Perspectives

Volume 12, Issue 3

The Official Magazine of the Cornerstone Credit Union League

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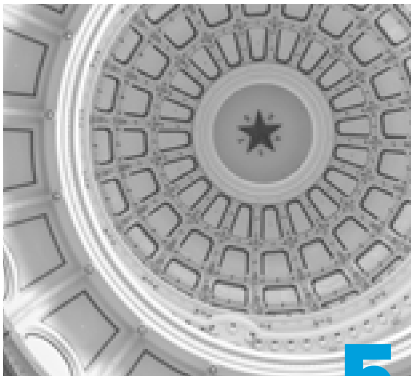

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Envisioning & Embracing the FUTURE

Caroline Willard, President and CEO
Cornerstone Credit Union League

Having started out my career as a marketer, I believe in strong communications, and one thing I like to tell credit unions is, “Don’t be the best-kept secret.” So it is with Cornerstone Credit Union League. We’re doing great things on behalf of credit unions every day, and we want everyone to know it. I’d like Cornerstone to be seen as the North Star of the movement—the tour de force that promotes credit unions’ financial health, ever-increasing market share, and preferred solutions for consumers.

Think about it. League affiliation is the engine that can add power to your daily operations, business growth, and influence in the community and among your members. We want to build on our shared successes, incorporate our **new** bold vision into the mix, and lift the tide where all boats float. It’s why we reach out to nationally recognized industry experts as well as our in-house specialists for this publication.

We’ve put together a superb lineup for this quarter’s issue of *Perspectives*. We turned our spotlight toward structuring your credit union for the future by Andrew Downin from innovation frontrunner Filene; cutting-edge loan data analytics from lending guru Jim Kasch; leadership for every generation by BridgeWorks’ Phil Gwoke; and insights on Zelle’s new digital wallet compared to Venmo from CO-OP’s Bill Prichard.

“There is no more powerful engine driving an organization toward excellence and long-range success than an attractive, worthwhile, achievable vision for the future, widely shared.”

- Burt Nanus Professor Emeritus at USC Author of Visionary Leadership

Our advocacy and compliance experts put in many thousands of hours protecting credit union concerns during the three most recent state legislative sessions, and in these pages we encapsulate the pertinent bills for you. Our other Cornerstone professionals discuss the dues-supported strategic assessment initiative and performance reports, strategic planning and deployment, how to use video technology in the recruiting and hiring process, and the latest IT news on cloud performance at your credit union.

It’s a smorgasbord of information and insights from some of the best around. I hope you enjoy reading and find it helpful to your credit union. As always, we welcome your feedback and suggestions for topics you’d like to see addressed in the future.

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LEGISLATIVE SUCCESS IN THE CORNERSTONE STATE CAPITALS

Jim Phelps, Chief Advocacy Officer, Cornerstone Credit Union League

The 2017 state legislative sessions were very successful for Cornerstone credit unions. Where advocacy is concerned, success is often defined not only by the bills passed, but also the many bills defeated or favorably amended.

Nearly 11,000 bills were filed across the three state legislatures. Thanks to the excellent work of the Cornerstone staff, along with strong support from thousands of credit union advocates, two-thirds of Cornerstone's 2017 state legislative goals were achieved.

The association offices in the state capitals are the front lines for Cornerstone's legislative efforts. The offices are led by association presidents Vicky Salkeld in Arkansas (ARCUA), Nate Webb in Oklahoma (OKCUA), and Jeff Huffman in Texas (TXCUA). In addition, Suzanne Yashewski, SVP regulatory and compliance counsel; Nathan Behncke, regulatory compliance advisor; Barri Hamilton, director of compliance; and Charlotte Spencer, legislative and regulatory director, worked diligently to analyze thousands of bills and track key legislation.

Engagement is essential to legislative success, and there were numerous occasions in the 2017 sessions when grassroots "calls to action" were issued. In Arkansas, the grassroots efforts were led by Skeeter Brosius, grassroots manager; in Oklahoma by Matt Blubaugh, grassroots and PAC coordinator; and in Texas by Gretchen Ziegler, VP of political affairs, and April Krause, political and grassroots director. Working collectively, several thousand contacts from credit union staff, volunteers, and members were directed to the state legislatures.

The following represents significant victories achieved this session on behalf of Cornerstone credit unions. In addition to what you see here, numerous other bills were amended or defeated that could have had an adverse impact on credit unions. Some of those issues may resurface in one of the next sessions.

THE 1ST SESSION OF THE 56TH OKLAHOMA LEGISLATURE

Payday Lending
On April 5, OKCUA achieved a significant victory when Gov. Mary Fallin vetoed HB 1913, a bill that would have allowed payday lenders to expand their predatory lending practices in the state. By answering a call to action, Oklahoma credit unions played a significant role in the bill's demise.

Wrecker Operators
A perennial fight between credit unions and the state's wrecker operators continued this session when the opposition filed yet another bill to roll back regulatory oversight of their industry. Their proposed legislation would have been detrimental to credit unions by returning to the days when operators were able to tow and store vehicles without notifying lienholders until storage fees were more than the collateral was worth. Credit union advocates engaged in the process and helped defeat this ill-advised effort.

PACE Loans
OKCUA stopped a bill that would have allowed so-called PACE loans in Oklahoma. The language was never introduced in the traditional manner, and instead, proponents were able to hijack an unrelated bill and insert their language.

Affidavit of Heirship
A conflict in Oklahoma statute created confusion for credit unions trying to determine how funds held by a bank or credit union can be transferred to the known heirs of a deceased person using an affidavit rather than a will. At the request of Oklahoma credit unions, OKCUA introduced legislation to create consistency in statute. The bill was passed by both chambers, signed by the governor, and will go into effect later this year.

THE 91ST ARKANSAS GENERAL ASSEMBLY

PACE Legislation Defeated
ARCUA defeated a bill to amend the Property Assessed Clean Energy Act, otherwise known as PACE. The amendment would have expanded the scope of PACE loans to include residences. The bill was pushed by the Little Rock, Pulaski County, and Fayetteville governments that wanted to establish an improvement district in each city and/or county in Arkansas.

ARCUA had several concerns with the bill. It allowed loans to be made based on the equity in a home with no regard to normal loan decision factors such as debt to income or creditworthiness; and in case of default, PACE loans would have been entitled to preference and priority over all prior mortgages, judgments, and liens, which could create major problems for the financial institutions that currently hold first mortgages on one of these properties.

ARCUA staff worked with CUNA and other groups, including the Arkansas Bankers Association, to gather information that would improve the bill. A grassroots alert was launched, and several credit union CEOs signed up to testify against the bill. As a result of this effort, the amendment failed.

Predatory Lending
ARCUA also defeated a predatory lending bill this session. The bill concerned the Credit Services Organizations Act of 1987 and would have added language to state law specifying how "credit services organizations" can offer guaranty services, which an organization called CashMax is doing. Proponents of the bill said it would put more definition in place regarding credit service organizations and add a consumer protection clause, but Arkansas credit unions didn't see it that way; they knew it was a predatory lending bill in disguise, and it had to be stopped.

Payday lending was outlawed in Arkansas in 2008, but CashMax claims to be legal by operating as a credit service organization, under the Credit Service Organization Act of 1987. Due to the lobbying efforts of ARCUA and grassroots opposition from credit unions, the bill failed in committee.

Second Amendment
Second Amendment advocates were particularly active this session filing 42 bills to relax laws governing the use of firearms and the manner in which they may be obtained, permitted, and carried. Of particular concern was a bill that would have denied business owners the ability to prevent firearms on their property. The OKCUA joined an opposition coalition and was able to amend the bill to our satisfaction.

REAL ID
Heading into session, Oklahoma was one of several states still not in compliance with the federal REAL ID requirement. The federal government served notice that if Oklahoma did not approve and begin creating compliant licenses, the noncompliant licenses would no longer be accepted for a variety of purposes including admission to military bases. This would have been particularly problematic for Oklahoma credit unions with operations on these facilities. The OKCUA aggressively pursued legislation to bring Oklahoma into compliance. The bill was one of the first to make it through the process and will satisfy federal regulations.

THE 85TH TEXAS LEGISLATIVE SESSION

Constitutional Amendments:
Home Equity and Prize-Linked Savings Accounts

Two constitutional amendments will be on the ballot in November that are beneficial to Texas credit unions. If adopted by the voters, credit unions would be specifically referenced twice in Texas core law.

The amendment that updates the Home Equity Lending Law came after TXCUA initiated discussions on the need to update those laws. The bill addresses problems with the 3 percent fee cap on home equity loans and reclassifies third-party expenses, such as appraisals, surveys, title policies, or title reports that are required to make the loan so they are not included in the 3 percent fee cap calculation; the 3 percent fee cap will be reduced to a 2 percent fee cap to protect consumers from additional expense.

The bill also increases the loan-to-value (LTV) ratio from 50 percent to 80 percent on new advances for home equity lines of credit, making it consistent with the closed-end loan LTV ratio; repeals the prohibition against allowing agricultural homesteads to have access to home equity loans; and allows refinancing of home equity loans that are at least one year old. They could be refinanced into a conventional loan, providing borrowers additional options and access to lower-rate products, rather than being limited to only refinancing into a home equity loan.

The other amendment on the November ballot will allow credit unions to offer prize-linked savings accounts, giving members the chance to receive prizes for adding to their savings accounts.

SB 714 Passes with Credit Union Exemption Intact
The Senate bill that would have amended account disclosures and imposed costly requirements on credit unions passed. As filed, the bill would have removed an exemption that credit unions have had since 2015, when a law was passed to increase public awareness of the payable-on-death (POD) option that makes it possible to transfer assets without going through the probate process. The bank trade groups supported removal of the credit union exemption in the Estates Code, which could have been very expensive for credit unions to comply with and result in millions of dollars of lost loans through online, mobile apps, and indirect lending.

THE 85TH TEXAS LEGISLATIVE SESSION (CONTINUED)

Vehicle Storage Facilities Notice to Lienholders Protections
Dozens of bills this session were related to towing, storage, and booting of vehicles. The tow truck groups worked to reduce notice to lienholders and increase costs on lienholders in the event of a non-consent tow. HB 2508 came out of committee with half a dozen issues for lienholders. TXCUA was able to secure three amendments on the House floor to address some issues while continuing to negotiate with multiple towing and storage groups with varying agendas. The negotiated changes to the process for notice to lienholders were added to SB 1501, another bill carried by Rep. John Kuempel relating to booting of vehicles. These changes make the timeline for notice more clear and prohibit storage fees until 24 hours after notice is properly sent if they fail to meet the first or second deadline.

Beneficiary Designation on Vehicle Titles
SB 869 by Sen. Joan Huffman (R-Houston) and Rep. Jessica Farrar (D-Houston) authorizes a beneficiary designation that transfers a motor vehicle at the owner's death, allowing the heir to avoid the costly probate process. The owner of the vehicle can designate a beneficiary by submitting an application for title paperwork, similar to a payable-on-demand beneficiary on account paperwork. The beneficiary takes the vehicle subject to all liens. Transfer of title does not affect the ability of a lienholder to pursue an existing means of debt collection permitted under Texas law.

Electronic Notarization
HB 1217 by Chairman Tan Parker (R-Flower Mound)/Sen. Kelly Hancock (North Richland Hills) creates standards for electronic notarizations and requirements to become an electronic notary public. Current law does not permit a person to electronically notarize a document remotely. This bill allows the entire process to be electronic using a two-way communication to confirm identities.

Elder Financial Abuse Bill
HB 3921 by Chairman Tan Parker (R-Flower Mound)/ Chairman Kelly Hancock (R-North Richland Hills) gives financial institutions, securities dealers, and investment advisers the option to put temporary holds on suspicious transactions that could be considered financial abuse of elderly members and offers good faith immunity protections for them. The bill also gives a legal definition of financial exploitation and establishes a tiered reporting mechanism for the state agency charged with investigating the cases.

Durable Power of Attorney Act
House Bill 1974 by Rep. John Wray (R-Waxahachie)/ Sen. José Rodríguez (D-El Paso) updates the Durable Power of Attorney Act. The changes to the bill are intended to ensure that validly executed durable powers of attorney (DPOA) can be used more effectively in Texas, in furtherance of the legislative goal of reducing the need for guardianship proceedings and to provide additional powers to the designated agents. Although it imposes mandatory acceptance of a power of attorney, it provides many avenues through which a credit union can still deny acceptance. The bill clarifies that if the applicable language conflicts with other laws applicable to financial institutions, the other law controls.

Trade-In Credits on Vehicles
House Bill 2339 by Rep. Senfronia Thompson (D-Houston) allows vehicle dealers to offer a trade-in credit agreement to buyers. The agreement provides a vehicle buyer with a credit toward the purchase or lease of a new vehicle if theirs suffers a non-total loss as a result of a collision. This credit would be applied towards the purchase or lease of a different vehicle from the retail seller or an affiliate.

Leadership for EVERY GENERATION

How Each Generation Likes to Be Led – Part One

Phil Gwoke, BridgeWorks – www.generations.com

Leaders and managers throughout history have made a critical mistake: leading others through the golden rule (treating others the way you'd want to be treated). While the intention is good, in practice it's disastrous, especially in a workplace environment where four or five generations show up with different perceptions and preferences. Why, you might ask? Because the best way to lead others is actually through the platinum rule, in which you treat others the way they want to be treated, or rather, in this case, the way they want to be led.

By developing an understanding of generational identities, you can gain valuable insight into those varying leadership preferences. Through that insight and awareness, managers can gain the extra edge they need to better recruit and retain employees of all generations, and lead, not in a one-size-fits-all way, but in the much more effective manner of "I've got a fit for all."

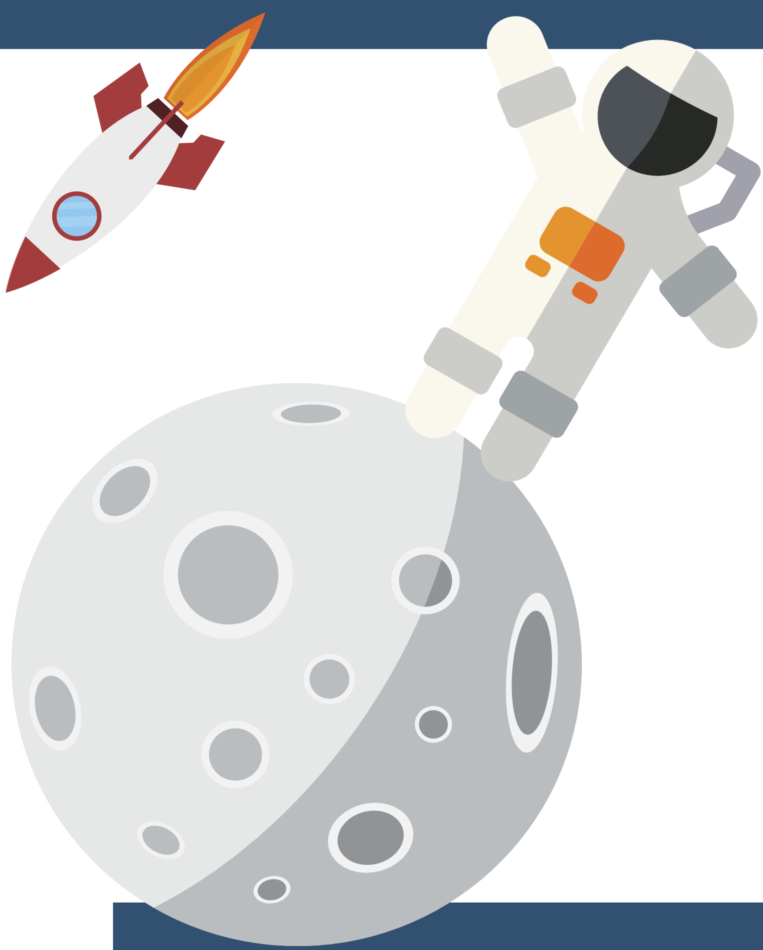
BABY BOOMERS

Born between 1946 and 1964, Baby Boomers saw NASA put a man on the moon, engaged in Civil Rights and Women's Rights movements, and championed Youth Culture. In the workplace, Boomers are known to be work horses; they come in early and leave late, always looking for the win and pushing the company forward with their inexhaustible work ethic. Boomers are also community builders, as they excel in face-to-face communication.

When Leading Boomers, Keep Investing in Their Skill Sets...

Boomers are the generation that rages against aging. They want to keep learning, growing, and acquiring new skills. Don't count them out as high-potentials just because they're in their 50s and 60s. Keep investing in their careers by giving them the opportunity to question and explore, and they'll keep investing in your organization.

You might also consider creating a reverse-mentorship program where your Boomers help green employees learn the ropes, and the younger employees can return the favor by sharing some of their own expertise (be that in technology, social media, etc.). In that way, Boomers are not only learning new things themselves but imparting valuable institutional knowledge to the newest hires.



GEN XERS

Xers, born between 1965 and 1979, grew up with 24-hour news and the Challenger explosion; they were dubbed the latchkey kids. Like the Boomers, this generation works hard, but they prefer to work independently and efficiently. Unlike Boomers, this generation prioritizes family over their work. To avoid having their kiddos at home alone, they're efficient in getting their tasks done and won't spend time beating around the bush when it comes to giving or receiving feedback.

When Leading Xers, Make Sure to Give Them Spaces...

If there's anything that will disengage a Gen Xer, it's a micromanager. Be sure to give Xers space to complete their work on their own, and avoid hovering over them or setting up too many check-ins. Make meetings as worthwhile as possible, and avoid the flip "This could have been an email!" meetings. If it can be communicated over email, do it over email. Finally, if at all possible, try to grant Xers some flexibility in scheduling, so they can make it to their kid's soccer game.

MILLENNIALS

Talk about Millennials is constant and can be overwhelming at times, but don't worry—we'll make it easier to understand how to lead this generation born between 1980 and 1995. During Millennials' formative years, technology began upgrades on a consistent two-year cycle, and social media took off. On a scarier note, large-scale terrorism hit the US with the 9/11 attacks. Because Millennials were taught to share what was on their mind post-9/11, they show up as being the most collaborative generation. Their Boomer parents told them they could be and do anything, which resulted in a generation that cares more about their passion for their work than their paycheck. Millennials are also applying the "tech upgrade cycle" to their real life, wanting (and sometimes expecting) to see some change in their work every couple years.

When Leading Millennials, Find Opportunities for Collaboration...

Whether it appears via changing your office space to a more open layout, assigning team projects or goals, or even organizing group outings, it's critical to create those collaborative moments for this generation. Millennials are more likely to remain engaged if they have some collaborative assignments on their plate. As a generation used to easy, authentic interactions with people in positions of authority (teachers, parents, counselors), they'll also want the chance to collaborate with their leaders and managers, so make sure to find ways to bring Millennial voices to the table.

GEN EDGERS

This generation is beginning to make its way to the workforce, with the youngest born in 2010 and the oldest born in 1996. The events and conditions shaping this generation include the Great Recession, their experience as digital natives, and the constant exposure to violence via the smartphones in their pockets. All of these influencers are creating an extremely well-connected Edger in the workplace.

It's no secret that Gen Edgers like to use their technology. Despite their love for their phones, they do still prefer face-to-face conversations, but they may need some workplace communication coaching at the upfront.

When Leading Gen Edgers, Give Them Highly Specific Feedback...
Give frequent and specific feedback to Gen Edgers. Be explicit about what was done well and what could have been done better. Saying, "Good job!" won't work well with this generation. They want to know exactly how their contributions either advanced the team or held the team back. Pinpoint what was done well and what needs improvement so they can continue to level-up their skills. Finally, remember that they're new to the workforce and will need a big investment from you, as their leader, in the upfront while they learn the ropes of the workplace.

Innovation Crossroads:

How One Credit Union Is Structuring Itself for the Future

Andrew Downin, Managing Director of Research, Filene Research Institute

You've likely heard Peter Drucker's phrase, "Organizational culture eats strategy for breakfast." Mark Fields, the president at Ford, even made the phrase famous years later.

When you look around your organization, you see your employees getting the work accomplished, right? But, is it the strategic plan or the culture of your organization that propels you toward success?

The concept of organizational culture used to sound alien for some financial institutions, but as we see growth and encounter transitions in the credit union industry, this term has become increasingly vital.

Nevertheless, you may be missing a bigger indicator of business success if you think culture is the king that reigns over the land. Filene's Center for Organizational Entrepreneurship has found in new and developing research that an organization's structure may be even more telling in its ability to stay relevant, innovative, and adapt to our changing world to stay successful into the uncertain future.

Filene's Findings

Research published by Filene has looked at how to craft credit union culture for high performance and how organizational structure can determine a credit union's ability to balance the tension of innovation with the stable, day-to-day demands of keeping a business productive. Bottom line, placing attention and resources on both is vital to avoid extinction in today's shifting financial industry.

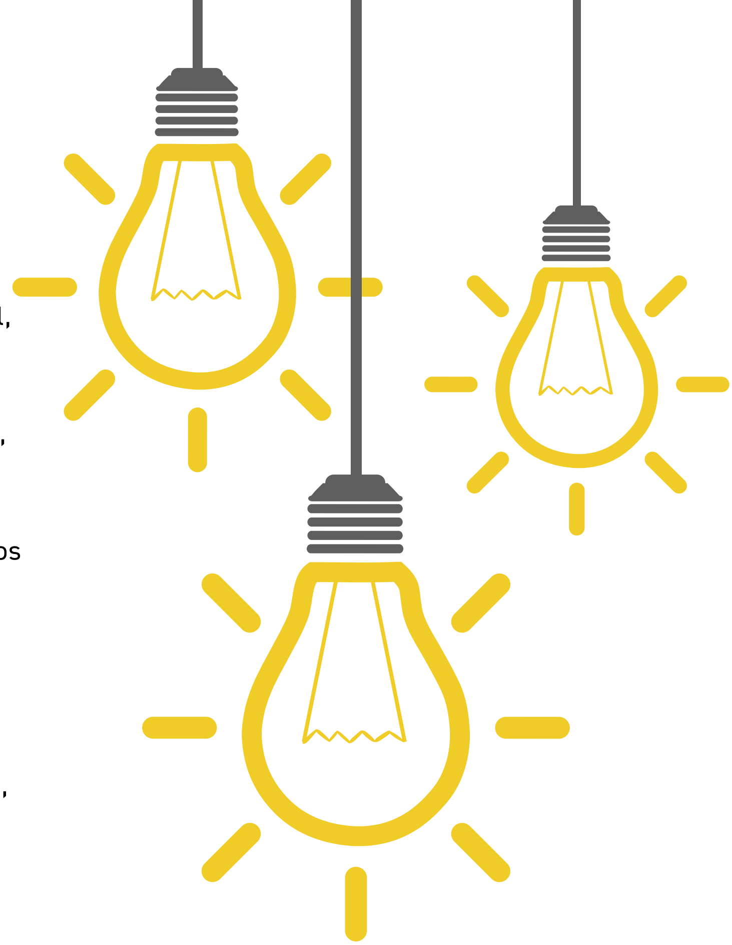
This research has shown that the ability to exploit what your credit union already does well and explore options for the future—in other words, possess organizational ambidexterity—is the most successful structure for innovation and ultimately business success.

"Innovation is not the product of logical thought, although the result is tied to logical structure."

\- Albert Einstein

The most recent research report to emerge from this research center comes from Dennis Campbell and Luis Dopico and builds further on the themes presented in the Structures for Innovation report, with a case study approach on Conexus Credit Union. This is a real-world case study, and as the scenario usually goes in the real world, there is no one "right answer." Instead, what this report presents to you is all the information Conexus has at hand to make business decisions that aim to bring them closer to achieving their goals of establishing a new structure of innovation and improving their members' financial health.

Conexus CEO Eric Dillion reflects on his credit union's prior innovation efforts when admitting, "We were trying to stretch for transformational improvements, and we kept getting incremental ones." You may also be in the same position. Dillion knew he didn't have decades for this work to come to fruition. He says that without the luxury of time—and in order to survive—they must know now what the next generation credit union looks like.



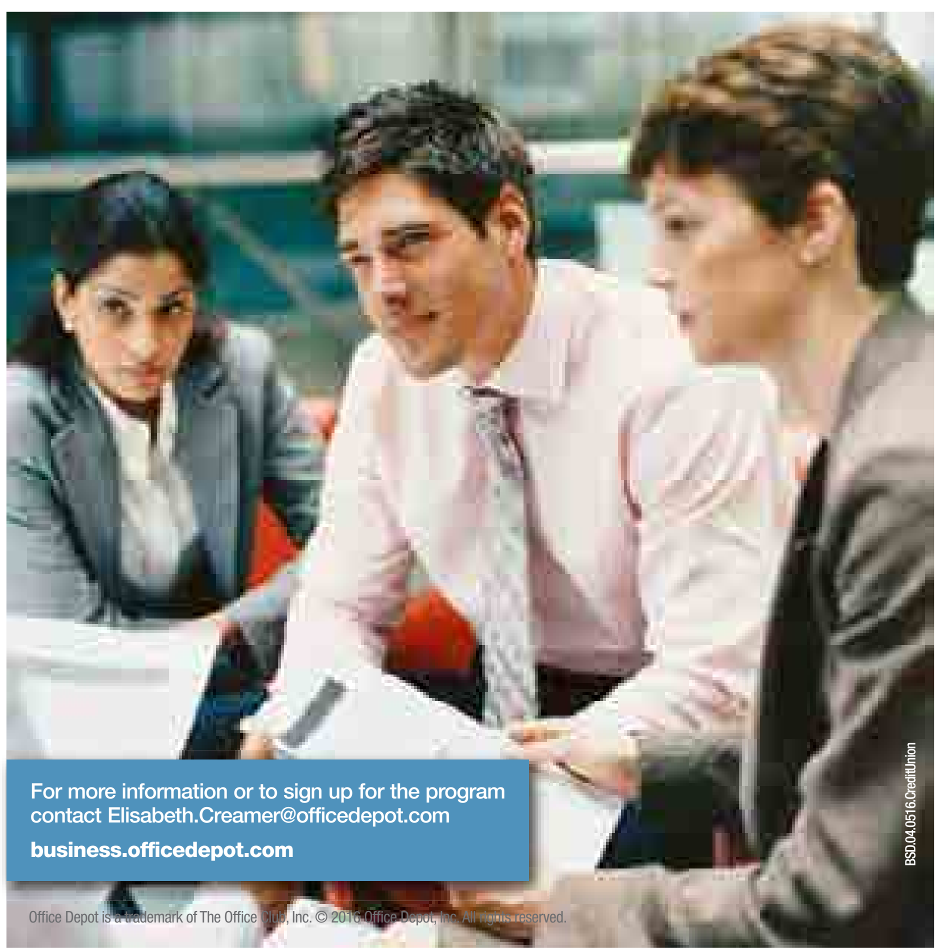
Under pressure of limited time and resources, and with encroaching competition in the financial space, Conexus has made many efforts to move beyond incremental change and reach transformation of their business model, though none have been crowned the winner.

See It for Yourself*

Partake in Conexus's journey through this case study, a method that was popularized at Harvard Business School, and share your thoughts in a safe (and fun!) space where no ideas are wrong (and no ideas are right), to prepare you and your teams for facing similar scenarios before a similar moment arises for your credit union.

Innovation takes practice before it can be perfected. Practice in our "Conexus at a Crossroads" Discussion Forum and tell us what you'd do. What actions hasn't Conexus yet considered, and what might they try next to achieve their goals? As your answers are collected and as Conexus's leadership team decides which path to take, we'll keep you informed along the way.

**Filene.org/research/report/conexus-at-a-crossroads-structuring-a-credit-union-for-innovation*



5 NEW SERVICES TO UP YOUR CU GAME

Mike Delker, SVP Credit Union Relations, Cornerstone Credit Union League

At the Cornerstone Credit Union League, we're always striving to provide not only great service to our members, but also relevant tools and resources that will help them better serve their members. As such, just within the past six months we have implemented five new services that we hope you'll find valuable and beneficial to your credit union.

PERSONALIZED PEER REPORT & ECONOMIC PROFILE

Cornerstone has delivered the first three quarterly reports related to individual credit union performance. The Personalized Performance Report is customized for each credit union using NCUA 5300 data, while the Economic Report incorporates Cornerstone-driven results with narrative that suggests time-sensitive topics and a listing of top-performing credit unions in the Cornerstone region.

This report also includes a five-year historical trend analysis in the critical operational areas of capital, asset quality, earnings, and liquidity. Metrics providing basic concentration and growth results are also included. Twenty-four key ratios are illustrated in graph format, and each graph provides a five-year trend for your credit union, plus peer comparison.

CORNERSTONE LEADERSHIP ACADEMY

Already underway in two pilot chapters is Cornerstone's new Leadership Academy. Cornerstone's Innovation and Collaboration Committee discussed the need for professional development closer to home for many of our up-and-coming staff and developed this program to meet those needs. This program will fill the learning gap that often exists between the two-day Principles and Philosophy Conference and Cornerstone's three-year Southwest CUNA Management School.

The Leadership Academy is a nine-month program, featuring one day of classroom training per month in accounting and finance, branch operations, human resources, information technology, lending, marketing, project management, and credit union principles and philosophies.

Look for this new initiative to be made available to all Cornerstone chapters in 2018.

STRATEGIC ASSESSMENT INITIATIVE

The Strategic Assessment Initiative, or SAI, is a self-assessment tool that credit unions can use in conjunction with their most recent examination report. The tool is designed to help the user identify areas of need and to lead them to the appropriate resources, including potential new product and service opportunities.

This online tool provides a snapshot of financial performance and allows credit unions to compare their ratios to peers. This site also offers an insightful presentation titled "How to Impact Key Ratios." The presentation provides industry standards for 11 ratios that address the key financial areas of capital, asset quality, and earnings and addresses the factors that impact the outcome of each ratio.

In addition, the Strategic Assessment Initiative offers a robust library of resources credit unions can utilize to enhance their operational effectiveness. The library is categorized into eight critical-focus areas: financial, lending, compliance, human resources, business continuity, technology, marketing, and volunteers. Within these categories, credit unions have access to numerous resources, tools, educational opportunities, and vendor information.

RATEMAP

As yet another value-added benefit of your membership, Cornerstone now provides access to RateMap, a unique interest-rate comparison tool designed to assist with your competitive analysis strategies, increase your pricing advantage, improve decisions on product offerings, and drive more revenue to the bottom line.

RateMap Features:

- A selection of the most commonly offered deposit and loan products and their rates
- Coverage of all the institutions/branches monitored in RateWatch's national database, which includes:
  - Deposit rate data on more than 90,000 branches nationwide
  - Loan rate data on more than 40,000 branches nationwide
- Ability to search by address, ZIP code, or city and state
- Ability to filter by institution type, product type, and rate
- Details such as address, website, number of locations, and deposit balances
- Customer and member reviews from online review sites such as Yelp
- Listing of Internet bank rates
- Ability to print deposit rate reports

CREDIT UNION 101

Cornerstone has implemented a new onboarding service for credit union staff called "Credit Unions 101: Enhanced Learning for Credit Union Employees." Credit Unions 101 is a four-module learning system with support materials to help the new employee learn about the credit union movement or as a refresher for a more tenured employee.

Viewers can watch the four short modules online from the comfort of their desks. The modules range from 3-10 minutes and include links to support materials that viewers can print. The modules are:

- The Credit Union Difference
- Principles and Philosophy
- Credit Union History
- League Benefits and Available Services

You can access the videos from the League's website, or a Cornerstone staff member can present this information first-hand at your credit union.

Cornerstone has a strong commitment to serving each and every credit union and working in concert; we are delighted to provide these new services to aid in this process. All the new services detailed above are but a small sampling of the many benefits you receive as a member of Cornerstone. They reflect our commitment to continuously assess your needs and provide solutions.

Please feel free to contact me directly with any questions or comments regarding these or any services. And, as always, thank you for your membership!

Email - mdelker@cornerstoneleague.coop
Office Phone - 469-385-6826

CREDIT UNIONS GIVE BACK

Because Credit Unions Care about KIDS

Did you know that 62 children enter a Children's Miracle Network Hospital for treatment every 60 seconds? Whether they suffer from common childhood afflictions like asthma and broken bones, or fight bigger challenges like birth defects or cancer, Children's Miracle Network Hospitals provide comfort, treatment, and hope to millions of sick kids.

Credit Unions Care is the Cornerstone umbrella initiative under which a number of other initiatives exist entirely for the benefit of our members and communities. This year, Cornerstone's goal with our chosen charity is to raise $1.3 million through Credit Unions for Kids and for Children's Miracle Network Hospitals.

Since 2006, Credit Unions for Kids has raised $150 million for Children's Miracle Network Hospitals. Fully 100 percent of every dollar a credit union or its members donate goes back to the CMN Hospital that serves their community and their members.

Credit unions are encouraged to wear their red Credit Unions Care shirts to collect donations, hold fundraising events, and sponsor or attend golf tournaments to help us reach that goal. Will you join us in our efforts to help sick kids? There are many ways you can help. Just go to **cornerstoneleague.coop/cus_care.html.** Please give today.

THE FINANCIAL CASE FOR SERVING MILLENNIALS

Jim Kasch, Principal, Canidae Consulting

Credit union leaders know their institutions must "get younger" by serving Millennial consumers, yet the generation's reputation causes many C-Level executives to question whether it's even worth their while to attract and serve this population. Can credit unions make money serving Millennials?

The short answer is a resounding "YES!" But first credit unions must realize they may not be prepared to serve this group well.

The financial case for serving Millennials lies not in fee income, but in loan interest income. And the bottom line is that Millennial consumers may frighten most credit union lenders.

The Millennial consumer has a distinct profile that has been shaped as much by today's economy as by their lifestyle choices. Manufacturing jobs account for less than half of what they did in 1970, and Millennials carry the bulk of the trillion-dollar student loan debt burden on their backs, which forces many of them to live with their parents.

What does this have to do with your business? Everything.

If a 24-year-old bartender applied for a car loan with your credit union and had a 624 credit score, made $20,000 a year, showed only one year of work experience, and listed "$0" as her monthly housing expense, how would you answer her request for a loan?

Most credit unions proudly state they would indeed be happy to serve this individual, but their loan policies and guidelines make it very difficult. Some credit unions instruct their employees to "pencil in" a rent amount in the loan application. Most insist on a substantial down payment to approve the loan. Approving the loan with a stipulation the member can't meet is the same as a denial.

The worst thing your credit union could do is to actively work to attract Millennials only to deny them service.

THE MILLENNIAL CONSUMER PROFILE

- **Average Millennial Annual Income: $20,000 (US Census)**
- **Average Millennial Credit Score: 624 (FICO)**
- **Percent of Millennials Living with Parents: 33% (US Census)**
- **Average Student Loan Debt for Millennials: $30,000 (ICA&S)**
- **Number of Jobs for Millennials by Age 32: 4 (LinkedIn)**

The Millennial generation presents the best opportunity for credit unions to ensure an enduring presence in the future. We need to alter our thinking. Here's how:

1. Prepare for the new borrower profile by revising loan policies and guidelines.
2. Stop defining success as low-delinquency and charge-off rates.
3. Train your frontline employees in objective-based selling.
4. Raise mid- and low-credit tier loan rates.
5. Monitor performance by product and credit tier.
6. Make adjustments to rates and products as necessary.

Embrace the Millennial borrower by making it easier for them to borrow from you, counsel them at the sales desk, and mitigate risk through higher rates. You aren't losing 624-FICO loans to a rate; you're losing them because you put too many stipulations on the loan.

Manage your loan portfolio and understand net loan yield at the product and credit tier levels. It's likely that C or D paper used-auto loans are contributing 2-3 times the loan interest as A+ loans—even after elevated loss rates. Why would you not write more of them?

Shifting loans from A+ to lower tiers will not only serve more Millennial members; it will improve your bottom line. Drive your loan yield up by serving these members. Your delinquency and charge-off rates will go up, but so will your income.

TYPICAL CREDIT UNION

Category	Current	Potential
Total Assets	$300,000,000	$300,000,000
Total Deposits	$280,000,000	$280,000,000
Total Loans	$200,000,000	$200,000,000
ROA	0.65	1.15
Loan-To-Share	71%	71%
Gross Loan Yield	4.45%	5.50%
Charge Off	0.20%	0.50%
Net Loan Yield	4.25%	5.00%

Would you trade a higher charge-off rate for a significantly higher ROA? If you want to make money serving Millennial members, you may need to accept it.

Canidae Consulting provides strategic planning and business plan guidance, member survey solutions, and loan generation programs for credit unions.

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LOVE MY CREDIT UNION **REWARDS**

STRATEGIC PLANNING IS ESSENTIAL

Deployment Brings Plans to Life

Dean Borland, VP Product Assurance, Credit Union Resources

Volumes of academic guidance exist about strategic planning, but when broken down into its simplest components, it is actually pretty straightforward. Decide where/what you aspire to be (Point B), establish where/what you currently are (Point A), assess the internal and external environmental influences that could impact your journey, and formulate a plan to move from Point A to Point B. Unfortunately, planning strategy and strategy deployment are anything but simple.

The ultimate authority for managing the business and affairs of any entity is vested in its board of directors. For federally chartered credit unions, this fundamental rule is formalized by statute[1], "the board of directors is responsible for the general direction and control of the affairs of each federal credit union." As a result, strategic planning, or from a practical standpoint, responsibility for establishing Point B, is the responsibility of the board of directors, often in collaboration with the credit union's executive leadership team.

Having a plan is important. After all, to quote the lyrics of George Harrison's "Any Road," "If you don't know where you are going, any road will get you there." But without a plan of deployment, a strategic plan is of little value. This realization is what led Robert Kaplan and David Norton to develop and publish The Balanced Scorecard[2], a discipline for executing strategy.

The tenets of the Balanced Scorecard provide an outline to building a strategic plan based on four perspectives upon which a strategic map is defined, typically by senior leaders. Then, staff is charged with developing a scorecard of initiatives, complete with project owners, budgets, measures, and Gantt timelines for project completion. Deployed across an organization, a Balanced Scorecard becomes the operating plan and the basis for the operating budget by which the strategic plan is deployed.

A Balanced Scorecard applies discipline and accountability to operational deployment—what gets watched and measured gets done. On the downside, uncontrolled, a Balanced Scorecard can be a recording mechanism for a mismatch between organizational appetite and capacity. Appetite suppression (or perhaps appetite prioritization) can therefore be necessary for credit unions with aggressive strategic aspirations.

In *The 4 Disciplines of Execution: Achieving your Wildly Important Goals*[3], the authors make a convincing argument for focusing on one, or at most two, Wildly Important Goals (WIGs), leveraging leading measures, a cadence of accountability, and a compelling scorecard to drive the organization toward its strategic vision. By introducing focus into deployment, the organization sequences its priorities to gain full advantage of existing capacity to GET THINGS DONE.

Yes, there are volumes of academic guidance about strategic planning. Start with a plan and choose the deployment methodology that best fit your needs.

[1] CODE OF FEDERAL REGULATIONS, Title 12-Banks and Banking, Part 701-Organization and Operation of Federal Credit Unions, §701.4(a)

[2] Kaplan, Robert S; Norton, D. P. (1996). The Balanced Scorecard: Translating Strategy into Action. Boston, MA.: Harvard Business School Press.

[3] Sean Covey; Chris McChesney; Jim Huling (2012) FranklinCovey. The 4 Disciplines of Execution: Achieving your Wildly Important Goals. Simon & Schuster, Inc.

Recruiting & Hiring Simplified with TECHNOLOGY

Chris Thomas, Regional Manager
Credit Union Employment Resources

Credit Union Employment Resources works with many credit unions not in our own backyard, and that means we work with candidates scattered beyond our region. For some time, that created the obstacle of not being able to conduct anything other than a phone interview with those that weren't local. But over the last few years, new technology has all but eliminated that obstacle.

The Recruiting Process
We now use online interviewing and recruiting technology, which allows us to recruit candidates remotely from anywhere in the country. Using a digital interviewing system, we get a great understanding of the candidate's work experience, attitude, presentation, and even their ability to handle technology.

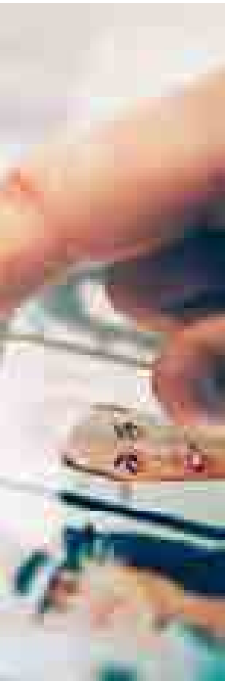
Now, once we have identified the candidates, things progress much more quickly. Instead of struggling with stakeholders' various work schedules to set up face-to-face interviews, we simply arrange for a video conference and have candidates complete the necessary paperwork online. What once might have taken a week to confirm can now be done in a matter of hours. No more waiting for a stakeholder's next day off or getting stuck in traffic on the way to the interview.

But we aren't the only ones benefitting from these advances. Many companies have adopted a digital recruiting plan in the hopes of building an incredible staff faster, easier, and more efficiently. Indeed, digital technology is the most advantageous way to recruit quality candidates in areas where face-to-face interviews aren't possible.

The Hiring Process
Once the candidate has been identified, technology during the hiring process can certainly speed things up as well. Imagine the time saved when a single digital video interview can be conducted with multiple managers simultaneously. Several candidate interviews could be conducted over the course of a few hours, and the best candidates can rapidly advance to the next step in the hiring process.

But technology isn't confined to video interviews and introductions. The Society for Human Resource Management says that more than 80 percent of companies are using some form of social media to recruit candidates—an increase of 50 percent in the last five years. That means companies are using Facebook, Twitter, Instagram, LinkedIn, or Snapchat to find candidates.

And that's a two-way avenue because this new generation of job seekers is also using social media to find out more about companies, their culture, and what others are saying about them. This makes it crucial for the company and candidates alike to have the best social media footprint available for others to find.



Consider the impact of a negative footprint: a future employer may not find a 2:30 a.m. tweet as hilarious as you might, and a prospective candidate may not be all that impressed with a company that hasn't updated its Facebook or Twitter accounts in the last six months. An undesirable footprint is not something easily hidden.

> **AN UNDESIRABLE FOOTPRINT IS NOT SOMETHING EASILY HIDDEN.**

Regardless, today we have a workforce that understands and appreciates the technical advances and has grown to expect this way of doing business. They are comfortable with conducting video interviews, completing paperwork online, and using social media as tools in their job search. With each generation of applicants becoming more technologically savvy, the recruiting and hiring process will only continue to evolve.

If you are a candidate looking for a career in the credit union industry or a credit union looking for staffing help, please send me your questions about finding the right fit at cthomas@cuer.coop.

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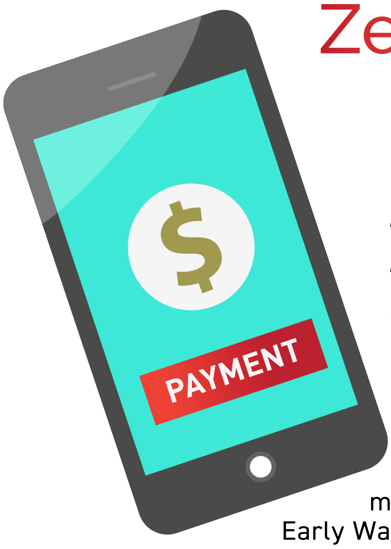


Zelle Is Giving Venmo a Run for Its Money – WILL YOU?

Bill Prichard, Senior Manager,

Public Relations and Corporate Communications, CO-OP Financial Services

Will a new real-time, person-to-person payments network give Venmo a run for its money? Though Early Warning's new Zelle network isn't the first to try to unseat Venmo, the free digital wallet that lets you make and share payments with friends, backing from the nation's largest banks and multiple payment networks make Zelle a contender to watch.

"This is a great time for us to move (person-to-person payments) from Millennials to mainstream," says Lou Anne Alexander, Early Warning Group president for Payments. The use of mobile banking apps is expanding exponentially, creating many more opportunities for people of all ages to send and request money.

What sets Zelle apart from its Millennial-driven rival, Venmo? Here are a few features:

- Because financial institutions are behind Zelle, movement of money directly from one account to another is direct instead of flowing into a third-party account like Venmo.
- Zelle may be able to capitalize on the trust factor: Because it "belongs" to a consumer's financial institution, users might be quicker to deploy it for larger transactions and a broader range of uses.
- Zelle lacks the social component of Venmo, whose users sometimes log into the app just to see what friends have been up to. For those who don't want their financial transactions documented socially, though, this could be a plus.

A Great Fit for CO-OP's Digital Payments Strategy

When Early Warning approached CO-OP Financial Services about partnering on Zelle, the advantages were clear. With participation from so many financial institutions, Zelle promises to expand the reach of real-time P2P for CO-OP clients and their members dramatically.

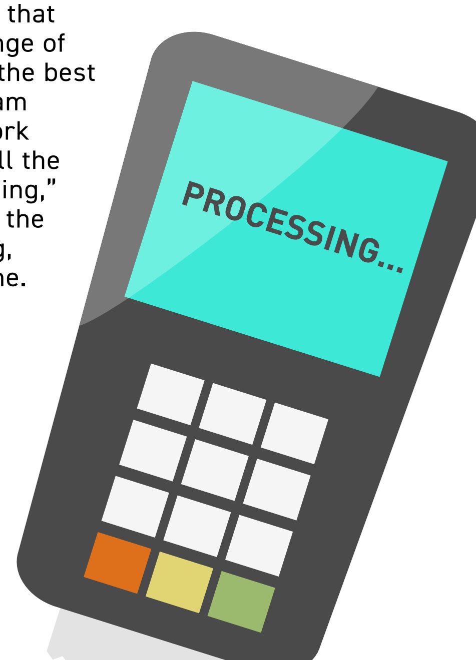
Zelle fits nicely into CO-OP's digital payments strategy, bringing new scale to CO-OP's real-time P2P offering, RealPay. "We had been looking for partnerships to enhance the out-of-network capabilities of RealPay," says Tom Brennan, CO-OP senior product manager.

By utilizing current infrastructure and connectivity, CO-OP clients are in a unique position to offer Zelle to their members more quickly and inexpensively.

In the current payments environment, scale is critical. "If you look around in the market, there are a lot of fintech companies and pseudo fintech companies that have created payment platforms," says Brennan. "But barriers to entry are becoming much higher to achieve competitive scale, and new entrants are starting to decline."

Consumers, too, are looking to keep things simple. "People have multiple payment applications on their mobile phones," says Brennan. "They may have their credit union's mobile banking app, then Venmo and Facebook messenger. Everybody's got multiple ways to get through and do the same thing."

Partnering with Zelle helps ensure that CO-OP can offer credit unions a range of solutions that includes the best of the best in payments. "The development team for Zelle has been doing a lot of work upgrading the user interface and all the logic that underpins the programming," says Brennan. This, combined with the security expertise of Early Warning, offers high hopes for what's to come.



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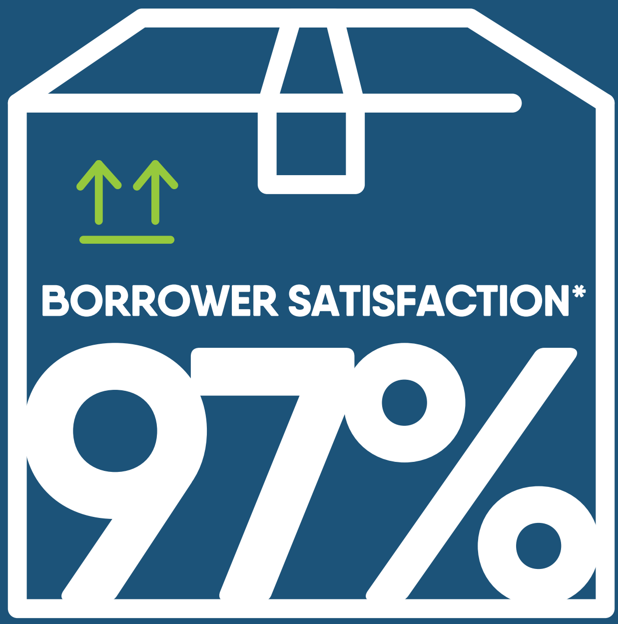

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How Attractive Is the CLOUD for Your CU?

Michael Salyer, IT Consultant, Credit Union Resources

There's no denying the attractiveness of the savings and convenience that comes with cloud-based computing. Many credit unions are moving to cloud-based solutions for their office suites, core data processing, or data backup. While these are great cost and time-saving measures, they're not without drawbacks. As with any technology, each credit union must balance its needs with its risk appetite.

Cloud computing is simply a server or network of servers accessed via the internet. The cloud got its name from old flowcharts and presentations that would represent the Internet as nothing but a puffy, white cloud. The cloud can be used for running applications online, such as Office 365 and your core data processing service bureau. It can also mean storing files online for ease of use and distribution.

With cloud-based computing, the credit union no longer has the worries of maintaining an in-house server to host these services. This translates to not only a cost savings, but also a reduction in risk by not having to keep your servers patched, secured, and maintained.

Smaller credit unions in remote areas often have a difficult time finding a qualified, local IT vendor to assist in maintaining their servers, so cloud computing would be especially beneficial to them. Larger credit unions with multiple branches spread over a wide geographic area would also benefit from online data storage and processing.

However, there can be drawbacks to relying primarily on the cloud for your essential business needs. The transferring of data and processing to an online vendor does not relieve a credit union of its risks and responsibilities in cybersecurity and compliance. Like you would with any vendor, proper due diligence of your cloud-based vendor should never be overlooked. Proper due diligence should include ensuring your vendor has proper data segregation, data sensitivity/classification, and recoverability.

Your credit union must also ensure that it's meeting all federal and state (if applicable) compliance requirements, as well as ensuring the vendor is properly secure from cyberattacks and fraud. In addition, if you're relying 100 percent on online services for your credit union to function, a backup internet connection is vital.

The benefits of cloud computing at this time seem to outweigh any drawbacks, but this may not be true for all credit unions. Each institution must evaluate its own needs to determine if the cloud is a proper fit. With proper due diligence and helpful assistance from your risk-assessment vendor, cloud computing could be part of the answer to your financial and cybersecurity worries.

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