role of Incentives in CEO Compensation

Credit unions use these performance-based awards to attract and retain talent, but they come with risks.

What role do incentives play in CEO compensation?

Incentive pay—which is tied to preset performance criteria—may be a useful tool to attract and retain talent.

But research indicates incentives sometimes fail to work as intended, causing demotivation and promoting risk-taking activities that can destroy rather than add value, according to "Incentive Pay: Research and Guidance for Credit Unions," a research brief from the Filene Research Institute.

According to the 2018-2019 CUNA CEO Total Compensation Report, 83% of CEOs in credit unions with $100 million or more in assets earned some sort of variable pay—either a bonus or incentives—at year-end 2017.

During 2017, bonuses were more prevalent than incentives (62% vs. 37%). The median amount of variable pay was $26,000, although the median level of variable pay increased as asset size increased, according to the CUNA report.

One risk that accompanies CEO incentive programs is identifying the right metrics to gauge performance.

Two leading criteria credit unions rely on to determine incentive awards for CEOs are loan growth and earnings—including return on assets, return on equity, and return on investments.

Between 60% and 65% of credit unions base CEO incentive pay on these two factors, while roughly half consider membership growth, board evaluations, and net income, according to the CUNA report.

However, these measures don't always accurately reflect sustainable financial performance, management best practices, or cooperative principles, according to the Filene report.

Boards must determine when to use more targeted measures and how they benchmark these measures within the organization and across a peer group.

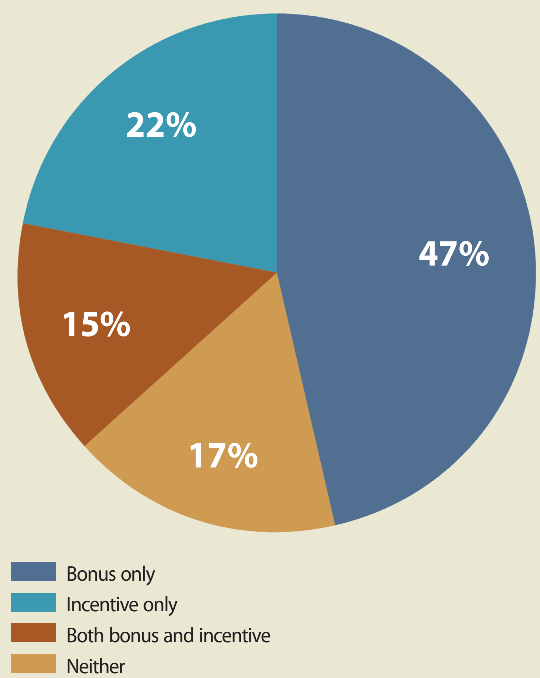
Other factors include the time frame to use for each metric, whether you need subjective or qualitative evaluations, and how to standardize or link those evaluations to objective or quantitative metrics.

"Incentives require careful attention to their design and implementation to ensure their effectiveness and prevent unintended consequences," according to the Filene brief.

Keep these factors in mind when designing an incentive program for the CEO:

- **Use** incentive pay only when success measures are clearly defined.
- **Be** transparent about evaluation criteria and explicit about what metrics you'll use—and when and how you'll apply them.
- **Map** the potential risks of specific performance goals.
- **Check** in often to track progress, audit reporting, and redirect resources.

CEOs and Variable Pay*



* Bonuses and/or incentives among credit unions with $100 million or more in assets. Figure exceeds 100% due to rounding.

Source: 2018-2019 CUNA CEO Total Compensation Report

Send us your comments: *directors@cuna.coop*

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