Credit Union
Directors
NEWSLETTER

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Improve your board: 5 areas of focus

Clarify your mission and prioritize education and engagement.

Directors frequently ask how their boards compare to others, and how they can improve their performance.

Given my interactions with credit union boards over the past couple of years, here are five challenges to address:

1. Ambiguous vision and mission. A lack of buy-in to the credit union's purpose among leadership hinders board decision-making. We count on credit union boards to strategically look forward and help us see what tomorrow looks like: who do we serve, how do we serve, why we serve, and the desired outcome for everything we do.

Credit unions that achieve vision and mission clarity invest time, research, and productive debate to nail it down in a concise and clear format. It's important to capture what you do and how you do it, followed by why.

For example, your mission might be to improve members' financial well-being. This applies to many low income-designated credit unions that focus on financial inclusion and flexible lending to lend deeper within the membership. What's your credit union's purpose? If you don't know, find it and make sure it's compelling.

2. Board recruitment. People won't give up their time and talents to join a board for something that isn't compelling. In the past, when most credit unions served one sponsor group, board members would ask co-workers to serve, and it was compelling because it was for the company they worked for.

Today, even at single-sponsor credit unions, many boards consist of mostly retired people who no longer have relationships with younger leaders—potential directors—at the sponsor company. Credit unions that have a clear and compelling purpose, vision, and mission are much better at recruiting new board members. If people value the credit union enough, they'll volunteer their time and engage.

> "BOARD MEMBERS must receive EDUCATION to PERFORM their duties well."
>
> Scott BUTTERFIELD

3. Board education. The lack of continuing, credit union-focused board education becomes apparent during strategic conversations. Board members must receive education to perform their duties well.

A lack of training may result in poor decision-making. It could also inhibit board members from engaging in conversations (because they don't know how to contribute) and frustrate other board members and the management team. While the basic areas of education are governance, finance, and risk, don't limit training to those topics.

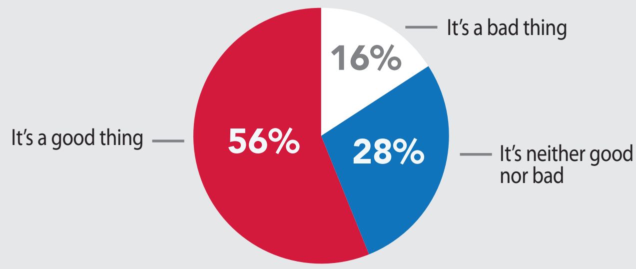
4. Board engagement. A concerning trend in my experience is that fewer directors are attending strategic planning sessions. Emergencies happen, but I see too many empty seats. Another issue is vocal engagement during board meetings or strategic

QUICK TAKE for your next board meeting

DEI in the workplace

Workplace diversity, equity, and inclusion (DEI) efforts are becoming a bigger part of the national political discussion. Most employed adults (56%) believe an increased focus on DEI at work is a good thing, according to Pew Research Center.

Workplace attitudes about DEI



Source: Pew Research Center, 2023

planning. The board as a body may appear attentive, but might not be emotionally engaged in the issues at hand. Board members should speak up, ask questions, and debate issues respectfully.

The final area of engagement that's too common is a lack of advocacy. Ultimately, board members should create credit union access for future members, borrowers, and board members. Directors who have the ability to advocate for the credit union can open new doors of opportunity.

5. Strategic thinking. I list this last intentionally, not because it's least important but because it's affected by the previous four challenges. For example, a lack of governance training results in blurred conversations that are too tactical and in the realm of management oversight.

A lack of engagement limits strategic discussion. The best strategic planning happens when board members and management come together with a focus on purpose, the ability to develop comprehensive scenarios and plans, high engagement, and commitment to achieve results.

If any of these challenges resonate with your credit union, raise the topic at the next board meeting and seek input on how the credit union can be better prepared for the future.

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

'Learn as much as you can'

Nina Boyd embraces the power of education.

Nina Boyd has been a member of $28 billion asset SchoolsFirst Federal Credit Union, Tustin, Calif., for most of her professional career. For much of that time, she's also served as a committee and board member. Boyd shares her passion for service and discusses her credit union's strategic imperatives.

Credit Union Directors Newsletter: What's your full-time job and how does it inform your board role?

Nina Boyd: I'm deputy superintendent, operations, governance, and community partnerships, for the Orange County (Calif.) Department of Education. My job helps me see the many ways the credit union movement and SchoolsFirst Federal meet the needs of school employees, families, and the community. I communicate the needs and services that fulfill the mission and goals of SchoolsFirst Federal, and provide a voice where there are gaps or changing needs.

Because SchoolsFirst Federal is education focused, my leadership position in education gives me a global view of the assistance our school employees and their families need. I'm fortunate to be able to pass on first-hand information on matters that directly impact our members.

Q: What are SchoolsFirst Federal's top strategic imperatives?

A: They remain as they have since our founding 89 years ago: continuing to provide the world-class, personal service our members expect and deserve. This intense focus on our members continues not only on how we serve them today, but also to ensure we meet members' changing needs and expectations. This includes improving our products, service practices, and systems, and fostering diversity, equity, and inclusion in our initiatives and talent development.

> We strive to create an engaged membership, encouraging them to count on us for guidance no matter where they may be on their financial journey.
>
> Nina Boyd

Q: How do you foster financial well-being among members?

A: We strive to create an engaged membership, encouraging them to count on us for guidance no matter where they may be on their financial journey. We ensure our products are highly competitive and include incentives that will improve members' financial well-being.

For instance, when members pay their auto loan or school employee credit card on time for 12 consecutive months, we lower their rate until they reach the lowest rate available. We also offer workshops and online learning to help them become more confident about their financial decisions.

Q: How does your board ensure all director voices are heard?

A: By creating a culture of inclusiveness and building relationships of mutual respect. The board chair and vice chair rotate annually so every member of the board can lead. More importantly, every board member is encouraged to voice their opinions and experiences on behalf of members.

Read the full interview at *news.cuna.org/directors.*

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Finance challenges to watch

Conference addresses liquidity pressures, noninterest income, and a possible recession.

The prospect of a recession, and pressures on noninterest income and liquidity dominated discussions at the 2023 CUNA Finance Council Conference in Anaheim, Calif.

A panel of three economists agreed that a recession is likely. The only question is when. "Our forecast is no recession this year, with higher chances as we go into 2024. We're calling it a 'slow session,' with gross domestic product growth of around 1%," says Marisa DiNatale, senior director at Moody's Analytics. "The labor market has been incredibly resilient, although we expect job growth to slow significantly in the next couple of quarters."

While inflation remains high, DiNatale believes the Federal Reserve won't raise interest rates again this year, and will lower them next year. "This will allow the Fed to thread the needle between managing inflation and hurting the economy," she says.

Bill Hampel, consultant at MDB Hampel LLC, doesn't believe inflation will subside soon. He says decades of low inflation left most people surprised by its striking rise.

"The Fed feels bad that they let the inflation genie out of the bottle," he says, adding that it wasn't the Fed's fault. The key factors: The pandemic caused supply shocks that drove up prices and led to government stimulus, and the war in Ukraine pushed up energy prices.

> "Don't do any crazy things to boost the bottom line in the short term."
>
> **Bill Hampel**

"Getting that genie back in the bottle is the Fed's No. 1 policy goal," Hampel says, placing odds of a recession this year at 50% and next year at 80%. "The headwinds are so strong."

What does this mean for credit unions? High rates mean high cost of funds and disintermediation of member deposits, according to Hampel. "Liquidity pressures will continue next year, and your margins will be lousy," he says. "Fortunately, credit unions have plenty of capital, and they won't dilute it with asset growth.

"The next couple of years will be rough," Hampel continues. "There will be rainy days for credit union earnings, and liquidity pressures will persist. Don't do any crazy things to boost the bottom line in the short term. Draw down your capital a bit to live another day."

Other issues finance leaders addressed during the conference:

» **Credit unions' safety and soundness.** NCUA board member and immediate past chairman Rodney Hood says the credit union movement remains safe and sound despite recent headwinds, which include high-profile bank failures.

» **Liquidity struggles.** The battle for deposits requires new approaches to ease liquidity pressures, according to a panel of credit union and fintech leaders.

"There's power in collaboration," says Amber Cisneros, chief member experience officer at $2.5 billion asset Orange County's Credit Union in Santa Ana, Calif. "Tap into your peers, and have daily conversations with your internal team about what's in the pipeline."

» **Investments.** Charley McQueen, president/CEO at McQueen Financial Advisors, offered insights on investment portfolio management with an inverted yield curve—when long-term yields fall below short-term yields.

He expects interest rates to drop in the next six to 12 months.

"We'll want to look for nonoption-based investments rather than mortgages or callable bonds," McQueen says. "I want to look at fixed-term maturities and build a nice, boring ladder of securities three, four, or five years long.

"That way," he adds, "we'll have constant maturities to reinvest in whatever market we're in."

Resources

CUNA Supervisory Committee and Internal Audit Conference, Dec. 4-6, Las Vegas: *cuna.org/sciac*

CUNA Councils: *cunacouncils.org*

2023-2024 CUNA Environmental Scan: *cuna.org/escan*

CUNA News Podcast: *news.cuna.org/podcasts*

3 opportunities to boost financial health

Take a holistic approach to improving members' well-being.

Financial education is a difficult proposition for credit unions: Every member has different needs, and they evolve continually.

Ron Shevlin, chief research officer at Cornerstone Advisors, cites four areas where financial education sometimes misses the mark:

1. It's not contextual. Financial education doesn't occur at the time the consumer is making a purchase decision.

2. It doesn't strive to change consumers' behavior.

3. It's not holistic. It doesn't take into account all aspects of members' lives.

4. It's not measurable.

Shevlin says one valuable model is the Financial Health Network's FinHealthScore, a framework that gauges consumers' financial health using eight indicators adopted from finance studies, financial services providers, and industry experts.

He offers three ways to improve members' financial health:

1. Make financial health a service rather than a resource. Shevlin notes that most financial institutions house their financial education resources on a designated webpage, or source the content to a third party. "I'm willing to bet that section is one of the least visited parts of your website," says Shevlin, who addressed the Co-op THINK 23 Conference.

He notes that consumers typically have multiple financial relationships, including health savings accounts, retirement, investments, mobile wallets, and payment apps.

Financial firms can add value by enhancing their products. He cites a large credit union that offers a "Plus Checking" account, which includes benefits such as identity theft protection, roadside assistance, and free credit monitoring.

"They're obviously committed to the financial health and performance of their members," Shevlin says. "But they're doing it because their members want it, and they're willing to pay for it."

2. Measure member's financial performance. Credit unions have many options to track consumers' saving, spending, and borrowing habits.

"With all of the emerging technologies, it's becoming easier to ingest all of this data and come back with scores and metrics that look at your members' financial health and performance," Shevlin says.

However, financial health doesn't come down to a single score, he says. "It's about taking steps. As you start that journey toward measuring members' financial health and performance, you're not going to have all the data, but you'll have a vision of where you need to go to fill in the blanks."

3. Take a holistic approach to financial health. Financial well-being includes physical and mental health, Shevlin says, citing a recent Cornerstone Advisors study that looks at the impact of social issues on consumers' financial lives.

"The No. 1 social issue consumers are dealing with today is mental health," he says. "It's the most important social challenge in the U.S."

> **"It's becoming easier to ingest all this data and come back with scores and metrics."**
>
> **Ron Shevlin**

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EDITORIAL STAFF

MICHELLE WILLITS // publisher, mwillits@cuna.coop

BILL MERRICK // deputy editor, bmerrick@cuna.coop

RON JOOSS // senior editor, rjooss@cuna.coop

DESIGN AND PRODUCTION STAFF

CARRIE DOYLE // senior publications & digital design specialist, cdoyle@cuna.coop

CONTACT INFORMATION

EDITORIAL // 608-231-4932

SUBSCRIPTIONS // 800-356-9655, or cuna.org/directors