Credit Union **Directors** NEWSLETTER

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Strategic planning critical in uncertain times

Concentrating on strategy allows boards to make decisions that focus on the future.

"Plans are useless, but planning is indispensable."

Never has Dwight Eisenhower's battlefield preparation strategy offered more universal wisdom, says Tim Harrington, president of TEAM Resources and author of "Eisenhower on Enlightened Leadership."

"It's important to consider what that insight means in the times we're experiencing," he says.

Even in the best of times, strategic planning involves shaping scenarios for the future and adjusting them along the way.

While operating during the coronavirus (COVID-19) pandemic is unprecedented, strategic planning shouldn't take a back seat during times of change, Harrington says.

"The planning process helps align your priorities," he says. "Your priorities and values don't change much when the reality of the environment hits you. You fall back on your values and your priorities and ask, 'How do we incorporate these into what we're seeing now?'"

During times of uncertainty, credit union boards should hold "mini planning sessions" every two or three months with a focus on strategic results, Harrington says.

"It's best to limit the information discussed to key results and trends represented with a few charts or graphs that show a planning goal and whether you're moving toward it or away from it," he says.

Some credit unions already take this approach, incorporating a strategic planning-focused item on the agenda each month.

Nymeo Federal Credit Union in Frederick, Md., conducted strategic planning sessions at its board meetings until September, when the board convened for a 3.5-hour virtual strategic planning session, says Victoria Johnston, president/CEO of the $294 million asset credit union.

"Fall back on **YOUR VALUES** and **YOUR PRIORITIES** and ask, 'How do we incorporate these into what we're seeing now?'"

Tim HARRINGTON

"The only real change for Nymeo in strategic planning is that the meetings are virtual," she says. "We already dedicated a large portion of our board meeting agenda each month to strategic planning."

Harrington advises focusing on strategy instead of operational issues because strategy is future-focused. "You want to look in the windshield, not the rear-view mirror."

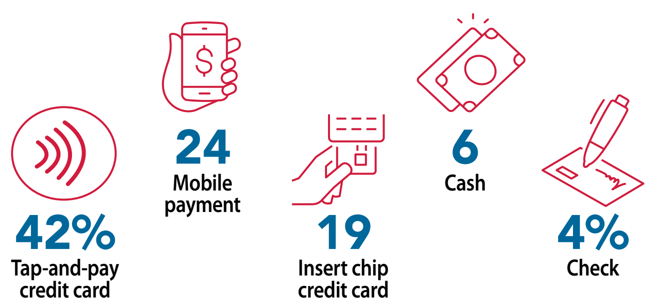
He typically recommends that boards consider credit union performance from an imaginary 30,000-foot view. But during times of financial turbulence,

QUICK TAKE for your next board meeting

Contactless payments up, believed safer

Before the coronavirus (COVID-19) pandemic began, consumers were starting to use the "tap-and-pay" functionality of their credit union cards more often. Now, 50% of consumers use the tap-and-pay method more than insertion, and 42% believe it's the safest payment option for preventing the spread of COVID-19, according to the Fiserv report, "2020 Expectations & Experiences: Consumer Finances During COVID-19."

Perceived safety of payment methods



Source: Fiserv's "2020 Expectations & Experiences: Consumer Finances During COVID-19" report.

they can reduce that view to 10,000 or 15,000 feet.

"We talk to boards about the 'operations box,'" Harrington says. "That's the sandbox the CEO plays in—the credit union's day-to-day operations—and the board can't interfere in it.

"During times like these, that box shrinks a little because the risks are greater," he continues. "From an executive perspective, you want to provide more information to the board more often."

Credit unions are seeing a decline in income, primarily from reductions in interest income on loans and investments, and a precipitous decline in noninterest income, Harrington says.

"The top line, total revenue, is diminishing," Harrington says. "Your costs tend not to diminish, so you end up getting squeezed on revenue. A lower profit or a financial loss has a negative effect on capital. At the same time, members are pouring in deposits so your capital-to-asset ratio drops faster than normal."

He suggests that credit unions project their net-worth ratios for the next three years, modeling worst-case, likely-case, and best-case scenarios, and then projecting which course the credit union is following.

Fortunately, most credit unions have built up their capital levels over the past 10 years, he says.

"Credit unions built all that capital since the last recession for a time like this," Harrington says. "When they project their capital needs, they probably will see they are pretty well set to survive this in almost every case."

Questions to ask during a crisis

Gather necessary information to make quick, informed decisions.

It's been more than six months since the coronavirus (COVID-19) pandemic began, but credit union leaders and boards still find themselves in the midst of the crisis, making decisions and adjusting strategy that will allow the credit union to continue serving members during this difficult time.

"This is a demanding time for credit unions and their leadership," says Jeff Rendel, principal at Rising Above Enterprises. "Business results, forecasts, models, and strategies have shifted overnight. Your credit union CEO is just as determined to lead the credit union through this test as your board is to see that members are served and the credit union endures."

While the first priority is making sure the credit union's operations are functioning, the board's next step is ensuring the CEO has the necessary information and feels confident to make fast decisions, says Rendel. He took part in a video from the CUNA Credit Union Board of Directors Community, "How a Board Can Help Its CEO During a Time of Crisis," sponsored by *Credit Union Directors Newsletter.*

Rendel suggests asking these questions:

▸**How is your health and state of mind?** This reminds the CEO of the importance of mental and physical health, and that they must dedicate time and resources to address these issues for all staff.

"The days are long and seem to run together," Rendel says. "Crises can be wearing. They don't turn off for the day."

▸**How is staff morale?** Encourage the CEO and managers to communicate regularly with staff and make sure employees are comfortable asking questions about unknown issues. "Communication is vital for staff morale, and staff morale is essential to member service," Rendel says.

▸**How are members reacting and how is the credit union performing financially?** Look at shifts in deposits, loans, delinquencies, and capital levels. Identify potential limits to growth and earnings to make decisions related to the credit union's changing budget and long-term strategy.

▸**How can the board help?** Board members bring different backgrounds and expertise to their role. Use your unique skills and experiences to benefit the credit union.

"Be patient. There will be a revised budget that's much different than what you saw months ago," Rendel says. "The strategy may not change but its execution will pause. So be patient with long-term strategy.

"Be open to the CEO's ideas on what the credit union needs."

"The strategy may not change, but its execution will pause. So be patient with long-term strategy."

Jeff Rendel

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Leverage community connections

Deepen relationships to find opportunities for success.

All credit unions serve communities, ranging from a single select employee group (SEG) to large communities covering a wide geographical area. Credit union bonds are linked to these groups via a democratically elected board of directors and a shared purpose.

The success of the credit union and the communities it serves are bound to and dependent on each other.

On the surface, it may appear easy to deepen your credit union's relationship with its community. You can support your chamber of commerce, volunteer for a SEG event, donate to a local nonprofit, or host a shred day event. These actions certainly will create goodwill in the local community.

But there are challenges.

With SEG communities, it's frequently difficult to gain access to current and potential members via events. At the city, town, county, and community level, credit unions are just one more sponsor to write a check or chip in and help. It's difficult to consistently stand out.

> Credit unions are in a unique position to help their communities pursue big dreams.
>
> Scott Butterfield

The struggle is to find the best opportunities to maximize community connections for the greatest overall outcome.

Credit unions must have a clear community purpose. Consider these factors:

- **Alignment.** Make sure the credit union's purpose aligns with the community need. This allows leaders to speak directly to how the credit union meets a specific community need.
- **Connection.** Once leaders identify purpose and alignment, the next step is to identify, create, and nurture the ideal community connections. Do this by seeking out community groups or individuals who share similar desired outcomes.
- **Commitment.** The best connections that lead to the best outcomes are built over time. They are strategic and not a "one and done."

Frequently we'll see leaders from the community "connection" become a credit union volunteer and vice versa. Community connections such as these are great avenues for recruiting new credit union volunteers and improving board diversity.

Credit unions are in a unique position to help their communities pursue big dreams or overcome significant challenges. The bigger the goal or challenge, the better the potential impact or outcome.

Many credit union products and services align with community needs. Home loans support affordable housing, small business lending supports economic development, used auto loans provide affordable transportation, and financial counseling reduces the negative impacts of predatory lending. Having the right community connection should be a part of the credit union's purpose and mission.

Perhaps the greatest value is during times of crisis. Being part of a community network that can quickly mobilize is key. Credit unions become community heroes when they are prepared and ready to jump in at a moment's notice. The best way to do this is to develop the network well before an emergency.

In this competitive landscape, successful credit union leaders will make the most of every possible advantage available. This includes becoming an important connection within the community.

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

Resources

CUNA board and committee solutions:
cuna.org/board

CUNA Credit Union Board of Directors Community:
community.cuna.org

CUNA Professional Development Online:
cuna.org/cpdonline

CUNA Environmental Scan:
cuna.org/escan

Identify risk with gap analysis

Measure how changing rates affect net income.

The goal of asset/liability management (ALM) is to use financial information to set the credit union's strategy and policy, including its interest-rate risk tolerance.

The main goal is to predict how changing interest rates will affect capital and identify how much capital is at risk.

One tool used to measure how changing interest rates will affect net income and capital is gap analysis, according to "Asset-Liability Management for Directors," a course from CUNA CPD Online.

Gap analysis focuses on assets and liabilities that are rate-sensitive—they carry an interest rate that is subject to change, such as an adjustable-rate mortgage.

The gap is the difference between the amount of rate-sensitive assets—or how much interest income would be affected by interest-rate changes—and the amount of rate-sensitive liabilities—or how much dividend expense would be affected. Once you identify the gap, you can calculate the effect of interest-rate changes on net income.

The gap indicates how much risk the credit union is taking. The larger the difference, the more risk.

Credit union leaders and boards can take steps to shrink the gap and lessen the risk to capital.

While a gap analysis provides an estimate of the effects of interest-rate changes on net interest income, this approach has some weaknesses. It assumes all rate changes will be applied to all types of shares, borrowed funds, loans, and investments. It's unlikely that management would apply interest-rate changes across the board.

Also, a gap analysis assumes the mix of loans, shares, and investments does not change over time.

While a gap analysis can be helpful in setting rates and planning for potential cash inflows and outflows that may affect liquidity needs, this tool can't provide an accurate forecast for future levels of net interest income. Instead, credit unions use a net income simulation to address those future forecasts.

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B2.	Paid in-county	0	0
B3.	Sales through dealers, vendors and counter sales	0	0
B4.	Other classes mailed	0	0
C.	Total paid distribution	1,557	1,375
D1.	Free outside-county	42	38
D2.	Free in-county	0	0
D3.	Other classes mailed	0	0
D4.	Free outside the mail	0	0
E.	Total free distribution	42	38
F.	Total distribution	1,599	1,413
G.	Copies not distributed	125	67
H.	TOTAL	1,724	1,480
I.	Percent paid	97.4%	97.4%
a.	Paid electronic copies	128	125
b.	Total paid print + paid electronic	1,685	1,500
c.	Total print dist. + paid electronic	1,727	1,538
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