Credit Union
Directors
NEWSLETTER

7 strategic issues to consider

Serving younger members and providing value highlight discussions at the 2023 Credit Union Board Roundtable.

Attracting younger members, artificial intelligence, member loyalty, and staying true to the mission were just a few topics driving discussions during the 2023 Credit Union Board Roundtable in Chicago.

Highlights and takeaways from this year's event:

» Attracting Generation Z. It's the next generation of members. They want fast, immediate, and digital solutions, and their preferences won't change. In 10 years, they'll be buying cars and homes, and using debit and credit (cardless in a digital wallet) during their trips to Costco. Credit unions that are ready for members' expectations in payments, service, and solutions will earn a lifetime of value as one of their permanent financial institutions.

» Providing savings. Financed by credit unions, credit-challenged members save $14,000 on auto loans and $70,000 on mortgages, according to CUNA economists. Assuming these members hold four auto loans and one mortgage over their lifetimes, they'll realize $126,000 in extra cash flow thanks to their credit union. Introduce lessons on savvy financial management and the aggregate savings pay for college, contribute toward a down payment on a home, or provide a nice bump to retirement savings. That's the credit union difference.

» Realizing the benefits of AI. Artificial intelligence (AI) can help your credit union approve more loans. Beyond traditional underwriting, AI and cutting-edge analytics can score members for loans by analyzing points of data that justify extensions of credit. With AI, one credit union discovered it missed 9,000 opportunities for loans that would have produced $7 million in annual interest. How much more could your credit union expand service with new, risk-priced loans it might have missed?

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>
> Jeff RENDEL

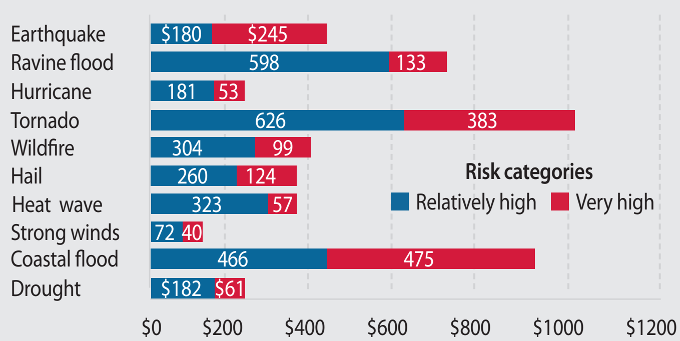
» Predicting loyalty. Streaming services are the latest predictor of spending account loyalty. Can you identify which sets of members pay for various streaming services with your checking products? Examine automated clearinghouse (ACH) files for outflow to streaming services. Look for ways to encourage greater use of debit products, perhaps with incentives or rewards. Notice the terms "spend" or "debit" for daily

QUICK TAKE for your next board meeting

Credit union exposure to natural disasters

Ten types of natural disasters account for 97% of total expected annual losses from these events, according to the Federal Emergency Management Agency's (FEMA's) National Risk Index. Combining FEMA data with NCUA call report data shows that roughly half of credit union assets are in areas that are at a relatively high or very high risk of experiencing a tornado, the fourth-costliest disaster type. A similarly large share of credit unions are exposed to strong winds.

Credit union assets in high-risk areas by natural hazard type
($ billions)



Source: FEMA and NCUA, 2021

» transaction accounts? It's intentional. Many credit unions are rethinking the term "checking" for a new era free of writing checks.

» **Offering value through efficiency.** Noninterest expense is just as important as noninterest income. While offering value-added services to members builds the top line, driving value for members through efficiency and lower operating expenses is another way to deliver on the value of ownership to members. Being a good steward of members' resources creates opportunities for price leadership, growth, and give-backs to members in ways competitors can't offer. It's the members' credit union, after all. They deserve the highest return for their investment and relationship.

» **Establishing a rainy-day fund.** Nonmembers are 1.5 times more likely to not have a rainy-day fund, according to CUNA economists. While this is a nod to credit unions and how they educate members, non-members have less money set aside for emergency expenses. Creating more financially savvy members should be an area of strategic focus.

» **Focusing on the mission.** Is your credit union focused on its mission? That question becomes most important as a credit union grows and becomes more complex in its lines of business, operations, and strategic direction.

Good governance involves asking questions about risks to take and mitigate, but also ensures that credit unions incorporate their mission into every facet of their strategic future and how they deliver value for their owners.

JEFF RENDEL *is president at Rising Above Enterprises. Contact him at* jeff@jeffrendel.com

'Charge less, give more'

Giveback program and fewer fees put more cash in members' pockets.

Tyndall Federal Credit Union in Panama City, Fla., has a simple strategy: Charge less, give more.

"Tyndall Federal is committed to making a meaningful difference in the lives of our members," says Frances Martin, board chair at the $1.9 billion asset credit union. "How do we prove that we're living up to our mission with our strategic plan? Our goals are set with the aim to live up to that plan: to bring value to our members."

During the 2023 Credit Union Board Roundtable in Chicago, Martin described how Tyndall Federal has eliminated fees to "keep money in members' pockets" while rewarding members for engaging in various behaviors.

Tyndall Federal has eliminated many of its fees, charging an average of $28 per year in fees per member versus $78 at peer credit unions.

Tyndall Federal's board focuses on creating and sustaining meaningful value for members. The credit union leverages its tax benefit and cooperative structure while keeping member fees and operating costs low.

Martin calls it the credit union's "give more and take less" philosophy.

Tyndall Federal bases its annual giveback on member activities. In 2023, these activities were:

1. **Using** bill pay.
2. **Having** direct deposit.
3. **Using** a debit or credit card.
4. **Logging** into online banking.
5. **Having** or opening a checking account and opting for electronic statements.
6. **Having** or obtaining a loan.

Members can earn up to $1,000 for completing these activities, and they receive these funds around Christmas, Martin says. During the last five years, Tyndall Federal has given back $62 million to members through the program.

In 2023, the credit union gave $22 million to members through the giveback, with 10,000 members receiving between $700 and $1,000, and 70,000 of Tyndall Federal's 113,000 members receiving some benefit, Martin says.

"Our members are excited. Some of the stories will bring tears to your eyes," she says. "We don't always know what's happening in our members' lives. Getting that little extra just before Christmas lets them provide toys for their kids or have gas in their car. It's the little things that allow them to get from one paycheck to the next paycheck.

"I think about that single mom, the young family, those retirees," Martin continues. "They have trusted us with their money. Honoring them with this giveback is the least we can do."

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> Frances Martin

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>
> **Marianne McBride**
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The Introduction track helps newer directors learn more about the fundamentals of their role.

The Designation track is for more experienced members, who have a chance to earn their Certified Credit Union Board Member (CCUB) designation.

cuna.org/bsid

Establishing climate governance

Incorporating climate-related governance practices can provide many benefits.

Wildfires. Floods. Hurricanes. Severe storms. Droughts.

Climate change affects everyone and every facet of life, prompting the need to prioritize climate governance as a strategic issue, according to "Canadian Credit Unions and Effective Climate Governance: Cooperating for a Sustainable Future."

The report explores how to view climate governance as a strategic issue, and the role board members can play.

"Directors bear the duty to exercise care, skill, and diligence in assessing the potential impacts of climate change on the credit union and its members," author Helen Alexandra Joan Tooze writes in the report. This includes actively monitoring and managing climate risks, integrating climate considerations into strategic planning, setting risk appetite and tolerance, and overseeing the implementation of appropriate mitigation and adoption measures.

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While aimed at Canadian credit unions, where some guidelines and regulations have already been put into place, U.S. credit unions can find value in the report, which outlines and establishes effective governance practices for climate-related risks and opportunities.

Directors play a crucial role in setting governance practices that address climate-related risks. Each credit union's unique characteristics determine its risks and vulnerabilities.

The board must establish a framework that allows them to make informed decisions about climate risks, strategies, targets, and metrics. According to the report, boards must be able to:

» **Articulate** how they oversee climate-related risks and opportunities.

» **Assess** whether they possess the required information and tools to tackle the challenges.

» **Evaluate** their capacity to scrutinize climate-related risks affecting the credit union, and assess their ability to make effective decisions regarding the management and disclosure of risks.

Having a diverse board with members who bring different perspectives and insights into climate change is crucial.

Incorporating climate governance into a credit union's practices can offer multiple benefits:

» **Greater membership engagement.** It allows the credit union to foster stronger connections with members, who are becoming more concerned about sustainability.

» **Cost savings.** Implementing sustainable practices and energy-efficient measures can save money.

» **Access to new lending opportunities.** Being better informed of climate risks allows the credit union to make safer lending decisions and explore new lending opportunities.

» **Higher revenue.** Launching innovative products and services that address climate challenges can open new sources of revenue.

» **Enhancements to existing processes.** Integrating climate considerations into existing operations can improve efficiency and effectiveness.

» **Closer community ties.** Taking a proactive stance on climate issues can strengthen the credit union's relationship with the communities it serves.

Resources

Credit Union Board of Directors Conference: Punta Cana, Dominican Republic, Jan. 14-17, 2024: *cuna.org/bodc*

Board and committee solutions: *cuna.org/board*

Board community: *community.cuna.org*

Predatory lending in the digital world

Use data to improve members' financial well-being.

The digital revolution has brought a surge in predatory lending—paving the way for predatory lenders to exploit gaps in regulation and consumer knowledge. High-interest payday loans, misleading terms, and hidden fees are just some of the tactics predatory lenders use to ensnare borrowers.

Payday lenders made $33.5 billion in 2021, an amount that's projected to increase 27% by 2028, according to Vantage Market Research.

Historically, brick-and-mortar payday lenders have targeted underbanked areas. However, in the digital space, payday lenders can cast a larger net and catch more consumers than ever before.

Populations that tend to be more vulnerable include those with no college degree, renters, people of color, low-income individuals, and people who are separated or divorced.

Vulnerable members may choose a payday loan over their credit union because they feel embarrassed about their current financial situation. Beyond the emotional strain, members often turn to digital payday lenders because they feel it's their only option.

Thankfully, data has emerged as a powerful tool in the fight against predatory lending. By leveraging data analytics and technology, credit union leadership can gain valuable insights into their members' financial behaviors, enabling them to identify signs of susceptibility to predatory lending and take proactive measures.

When reviewing 12 months of automated clearinghouse (ACH) transactions of 360,000 credit union members using alternative financial service providers, the team at TruStage discovered:

» **Younger** members were more likely to use payday loans.

» **Members** with higher balances still use payday loans.

» **Three** out of four payday loans go to borrowers who take out 10 or more loans per year.

» **Alternative** lender payments were five times higher than deposits into borrowers' accounts.

How to support vulnerable members

One way to identify consumers who need help is working with members when they ask for assistance. Look for ACH deposits from payday lenders into members' accounts. This isn't always one large deposit; it can be small deposits from multiple payday lenders.

Once identified and with the members' consent, credit unions can offer to help pay off the loans and improve members' financial security.

This approach provides two main benefits. First, improving members' financial well-being cultivates a sense of loyalty and trust. Second, credit unions enhance their earnings through increased interest generated by loan repayments.

Credit union leaders should view all strategies through an empathetic lens and keep their members at the center of all decisions.

EMILY NADBORALSKI *is director of data and analytics at TruStage, and* **VICKI POTTER** *is an analytics consultant at TruStage.*

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