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## FEATURES

### 18 A Future Forum

Momentous societal shifts, rapid advances in technology, a cascade of regulation, and the emergence of trendy competitors has made it challenging to predict what's around the corner in financial services. Never fear: Our panel of industry thought leaders offers a candid but hopeful forecast for the coming decade.



### 24 Down on Debt

Millennials' reluctance to borrow money is changing how credit unions approach lending. To stay relevant, address this group's negative attitudes toward debt, their expectation for fast service, and the impact of the sharing economy on major purchases.

### 30 Top Tech To-Do's

Even as technology evolves at a rapid pace, credit unions still need to keep pace with the now. In 2018 and beyond, they'll need to accommodate new channels, ensure a quality banking experience across all channels, and continue to keep members' data safe.



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## LEADING EDGE



- 12** Consider the six C's to avoid overwhelming consumers with too many choices.
- 14 PRESIDENT'S PERSPECTIVE**  
Look for inspiration from the four recipients of the 2018 Herb Wegner Memorial Awards.
- 15 TRENDLINES**  
Resolve to ask whether liquidity is an issue at your credit union.
- 16 ADVANCING THE VISION**  
Through the Volunteer Incentive Program, employees have boosted Scott Credit Union's brand exposure and community impact.
- 17 SPOTLIGHT**  
"I get inspired by helping others feel awesome when they come to work," says Consumers Credit Union's Kristen Davidson.

## COMPLIANCE MATTERS



- 34** Following a year of hurricanes and wildfires, FinCEN issues a disaster relief fraud bulletin.

### **36 A CULTURE OF COMPLIANCE**

The CUNA/NASCUS Bank Secrecy Act Conference outlined critical components of a robust compliance program.

### **39 PREPARING FOR REG Z CHANGES**

Look for new threshold calculations from the CFPB and Federal Reserve Board.

## TWENTYFOUR/SEVEN



- 40** A brewpub-themed branch taps into O Bee Credit Union's historical roots.

### **42 TOOLS OF THE TRADE**

An organizationwide risk assessment can keep member information safe.

## WORLDWIDE



- 44** A World Council project improves the quality of financial services in Ukraine.
- 46 BRANCHING OUT**  
Let's dispel some predictions that linger despite showing few signs of coming true.

### **8 POSTAL INFORMATION**

### **10 ON MY MIND**

### **45 ADVERTISING INDEX**

### **45 MARKETPLACE**

## FEATURED SPEAKERS



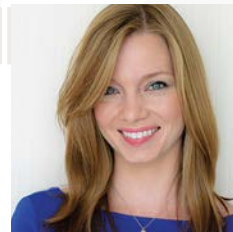
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## Special Report: The future of financial services

Our panel of industry experts weighs in on what the future holds for credit unions and the financial services industry in general.

Key trends include emerging technologies such as artificial intelligence and the internet of things, the shift to digitization, the need to invest in the right employees, the importance of staying true to credit union principles—and the need to become “snimble” by developing “organizational entrepreneurship” that allows you to be swift and nimble.

## Boost the profitability of your credit card portfolio

Credit unions can take several “quick hits” when they’re trying to boost credit card revenue, including maximizing business card use, employing a “graduation” strategy for new card users, increasing certain cardholders’ credit limits, and implementing website upgrades to generate new business.



## Four components of a good MBL structure

The foundation of every solid credit union member business lending (MBL) program is a proper loan structure, says Mike Steppenacker, corporate banking director at Ent Federal Credit Union in Colorado Springs, Colo.

He says that foundation rests on these principles: It clarifies expectations for borrowing relationships, ensures borrowers have “skin in the game,” creates standards, and minimizes risk from outside sources.


## Podcast: PenFed assists Puerto Rico in the wake of Hurricane Maria

Nearly a month after Hurricane Maria ravaged Puerto Rico, James Schenck wasn’t prepared for what he saw when he stepped off the plane. No running water. No street lights. No flushable toilets. No traffic lights. And a scarce supply of drinkable water and food.

“I’ve been in 29 countries and this was the worst humanitarian disaster I’ve ever witnessed,” the president/CEO of PenFed Credit Union tells the CUNA News Podcast.

Hear how PenFed assisted credit union employees and others on the island.







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January 28-31, 2018 // Punta Cana,  
Dominican Republic  
January 13-16, 2019 // Montego Bay,  
Jamaica

### **CUNA Volunteer Certification School**

April 30-May 4, 2018 // San Diego, CA

### **CUNA Strategic Planning Roundtable**

August 18-19, 2018 // Denver, CO

### **CUNA National Credit Union**

**Roundtable for Board Leadership**  
October 19-21, 2018 // Vancouver, Canada

### **CUNA Supervisory Committee & Internal Audit Conference**

December 2-5, 2018 // Las Vegas, NV

## **COMPLIANCE**

### **CUNA & ACUIA Internal Audit Certification School**

March 19-22, 2018 // Dallas, TX

### **CUNA Regulatory Compliance Certification School\***

April 22-27, 2018 // New Orleans, LA  
September 9-14, 2018 // Denver, CO

### **CUNA Attorney's Conference**

October 28-31, 2018 // Palm Springs, CA

### **CUNA Bank Secrecy Act Certification Conference\***

November 5-8, 2018 // Louisville, KY

## **FINANCE & ECONOMICS**

### **CUNA Financial Management School\***

April 9-12, 2018 // New Orleans, LA

### **CUNA Enterprise Risk Management Certification School**

April 16-18, 2018 // San Diego, CA

### **CUNA CFO Council Conference**

May 20-23, 2018 // Austin, TX

### **CUNA Investment Certification Schools\***

August 13-17, 2018 // Chicago, IL

### **CUNA Governance, Risk Management & Compliance Leadership Institute**

2018 dates and location to be announced.

## **HR & TRAINING**

### **CUNA HR & Organizational Development Council Conference**

April 22-25, 2018 // Fort Lauderdale, FL

### **CUNA HR Compliance Certification School**

July 29-August 1, 2018 // Denver, CO

### **CUNA Experience Learning Live!**

October 14-17, 2018 // New Orleans, LA

## **LENDING & COLLECTIONS**

### **CUNA Business Lending Roundtable**

February 6-7, 2018 // Austin, TX

## **LENDING & COLLECTIONS (Continued)**

### **CUNA Consumer & Residential Mortgage Lending School**

April 9-12, 2018 // New Orleans, LA

### **CUNA Business Lending Certification School**

July 23-26, 2018 // Madison, WI

### **CUNA Fair Lending Workshop**

August 15-16, 2018 // San Diego, CA

### **CUNA Collections & Bankruptcy School**

September 17-20, 2018 // Orlando, FL

### **CUNA Lending Council Conference**

October 28-31, 2018 // Anaheim, CA

## **MANAGEMENT & LEADERSHIP**

### **CUNA Governmental Affairs Conference**

February 25-March 1, 2018 // Washington, D.C.

### **CUNA National Young Professionals Conference**

May 2-3, 2018 // Madison, WI

### **America's Credit Union Conference**

June 28-July 1, 2018 // Boston, MA

### **CUNA Management School**

July 15-25, 2018 // Madison, WI

### **CUNA Coaching Leadership School**

August 6-8, 2018 // San Diego, CA

### **CUNA Emerging Leader Institute**

December 3-5, 2018 // Austin, TX

## **MARKETING & BUSINESS DEVELOPMENT**

### **CUNA Marketing & Business Development Council Conference**

March 11-14, 2018 // San Francisco, CA

### **CUNA Digital Marketing School**

June 4-6, 2018 // Nashville, TN

### **CUNA Marketing & Business Development Certification Schools**

September 30 - October 4, 2018 // Tempe, AZ

## **OPERATIONS, SALES & SERVICE**

### **CUNA World-Class Service Leadership School**

May 15-17, 2018 // Denver, CO

### **CUNA Operations & Member Experience Council Conference**

September 12-15, 2018 // San Francisco, CA

### **CUNA Credit Union Financial Counselor Recertification Workshop**

September 16-17, 2018 // Orlando, FL

### **CUNA Member Experience, Sales & Service School**

September 17-19, 2018 // Austin, TX

## **SECURITY & TECHNOLOGY**

### **CUNA Cybersecurity Conference\***

June 4-5, 2018 // Nashville, TN

### **CUNA Technology Council Security Summit**

September 11-12, 2018 // San Francisco, CA

### **CUNA Technology Council Conference**

September 12-15, 2018 // San Francisco, CA

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Please note: All dates and locations are subject to change.

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# The Year of Reimagining

*Members are changing amid a constantly disruptive landscape.*

WELCOME TO 2018.

This is the Year of the Dog, according to the Chinese calendar. A quick scan of my inbox tells me 2018 also is being called the year of the drone, the year of young people, and the year of heading back to the suburbs.

Our January issue explores what credit unions should plan for and expect this year and beyond. According to our panel of credit union leaders, business partners, and futurists, 2018 is the year of “uber” connections, digitization, speed, added risk taking, and “immersive” member experiences (“A future forum,” p. 18).

You must hone these competencies against the backdrop of changing member demographics and borrowing preferences: Younger members are reluctant to take on more debt (“Down on debt,” p. 24), while baby boomers never stopped.

In fact, these members are carrying nearly \$57 billion in student loans, primarily for children and grandchildren.

Our panel advises making innovation a priority by reimagining your products to adjust to new demographics and changing behaviors, while holding firm to your mission.

“Balancing ‘run the engine’ activities with innovation can be challenging, especially for smaller organizations,” says Paul Hendricks, chief information officer at Virginia Credit Union in Richmond. But it must be done to remain competitive (“Top tech to-do’s,” p. 30).

Fintech companies will continue to drive market changes, according to PwC Global’s Fintech Report. And your members’ behaviors are at the forefront of fintech innovations.

Consumer banking remains at the epicenter of disruption. More than



**ANN HAYES PETERSON**,  
editor in chief  
apeterson@cuna.coop

half of financial institutions see personal loans and personal finance as being at risk of moving to a fintech company that offers your members ease of use, intuitive product design, 24/7 accessibility, and faster service.

More consumers are rapidly adopting nontraditional financial services providers. So to retain your members, you’ll need to adapt your mindset, evolve your culture, and introduce new leadership ideas to stay open to fintech innovations. This likely could mean disrupting your own operations and processes.

Traditional financial institutions constrain themselves with complex development processes, reports PwC Global. Meantime, fintechs continue to use lean, agile methods of product development and innovation to respond to customers’ emerging needs.

One point is clear: fintechs are “changing the way we do business,” says Brett Wooden, chief retail officer for Providence Federal Credit Union in Milwaukie, Ore.

How are you responding?

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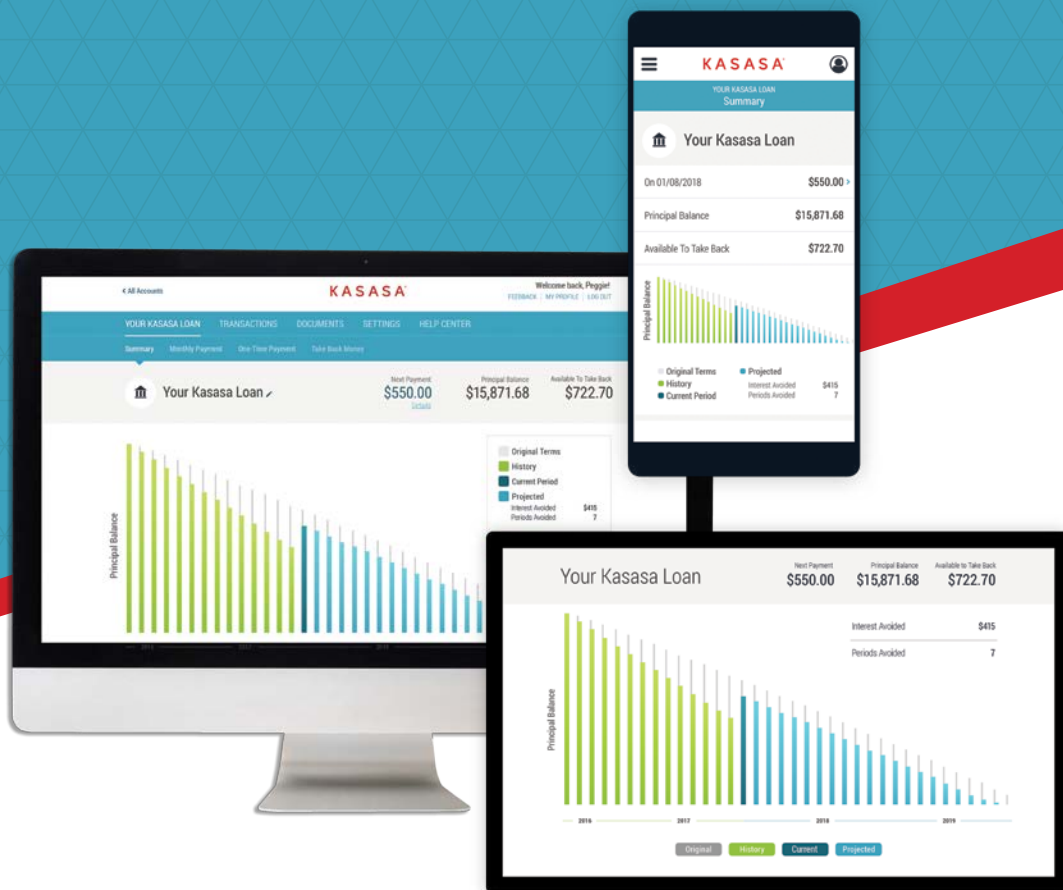
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## Consider the Six C's of Choice

Offering people more alternatives doesn't help them make better choices, Sheena Iyengar says.

Quite the opposite: An overabundance of options leads people to procrastinate, make poor selections, and be less satisfied with the choices they make.

"People say they want a lot of choice, but what they really want is to feel competent during the selection process and confident with their choice," says Iyengar, a Columbia University Business School professor who wrote "The Art of Choosing."

Iyengar, who spoke at the CUNA Lending Council Conference, advises credit unions to follow her six "Cs" of choice:

**1. Cut and curate.** Eliminate irrelevant choices. Look to the model of Aldi, which offers 1,400 products, compared with more than 40,000 at large supermarkets.

Generally, businesses reap 80% of their profit from 20% of their offerings, Iyengar says, so every organization has fat to trim.

**2. Concretize.** This matters in all fields, but especially when your business involves abstract concepts, such as money management. Make the consequences of choices vivid.

"For me to understand whether I want it or not, I need to feel it," Iyengar says. For example, spell out



for consumers the benefits of placing money with your credit union instead of a bank.

**3. Categorize.** Organize your information into meaningful categories. The fault line for straightforward consumer choice is seven,

plus or minus two, says Iyengar.

Once you reach five choices, start to categorize those options under meaningful headings to allow for sequential choice.

**4. Condition for complexity.** Choice is fatiguing, to the point your immune system drops when you face too many choices too quickly, according to Iyengar.

Advancing from decisions with fewer factors to decisions with many factors leaves people more satisfied.

**5. Consolidate.** Consider the big picture. Explain to people the "why" of their decisions before you begin the decision-making process.

Focus on the important attributes of the choice, not the details.

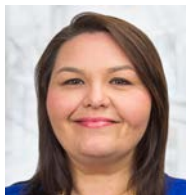
**6. Create.** Catalog your thoughts on better presenting products and services in an "idea bank" that you revisit periodically, junking the concepts you know won't pan out. Then, seek feedback for your ideas from people outside of your office—even your industry—because they'll provide fresh viewpoints.

## Remember That Members Aren't Just a Number

At Pelican State Credit Union in Baton Rouge, La., members in need of loans are more than credit scores. They're separate stories.

"When we review the credit report, we ask a ton of questions," Jessica Oliver, director of financial outreach at the \$311 million asset credit union, tells the CUNA News Podcast. "We want to make sure

the member's story matches what we're seeing in print."



Jessica Oliver

Often, members who have blemishes on their credit report will say they've had a family emergency, a death in the family, a job loss, or another life event that caused them to fall behind on their bills, she says.

"You really want to get to the meat of what's going on in the

member's life because that will guide you in determining whether they will pay you back," says Oliver.

Part of learning the member's story involves gaining members' trust and enabling them to feel comfortable enough to be open and honest about their financial situation.



HEAR MORE FROM OLIVER  
ON THE CUNA NEWS PODCAST  
AT [NEWS.CUNA.ORG/PODCASTS](https://news.cuna.org/podcasts)

## Take Control and ‘Age-Proof’ Your Finances

People are living longer, and they need to prepare financially for those added years.

“If we want all of these additional years to be good ones, we have to be ‘age-proof,’” says Jean Chatzky, personal finance journalist and financial editor for NBC’s “Today” show. The key to being age-proof is having control of your health and finances.

Keep four strategies in mind when evaluating your personal financial status or when talking with members about how to prepare for a lengthy retirement:

**1. Assess.** People often are too afraid to assess the state of their finances, says Chatzky, who spoke at the CUNA Lending Council Conference.

But performing a few simple evaluations—such as figuring out

what you earn, own, and owe, and the status of your emergency fund—will give you a better understanding of your finances today and what you need to do to gain control of your finances.

**2. Automate.** Biologically, humans have a “survive then thrive” mindset, which makes saving and delayed gratification difficult. But having the ability to automate saving makes it easier to save because the money is taken out of your paycheck before you even see it.

“Automation is the magic bullet that makes 401(k) plans work,” Chatzky says. “We need to apply the ‘magic’ to other financial decisions and take the human element out of it.”

**3. Substitute.** It’s difficult to



Jean Chatzky

break a bad habit, but it’s easier to replace a bad habit with a better one. For example, make your morning coffee at home instead of stopping at Starbucks every day.

**4. Manage.** The biggest cause of stress often is money, Chatzky says. And while making lifestyle changes—such as forgoing a weekly dinner out—can allow you to save more, those financial changes often take a long time before you start to see the impact.

## Nurture Relationships With Young Adults

When putting together plans to attract younger members to your credit union, make sure you also consider how to retain them.

According to Raddon’s 2017 Relationship Survey, 78% of households indicate they’re “lifelong partners” with their financial institutions. But breaking down that data into generational segments shows younger individuals harbor some uncertainty.

Twenty-two percent of millennials indicate they “might or might not continue their relationship” with their current financial institution. That figure suggests some volatility within the generation, which can choose from an increasing number

of financial services options.

But once young adults find a financial institution to partner with, and they establish a trusted relationship with that organization, they display a strong sense of loyalty. That’s when nearly three-quarters say they see themselves as a lifelong partner of the institution, according to the survey.

What does this mean for credit unions and young adult members?

Raddon reports that not only do you have to attract millennial members, you also must nurture those relationships and continue to improve and innovate the products and services you offer to meet their financial needs.

A graphic for an online poll. It features a black graduation cap with a blue tassel and a rolled-up diploma tied with a red ribbon, resting on a stack of white books. The background is a soft, light green and yellow gradient.

ONLINE POLL

**33%**

of credit unions offer student loan repayment as part of their benefits package.

Source: Credit Union Magazine’s monthly online poll

Next month: What are your credit union’s top priorities for 2018?

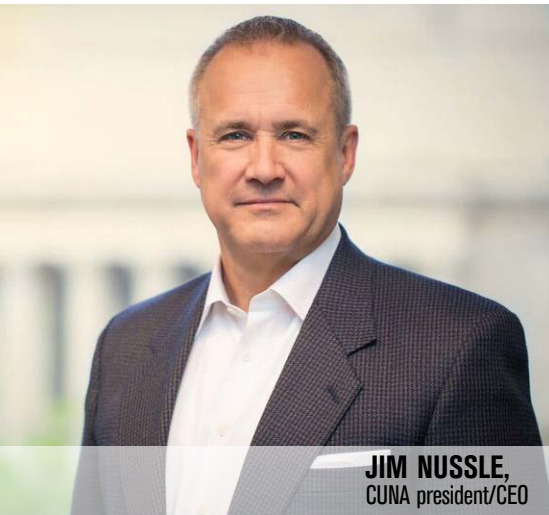
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# The Heart of the Movement

*Lessons from this year's Wegner Award winners.*



**JIM NUSSLE,**  
CUNA president/CEO

ONE OF THE BEST PARTS OF MY job is getting to wake up every day and tap into the energy of the credit union movement. CUNA's mission is to support, protect, unify, and advance the movement.

Leading that mission is an honor I never take for granted. And it's a privilege to meet incredible people every day who work shoulder to shoulder with CUNA to ensure credit unions continue to thrive and improve the lives of the members and communities they tirelessly serve.

Credit union people, quite simply, are cut from a different cloth. We're a little more compassionate, a little more devoted to common sense, and a lot more fired-up than the rest of the financial services industry about the people we serve.

This is what sets us apart, and it's why our story resonates when we tell it in D.C. and state capitals.

If you ever find yourself feeling stuck—like the work you're doing is more of a grind than a calling—I encourage you to take a look around. You're surrounded by amazing peo-

ple accomplishing incredible things, at your own credit union and movement-wide. Meet them at a CUNA or league event, hear their stories, and soak up their wisdom. I promise you'll return to your work renewed.

I was reminded of this while reading about the four recipients of the 2018 Herb Wegner Memorial Awards, named in honor of the late CUNA CEO and awarded annually to credit union leaders who reflect his spirit of "innovative, creative, risk-taking" leadership.

This year's winners are retired CUNA Chief Policy Officer/Chief Economist Bill Hampel, Castro y Asociados President Angel V. Castro, Coastal Credit Union President/CEO Chuck Purvis, and Mitchell, Stankovic & Associates CEO Susan Mitchell.

They'll be recognized for their outstanding individual achievement during CUNA's Governmental

**DON'T JUST LEAD—  
INSPIRE.**

Affairs Conference. Here are four insights I gleaned from their stories and astonishing careers:

## **1. Be a catalyst for change.**

Leaders aren't afraid to buck the status quo. Chuck undertook a number of bold innovations, including the introduction of personal teller machines that helped Coastal achieve record earnings only two years after the 2008 financial crisis.

Angel turned a network of small Mexican financial cooperatives into Caja Popular Mexicana, a \$2 billion asset credit union with 2.3 million members. Big accomplishments often require big changes.

**2. Don't just lead—inspire.** I admire how my good friend Bill Hampel inspired hundreds of CUNA colleagues over his long career with his superlative work, his eagerness to mentor, and his unshakeable authenticity.

I was similarly struck by this statement of gratitude from one of the many women Susan has mentored in her career: "She has always held a larger vision for me than what I would have held for myself, and set my target further than what I would have aimed for." We should all strive to do the same for those we're entrusted to lead.

**3. Update your models.** If something isn't working, re-evaluate your assumptions. Early in his career, Angel realized Latin American credit unions didn't place enough emphasis on financial sustainability, leading to insufficient reserves. So he worked with the World Council of Credit Unions to change that.

Similarly, Chuck examined Coastal's fee structure and eliminated 20 account fees—foregoing \$600,000 in fee revenue but giving his credit union an edge in member experience.

**4. Believe in your core message.** Bill was an amazingly effective advocate because not only could he explain mathematically why credit unions were consumers' best financial choice, his passion for them was infectious.

Similarly, Susan grew the World Council's Global Women's Leadership Network into a powerhouse organization because of her iron-clad commitment to providing leadership opportunities to credit union women.

These examples are a powerful reminder that when you truly believe in what you're doing, you're unstoppable.

# Resolve to Ask About Liquidity

*Loan growth has outpaced savings growth for the past five years.*



**MIKE SCHENK**

KEEPING NEW YEAR'S RESOLUTIONS is notoriously difficult. Experts say only 8% of people actually follow through on their resolutions due to a lack of focus or overly optimistic expectations.

If you've had challenges on this front and you're interested in a more successful and satisfying 2018, you've come to the right place.

Here's a simple resolution for savvy credit union directors: Ask whether liquidity is an issue at your credit union.

Depositories, like other businesses, need to be able to meet short-term financial demands without significantly sacrificing earnings or capital in the process. If meeting big deposit outflows would cause your credit union to liquidate securities at a loss, significantly increase expensive borrowings, or force big increases in deposit yields, you might have a problem.

Liquidity has clearly been tightening recently, and it's likely to tighten further in the coming months. With members increasingly focused on borrowing, credit unions have been replacing shorter-term, liquid investments with longer-term, illiquid loans.

In fact, liquid surplus funds (the

sum of cash and investments maturing in less than one year) have declined from 18% of assets in 2012 to just 13% of assets today.

Credit union loan growth has outpaced savings growth in each of the past five years. The movement's aggregate loan-to-savings ratio increased from a cyclical low of 69% in 2012 to a high of 80% as of mid-year 2017. The current reading is inching toward the 83% modern-day peak recorded at year-end 2007.

Don't be fooled by the first few months of activity you see in 2018. If history is a good guide, loan growth will be weak in the first quarter as members pay down holiday debts. And savings growth will be strong because members will be depositing tax refund checks.

But that will change dramatically as the year wears on. We expect overall loan growth to approach (if not exceed) double-digit rates in 2018. So, loan-to-savings ratios will climb later in the year—perhaps dramatically.

LIQUIDITY IS LIKELY  
TO TIGHTEN FURTHER IN  
THE COMING MONTHS.

Naturally, averages can be misleading. Nearly half of credit unions reported loan-to-savings ratios below 60% at midyear 2017, and only 25% of credit unions reported ratios above 80%.

Importantly, however, those in the former group tend to be small institutions, whereas those in the latter group tend to be large. Credit unions with loan-to-share ratios

above 80% hold nearly 60% of total credit union assets.

We're expecting three one-quarter point increases in the federal funds interest rate this year. This likely will increase deposit outflows as more members shift funds to money market mutual funds when yields on those investments nudge higher than the yields on most credit union savings accounts.

Market interest rates might rise much more quickly than we anticipate in our baseline forecast. If that happens, it would almost certainly produce more pronounced deposit outflows. And more obvious liquidity challenges.

We see no systemic issue with credit union liquidity. Most credit unions have much more sophisticated liquidity management regimens than existed prior to the economic downturn.

And most have access to a wider variety of liquidity sources. Chances are, someone in your credit union is closely monitoring this issue. Asset/liability management committees routinely track these trends.

Still, is liquidity an issue at your credit union? Resolving to ask that question and obtain an answer will ensure you start the year off right.

One more thing to consider: Experts say more than 50% of people who make New Year's resolutions can't remember what those promises were when asked later in the year.

So once you have an answer, you might want to have your board minutes reflect both your inquiry—and the answer.

**MIKE SCHENK** is CUNA's vice president of research and policy analysis. Contact him at 608-231-4228 or at [mschenk@cuna.coop](mailto:mschenk@cuna.coop).



# Volunteer Program Earns Big Rewards

*Scott Credit Union's effort reaps benefits for staff and the community.*

SCOTT CREDIT UNION IN Edwardsville, Ill., has developed an employee volunteer incentive program that has boosted its brand exposure and community impact via tremendous engagement with staff.

Since 2009, the \$1.1 billion asset credit union has contributed \$2.2 million, and its employees have volunteered 17,000 hours, to a variety of civic efforts through its Volunteer Incentive Program (VIP).

Employees earn chances to win incentives with every hour they volunteer. In 2016, the last year for which full statistics are available, more than 120 employees volunteered more than 2,100 hours in the community.

Scott Credit Union has created a systematic way for employees to participate in volunteer activities through a team-oriented approach. Three community relations representatives from the marketing department manage VIP.

Employees split into VIP teams of branch and back-office employees, with about 30 people on each team. Each team has a lead, who serves as a liaison between the marketing department and team members.

The team approach adds an ele-

ment of friendly competition, as each team can earn special recognition throughout the year.

The community relations representatives handle most of the external communication and organization, from requests for volunteers and donations to developing partnerships within the community.

"A lot of communication occurs in the program, and a lot of that communication is centered around matching up events in the community and volunteers from our staff," says Adam Koishor, Scott Credit Union's chief marketing officer.

"We're very fortunate to have great employees who understand how important it is to give back to the community," he adds. "They really live the mission. We have some employees who volunteer 100 hours a year."

Team members receive prizes through monthly and quarterly drawings. They become eligible for larger year-end prizes by volunteering 10 or more hours throughout the year.

The employee with the most annual volunteer hours earns a \$1,000 award. The credit union also recognizes teams with the most volunteer hours.

"Teams tend to have a friendly competition throughout the year," Koishor says. "It adds another layer of fun to the program."

The credit union rewards staff members for recruiting colleagues to participate. Employees receive \$10 for each referral, and new volunteers receive an extra entry



From left: Adam Aguilar; his mother, April Aguilar; fellow Scott CU employee Terry Bowlin; and Alex Tepen—a member of Scott's Youth Advisory Committee—volunteer at the Caseyville Fishing Derby.

into the random quarterly drawing.

Scott Credit Union President/CEO Frank Padak welcomes each new volunteer into the program with an email.

Koishor says the team lead position is important in fostering engagement. Typically, that person is an active volunteer who's effective in working with community partners and engaging fellow employees.

"That team lead is really the liaison between that group of employees and marketing," he says. "Communication is the key to all of this."

That's because credit union staff often volunteer at multiple events on any given weekend. This has helped the credit union achieve tremendous brand awareness in the community.

"The beauty of the program for us is that we're able to help the community and we're able to give back as a credit union within a big geographical footprint," Koishor says. "It has really taken on a life of its own beyond what any of us have expected."



From left: David Janes and Michelle Copeland, among the many Scott CU employees who participate in the Volunteer Incentive Program, offer refreshments at the Alton Telegraph Half Marathon.

SEE MORE PHOTOS FROM SCOTT CU'S VOLUNTEER INCENTIVE PROGRAM AT

[NEWS.CUNA.ORG](http://NEWS.CUNA.ORG)





# Building a Framework For Personal Growth

*In her four years at \$906 million asset Consumers Credit Union in Kalamazoo, Mich., Kristen Davidson, now vice president of organizational development, has implemented a series of ambitious initiatives that have dramatically increased employee satisfaction and engagement. She created an internal leadership program, revamped the annual review process, and has encouraged collaboration and learning among staff—achievements that last spring earned Davidson CUNA HR & Organizational Development Council Professional of the Year honors.*



**Kristen Davidson**

**Q What does receiving this award mean to you?** To be honored by my peers is beyond humbling. I'm thankful and blessed to work at an amazing credit union that supports my passion and my grit to build an awesome talent development program.

**Q What has been your favorite outcome from the leadership program you developed?** Developing an internal leadership program has done so many great things. What started as a way to meet people's desire to learn and make an impact on our business results has evolved over time into an initiative to save us money, drive employee retention, and strengthen our succession planning. My favorite part about the program is seeing my teammates grow. Sometimes they emerge outside the position or department where they started, but the program builds their strengths and makes them the most highly satisfied employees they can be.

**Q What other programs are you proud of?** I might be biased, but our team creates training programs regularly, and I'm proud of every one of them. We have a full-picture view of developing not only "training," but rather a learning program that drives business results. Here's an example: In developing cross-sell training programs for our

tellers, the class focuses not just on knowledge and tips to cross-sell, but also on how to deepen member relationships and drive growth. We measure progress monthly.

**Q What advice would you offer about career development?** Stay true to yourself and do what you love. If you aren't passionate every day, take time to find your spark. You might need to reignite yourself, and that's OK. Be purposeful and be patient.

**Q What's the biggest lesson you've learned from training staff?** I learn a new lesson weekly, but the most important was to align our training strategies to our culture. Our employees are the driving force of our culture, not a training metric. In our roles as training professionals, it's easy to focus on speed to create, speed to drive change, and speed to deliver business results. One of the biggest lessons I learned was to slow down. Give your team a chance to let their voices be heard and adapt comfortably. Employees need to thoroughly understand the "why" behind doing something, and they'll naturally learn and become mentors.

**Q Why do you enjoy developing employee talent?** Have you heard the saying, "Wake up and be awesome"? I get inspired by helping

others feel awesome when they come to work, which happens when you train, mentor, and support them.

**Q What's the top quality a trainer must possess?** To deliver the most effective training message possible for the audience, adapting to the many learning styles, strengths, and personalities of the people they're teaching.

**Q How does Consumers demonstrate the credit union difference?** Servant leadership, because everyone is here to help our members. We take the time to understand what's important to them and how we can help. We don't get caught up in how long a transaction takes. Instead, we focus on how we can make a difference in their life.

**Q What's the best advice you've received?** My mother has always delivered influential words and advice for me, both personally and professionally. All her messages relate to the words from Gandhi: "Be the change you wish to see in the world."



HEAR MORE FROM DAVIDSON ON THE CUNA NEWS PODCAST AT [NEWS.CUNA.ORG/PODCASTS](https://news.cuna.org/podcasts)



# A FUTURE FORUM

## Industry leaders offer their take on what the future holds.

The financial services future will be “uber-connected,” driven by momentous societal shifts and advances in technology, says Mark Sievwright, founder/CEO of Sievwright & Associates.

“The pace at which we’re adopting new technologies and the speed at which these technologies are passing their respective tipping points to mainstream adoption is accelerating—and fast,” he says.

And yet, commitment to credit union principles will be just as important as technology to credit unions’ future success, particularly as surveys show consumers’ trust in societal institutions continues to wane.

Following are predictions several credit union industry leaders offer about what it will take to succeed in the future.

### Emerging technologies

Today’s emerging technologies—the internet of things, artificial intelligence (AI), and wearables—will be

ubiquitous, and will redefine and reshape how we live and interact, says Sievwright, citing reports estimating there will be close to one trillion sensors connected to the internet by 2030. Further, most of the world’s populations will be connected and using smartphones.

Siewwright expects these future shifts:

- **Homes will be “smart.”** Beyond what people can imagine today, homes will be filled with interconnected smart devices. These in-home devices and appliances will generate a substantial amount of internet traffic.
- **Financial services** will be truly “digitized.” Consumers and businesses will conduct the vast majority of

## FOCUS

- **Technology-driven changes** present both challenges and opportunities for credit unions.
- **Having a winning mindset** requires an obsession with the member experience.
- **Board focus:** The future belongs to credit unions that remain true to their roots while maintaining the flexibility to adapt to consumers’ needs.

◀ Clockwise from top left: Mark Sievwright, Lisa Bodell, Brandon Michaels, Todd Clark, Teresa Freeborn, and Mark Meyer.

their transactions through an unprecedented range of access points, and the number of physical branches will shrink significantly.

► **Each of us** will have a personalized digital presence that's much larger than today's Facebook, Twitter, or Instagram accounts. This will become the hub of how people manage their lives and financial services relationships.

► **The world** will be even more convenient, with "highly advanced ways to share information, procure products and services, and manage our daily routines, including broad-scale use of AI," Sievwright says.

► **Technology** will affect jobs and the skills needed to do them. Automation and computerization from technologies such as robotics and AI will displace workers and jobs.

Siewwright points to a study from the U.K.'s Oxford Martin School that predicts almost half of U.S. jobs will be computerized over the next 10 to 20 years. "Most of us can envision a world in which a range of functions performed by people will instead be performed by machines," he says.

Despite these changes, the essence of financial services will remain much the same. "We will still need to manage our money, make payments, exchange value with other people, deposit our paychecks, obtain loans, and manage investments," Sievwright says. "The differences will be in how we do these things, who we choose to do them with, how we determine the relative value of products and services, and what we're willing to pay for them."

### 'Digital, mobile, and instant'

The future belongs to credit unions that remain true to their roots while maintaining the flexibility to adapt to growing consumer demand, says Teresa Freeborn, president/CEO at \$950 million asset Xceed Financial Credit Union in El Segundo, Calif.

Digitization, for example, will continue to define the very fabric of financial services, says Freeborn. Financial services in the future will be "digital, mobile, 24/7, and instant," she says. "I'm talking payments, transfers, loans,

statements, member queries, reporting—all of it."

Expect payments to lead the way in the shift to digital. "I fully expect cash and checks to fall by the wayside in favor of fast, simple, and secure digital payments," Freeborn says. "There are a lot of competitors fighting it out right now. While I won't guess which will prevail, I suspect there won't be just one winner. Consumers will continue to want options and choice."

At the same time, the credit union movement will continue to consolidate, with surviving institutions providing services wherever and whenever members want them. Credit unions that succeed will be nimble and willing to collaborate, providing on-demand services in a fluid and competitive marketplace, she says.

"Sure, technology-driven changes to financial services present huge challenges to credit unions, but they also offer tremendous opportunity," Freeborn says.

"Once everything is digital, we can truly play in the same space as giant financial institutions—and our smaller size is actually an advantage. At Xceed, we make it a priority to be nimble and clever. We believe we can continue to compete by shifting how we deliver financial services and how we configure our products and services to meet and even anticipate member needs."

At the same time, credit unions must remain true to their principles. "I expect the banks will continue to try to squeeze every penny they can out of their customers, so we'll continue to stand out for our advocacy on behalf of our members and our genuine commitment

to their financial well-being," Freeborn says. "In this time of decreasing consumer trust in societal institutions, the value of consumers' perceptions of credit unions as more trustworthy than banks is another factor that simply can't be overstated."

Success in the future, she says, will require credit union leaders to be:

► **Engaged** with the industry, their teams, and consumers so they're not caught off-guard by the next big thing.

► **Creative**, so they can identify ways to benefit from change and bring out the best in their people.



► **Flexible** and strong enough to make the difficult changes that will allow their credit unions to survive and thrive.

### 'A vein of optimism'

The evolution of the workforce and society over the next decade provides a “vein of optimism” for credit unions, says Filene Research Institute CEO Mark Meyer, citing his organization’s findings.

As government and businesses increasingly struggle to meet the financial needs of consumers—including many who will be swept into the “gig economy” by technological advances and automation—the need for self-help solutions will grow. The cooperative finance model is well-suited to serving that audience.

“There will be a great need for creative financial services solutions to meet that dynamic of what’s going to transpire in the employment pool,” Meyer says.

But that buoyant outlook carries a caveat: Amid increasing competition and regulation, an accelerating battle to procure top talent, and the fluidity of technology’s impact on consumer behavior, only the most strategic, agile, collaborative, community-minded, and ruthlessly efficient credit unions will reap the dividends, Meyer says.

Embrace that challenge, he advises: “Lean into uncomfortable discussions about the future.”

Meyer outlines some primary drivers for the future of financial services:

► **Invest** in the right talent. More employees will need to possess “conceptual dexterity”—that is, the ability to identify issues across a variety of knowledge areas and devise solutions. Expect to hire more technologists and data scientists. And don’t underestimate the payoff from leadership development.

► **Redeploy** personnel wisely. Recognize shifts in organizational needs, and reassign staff strategically. For instance, as we move toward a cashless society and automate many tasks, credit unions might find less need for front-line personnel and lending officers. Reallocate top performers to business development, community engagement, or other pressing needs.

► **Double down on differentiation.** Identify and address the sweet spots in your field of membership. Develop a social impact strategy that establishes you as a pillar of the community.

► **Remove friction.** Monitor technology’s impact on consumer behavior, and improve ease of use across

## DATA AND DIGITAL DRIVE THE FUTURE

Although it’s impossible to predict where any of us will be in 10 or 15 years, the digital transformation our industry is undergoing now will have a profound impact for years to come.

These changes will not only improve how we do business in the short term, they also set us up for an omni-digital future well into the next decade and beyond. What’s ahead?

► **Greater utilization** of data. In a digitally driven world, data enables us to make fast decisions backed by real intelligence on a large scale. The value of data isn’t exactly news at this point, but the rise of digital companies such as Amazon, Uber, and Apple reveals just how revolutionary well-utilized data can be.

► **Consumers** will demand excellence in digital delivery. We can’t easily foresee what digital excellence in financial services might look like in, say, 2030. But we can project that data transformation and a shift to digital delivery will be table stakes for the credit unions that endure, and a common underpinning for most of the advances we’ll see.

► **Open banking** will change the playing field. Open banking standards are coming over from Europe, where they’re becoming mandates. Although they aren’t mandatory in the U.S. yet, these standards will arrive here anyway through multi-national banks such as Wells Fargo and BBVA.

Open banking will force us all to interact in a more transparent and real-time way. It will alter the way we innovate and share those innovations. The net result is that we won’t remain relevant if we close off our systems. These ideas are already in the air, and within 10 years they will reshape financial services.

► **Machine learning and artificial intelligence (AI)** will create opportunity and change how we interact with members. Here’s a quick example: Most of us buy cars on a predictable schedule—every few years. It’s not worth an analyst’s time to calculate that cadence for every member.

But machine learning lets you do this on a large scale. You can predict when a member might be in the market for a car, and contact them with an offer just before they’re going to buy.

AI-driven chatbots and voicebots also are making inroads in member service. A decade from now, we’ll see more of this, and my guess is they won’t seem robotic to us in the future.

► **Partnerships** will play a critical role. We see this as an opportunity.

For credit unions, it’s not just about finding partners that can create new technology. It’s also critical to find partners that can help them integrate the technology, build and cultivate an agile mindset, and adapt to a digital future. That future isn’t decades away: It’s now.

*TODD CLARK is president/CEO of CO-OP Financial Services in Rancho Cucamonga, Calif.*

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your delivery channels. Leverage the fascination with gamification and rewards to create tools that align financial literacy and financial education with real-time behavior.

► **Embrace unforeseeable opportunity.** One certainty over the next decade, Meyer says, is that industries will collide, creating a “monumental shift” in how affected businesses operate. Perhaps health care and wellness collide with financial services and financial education. Or credit unions might parlay members’ trust into becoming a disseminator of information and media.

► **Become “snimble.”** That’s Meyer’s catch phrase for combining swift and nimble, developing an “organizational entrepreneurship” competency that enables a credit union to quickly develop and test prototypes of solutions, then implement or discard them.

Devote staff time for research and development, and look for collaboration opportunities that create economies of scale. “When you recognize you don’t have scale, you have to be ruthless about your resources,” Meyer says. “Your success is not just what you *will* do, it’s what you *won’t* do.”

### ‘Kill a stupid rule’

To improve your odds of success in the future, find a stupid rule at your credit union and kill it, advises author and futurist Lisa Bodell. In other words, seek out what doesn’t work, eliminate it, and focus on innovation.

Too many organizations approach innovation by “adding more,” she says. “We need to get rid of the things that aren’t working to create more space for change to happen. People’s plates are full—but not nec-

essarily with stuff that’s of value. So we need leaders to not just give people permission to be more innovative, but permission to get rid of work so they can create the space for this innovative future to happen.”

A common response to Bodell’s call to kill a stupid rule is, “we’re regulated and we can’t kill rules.” But she’s referring to the “everyday assumptions” people follow simply by habit that waste time, such as, why do we need paper reports? Why are there three levels of decision-making for this action?

Eliminating unnecessary barriers will enable credit unions to be faster—another requirement for future success. “Speed will be more important than size,” Bodell says.

Size used to be a competitive advantage because it meant more members, a larger service area, and more products and service offerings. “This provided barriers to competition,” she says.

But now, even small players have access to the same technology and capital as their more-established rivals. Operating at a faster speed will allow credit unions to “challenge their assumptions around how they have to work and what their members want, and be open to shaking up the status quo.”

Other ways to ensure your future success:

► **Practice “proactive obsolescence.”** Identify the internal weaknesses or competitive threats that could put you out of business. “It’s about getting comfortable with those weaknesses and fixing them,” she says, “as well as challenging the way things have to work so you can be more innovative and move faster.”

► **Develop “soft” skills.** While technology and automation are important, members will still want the human touch. This will require relationship-building and creative problem-solving.

“Credit unions make people feel worthy regardless of their worth,” Bodell says. “That’s why people go to you versus a bank. Build those relationships. You already have that head start on everyone else.”

### Fail forward

As credit unions prepare for the future, Brandon Michaels says success will require two steps: Play to win and fail forward.

Too often, “credit unions sit back and wait for change to happen to them before they react,” says Michaels, president/CEO of \$600 million asset Mazuma Credit Union in Overland Park, Kan. “If they’re not playing to win or aren’t being proactive and failing forward,

I'm not sure they'll be around."

Playing to win means addressing change before it happens, Michaels says. "Credit unions need to have a winning mindset. They have to stop waiting for changes to act upon them," and they need to "fundamentally change the way they think about their business."

Having a winning mindset requires an "obsession" with the member experience, Michaels adds.

As change takes place, credit unions must take risks, even if those risks carry the potential for failure. That might mean deciding to no longer offer a product or service, or redesigning branches so they no longer have employees on-site.

That risk-taking philosophy should focus on members and what they want. "You need to become

ingrained and in tune with your membership and what they want," Michaels says.

This could be difficult, however, due to the fast pace of change, he adds. And members might not know what they want until it's available to them.

For example, Michaels says no one really knows what impact self-driving cars, electric vehicles, or changes in the gasoline industry will have on auto lending in the future.

"Consumers are starting to figure out that just because you say 'that's the way we've done it' doesn't mean that's the way that it should be," Michaels says. "And that's changing the way consumers view financial services. A lot of times, consumers don't know because they're changing, too."

## HOW TO SUCCEED IN THE FUTURE

**Focus on the member experience**  
—everything ties back to it.

*Vincent Brennan, president, Credit Union Solutions, Fiserv*

**Live your difference**  
in practice, not just  
in philosophy.

*Rhonda Sheets, founder/CEO,  
Support EXP*

**Use technology**  
and your superpower  
—collaboration.

*Lou Grilli, director of  
payments strategy, CSCU*

**Successful credit unions will deploy**  
strategies that align with what consumers  
already demand in the marketplace.

*Mia Perez, chief administrative officer,  
Louisiana Federal Credit Union, La Place*

**Monitor market trends to**  
understand how financial services  
will change.

*Denise Stevens, senior vice president  
of product management, PSCU*

**For continued marketplace success,**  
credit unions must embrace change.

*Tony Boutelle, president/CEO, CU Direct Corp.*

TO READ MORE INSIGHTS FROM THESE CREDIT UNION THOUGHT LEADERS, VISIT [NEWS.CUNA.ORG/CUFUTURE](http://NEWS.CUNA.ORG/CUFUTURE).





# DOWN ON DEBT

OLIVIA BARROW

## Young adults' reluctance to borrow might change how you approach your lending products and strategies.

To lenders, this generation of young adults seems like a new breed.

Borrowing money doesn't represent the freedom to make large purchases that were once out of reach. It represents the opposite—a “#debt sentence,” according to an analysis of millennial social media trends around borrowing conducted by the Filene Research Institute.

Young adults embrace the sharing economy, and are open to new solutions for housing and transportation. And they expect financial services to be delivered online with the speed and convenience of a Domino's pizza ordered with a tweet.

So how do credit unions respond to these shifting attitudes and expectations? By sticking to their mission, experts say.

“Our product isn't loans,” says David Klavitter, chief marketing officer for \$1.6 billion asset Dupaco Community Credit Union in Dubuque, Iowa. “Our product is helping people improve their financial positions with better money decisions.”

Credit unions must reimagine their products to survive in a changing society, says Andrew Downin, Filene's managing director of research. The most successful

innovations will be those that stem from an understanding of which problems members want to solve.

To stay relevant with millennials, credit unions must address this group's negative attitudes toward debt, their expectation of fast service, and the impact of the sharing economy on major purchases.

### Negative attitudes around debt

The top two emotions young adults associate with debt are anger and fear, according to “Millennial Money

## FOCUS

- ▶ **Millennials** are cautious to incur debt due to the Great Recession.
- ▶ **Financial education** can alleviate millennials' fears about borrowing money.
- ▶ **Board focus:** Adding a millennial advisory board could prompt actions that remove this group's misconceptions about credit unions.

Chatter,” a Filene report. Those attitudes reflect many millennials’ experiences during the Great Recession, when families lost jobs and then homes because they couldn’t repay their debt.

That experience, in addition to high student loan debt levels and lagging wages, has resulted in young adults being cautious about the debt they take on, often postponing major life events such as getting married or buying homes.

But credit unions are addressing those fears through a variety of educational programs. Combined with an

improving economy, those fears are starting to diminish.

At Dupaco, “The Great Credit Race” is a contest designed to educate the public about the importance of having a good credit score. Participants compete to improve their credit scores with the help of Dupaco advisers, and the credit union shares their progress.

“It’s a unique way to educate people about how to build a great credit score,” Klavitter says. “It aligns with Dupaco’s differentiator of member intimacy. We exist to educate people. The race is a fun way to reinforce the credit union’s value proposition.”

The largest and most common expense for young adults is college tuition. The average student loan balance is \$25,500—60% more than the \$15,900 average from 10 years ago, according to Pew Research. But one credit union is doing its part to educate students about how much college will cost.

Fort Community Credit Union in Fort Atkinson, Wis., piloted “Debt Dragon,” a Filene i<sup>3</sup> program, in local high schools this year to educate students about student loan debt before they enroll in college.

Debt Dragon allows students to predict how much money they’d need to borrow to attend the college of their choice. It also estimates their student loan payments upon graduation, depending on how much debt they accumulate.

“The point is not to scare them away from an education, but to get them to start talking about that debt and how they’re going to approach it,” says Marissa Weidenfeller, director of marketing at the \$237 million asset credit union. “I ask a lot of high school seniors how they plan to finance college, and they have no idea. They’re planning to go, but it’s like, ‘We’ll figure it out when we get there.’”

### As fast as pizza delivery

It’s tempting for credit unions to measure themselves against financial services competitors when evaluating convenience and speed of service. But in the age of instant video, music streaming, and Amazon Prime, credit unions need to consider millennials’ expectations.

“You have Amazon, Netflix, and Venmo, where you can send money with the click of a button,” says Jordan van Rijn, CUNA’s senior economist. “So, younger generations are expecting technology to be able to offer those things to them. It puts a lot of pressure on credit unions to provide that technology to make interactions easy and efficient for their members.”

## BOOMERS EAGER TO BORROW

While millennials are cautious when it comes to taking on debt, baby boomers are actively doing so.

The wealthiest boomers control 80% of financial assets in the U.S. and account for more than half of all consumer spending, according to “Baby Boomers and Credit: Cashing in on Generational Marketing,” a white paper from Harland Clarke, a CUNA Strategic Services alliance provider.

“They’re looking for new adventures, pursuing dreams, and starting new businesses—and they’re looking to their financial institution to help them finance these new ventures while helping them reduce the cost of debt and improve their financial standing,” according to the study.

Credit unions can help baby boomers with these financial needs:

► **Student loan debt.** Millennials aren’t the only generation taking on student loan debt. According to a January 2017 Consumer Financial Protection Bureau study, borrowers over the age of 60 have nearly \$57 billion in student loans, much of it from funding the education of a child or grandchild.

► **Mortgages.** Some 19 million baby boomers plan to buy a home, and nearly eight million plan to move within the next four years, according to a study by FreddieMac, a CUNA Strategic Services alliance provider.

► **Home equity loans.** Among baby boomers who don’t plan to move, 23% say their houses might require renovations to remain accessible. One-third (34%) of these homeowners say they’d pay for those improvements by refinancing their mortgage and taking out a home equity line of credit.

► **Auto loans.** While baby boomers are more likely to lease vehicles, the oldest members of the generation are more likely to buy a new car.

Boomers have nearly  
**\$57 billion**  
in student loans,  
primarily for  
children and  
grandchildren



WATCH A VIDEO INTERVIEW WITH JORDAN VAN RIJN, CUNA SENIOR ECONOMIST,

AT [NEWS.CUNA.ORG/CFUTURE](http://NEWS.CUNA.ORG/CFUTURE)

Sometimes, the best option to provide world-class service is to partner with a national provider. That's what \$374 million asset Day Air Credit Union has done by offering its checking accounts through Kasasa, a CUNA Strategic Services alliance provider that specializes in branded products.

Not only does Kasasa provide fast service, it caters to millennial interests with its rewards and cash-back programs, offering perks such as iTunes and Amazon gift cards, says John Theobald, vice president of lending at the Kettering, Ohio, credit union.

Young adults also expect to be able to communicate with their credit unions on-demand in the format they prefer, whether that's via chat, in person, or over the phone. And they don't want to receive mass marketing messages.

"We're making our marketing efforts more tailored for the individual," says Christel Ventura, assistant vice president of consumer lending at \$1.9 billion asset GTE Financial in Tampa, Fla. "If we see they've been shopping a lot at Lowe's, which might mean they're doing some home improvement, we might send an email to that member and say, 'You might be interested in a home equity loan.'"

Although young adults borrow less overall than other generations, they're also the most likely to make impulse purchases, according to "How Millennials Want to Work and Live," a recent Gallup study.

Because mobile banking gives millennials the ability to essentially carry multiple credit union and bank branches in their pocket at all times, it's becoming easier for consumers to use multiple financial institutions for different services.

"We know the need will arise when they'll need to borrow on the spur of the moment," Downin says. "So being able to capitalize on that with quick and efficient channels is a way credit unions can meet the needs of millennials."

### The sharing economy

The future of auto lending—the bread and butter of many credit unions—is high on many lenders' minds as technology advances. Self-driving and longer-lasting vehicles, and fewer driver's licenses, all seem to point to a future where fewer people buy and own cars.

In 1983, 92% of Americans ages 20 to 24 held driver's licenses. In 2014, that figure dropped to 77%, according to a 2016 University of Michigan study.

## Member Debt Breakdown\*

	Millennials	Nonmillennials
Mortgages	25%	45%
Auto loans	41	43
Student loans	62%	25%

\* Percent of members with this type of debt

Source: Filene Research Institute

While the trends seem to indicate auto lending will decline in the future, it's increasing at credit unions in the short term.

"We've seen nothing but increases in lending at credit unions, particularly with auto loans," says van Rijn. "It's been growing dramatically, leading to some of the highest loan growth rates we've seen in decades. A lot of people are going to credit unions because of the value credit unions offer, the lower rates. There also has been a lot more indirect auto lending among credit unions."

While auto lending remains strong, Downin thinks credit unions should begin to imagine a future that doesn't rely on individual auto loans. "I'm not suggesting credit unions abandon auto loans. But we're starting to think about what it would look like to finance a pool of self-driving vehicles for our members, or to provide self-driving vehicles for members," he says. "You're still financing access to transportation for members, but instead of a loan it's a monthly fee for access to membership."

Projecting the impact of self-driving vehicles, Ventura says financing a vehicle that spends most of the day

## Members' Near-Term Borrowing Plans

	Plan to borrow	Will borrow if necessary	Won't borrow
Mortgages	7%	14%	79%
Auto loans	5	33	62
Student loans	1	9	90
Credit cards	4%	27%	69%

Source: Filene Research Institute



driving will be different from financing one that's parked all day. The former vehicle will depreciate much faster, requiring lenders to adjust the loan terms.

If auto lending does decline, credit unions might be able to recoup lost revenue by investing in payments technology, says Theobald. Day Air has already aligned its debit and credit cards with Apple Pay to be competitive with other financial institutions.

Alternative payments systems like Square and Venmo now represent modern payments to most young adults, and they could easily expand to provide other financial services, Klavitter says. "And now Square is applying for an industrial loan charter," he adds. "Credit unions can't afford to hit the snooze button. We must remain relevant for our members."

#### The credit union difference

Credit unions should focus on telling their story in ways that resonate with millennials, because the pro-social mission aligns with young adults' interests, even

if they're not fully aware of credit unions and their fundamental differentiation from banks.

Adding a millennial advisory board could be a way to address that disconnect. Those groups can discuss products and services that appeal to young adults, and build awareness of the credit union difference.

## RESOURCES

- ▶ CUNA Environmental Scan resources: [cuna.org/escan](http://cuna.org/escan)
- ▶ CUNA Lending Council: [cunacouncils.org](http://cunacouncils.org)
- ▶ Filene Research Institute: [filene.org](http://filene.org)
- ▶ Harland Clarke, a CUNA Strategic Services alliance provider: [harlandclarke.com](http://harlandclarke.com)
- ▶ Kasasa, a CUNA Strategic Services alliance provider: [kasasa.com](http://kasasa.com)

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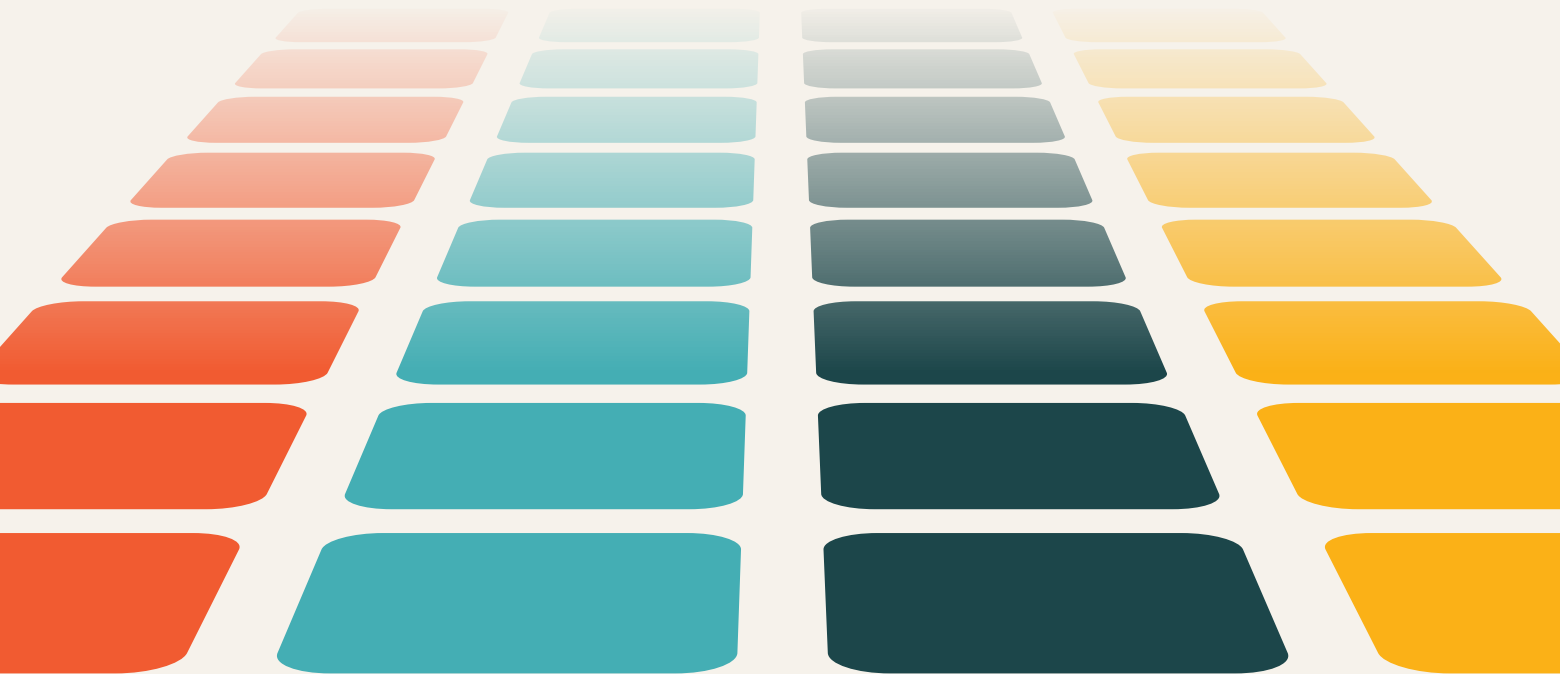
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# TOP TECH TO-DO'S

JEN MCCOY

## Four projects for your information technology department to tackle this year.

The fun technology conversation usually concerns the “next big thing” or what will happen in the next 10 years.

But credit unions have members to serve today. And members increasingly demand high-quality technology solutions. Internally, credit union employees have similar demands about their need to communicate and serve members.

As technology evolves at a rapid pace, credit unions need to keep pace with the now. In 2018 and beyond, they'll need to accommodate new channels, ensure a quality banking experience across all channels, and continue to keep members' data safe, among other priorities.

Following are four challenges many credit union technology leaders will address on their 2018 to-do lists.

**1 Channel proliferation**  
New delivery channels seem to appear daily, from smartphone and smartwatch apps to voice banking on smart home devices such as Amazon Alexa and Google Home.

The challenge often is deciding which channels to

adopt and which warrant a “wait and see” approach.

If they're Apple, Google, Samsung, Microsoft, or Amazon applications—and use their cross-device infrastructure—then jump in, says Brett Wooden, chief retail officer at \$137 million asset Providence Federal Credit Union in Milwaukie, Ore.

“All of these companies' devices are driven by an app marketplace,” he says. “They're worthless without the apps that drive them. Take the Samsung and Apple smartphones, for example. They have approximately 3.1 million apps within their store platforms.”

continued ▶

## FOCUS

- ▶ **Many credit unions** seek a consistent omnichannel experience.
- ▶ **Communicate** cybersecurity threats to both employees and members.
- ▶ **Board focus:** Credit unions' constant challenge is maintaining essential technology while planning for the future.

These app marketplaces enable delivery channels across multiple device platforms, including computers, smartphones, tablets, and smartwatches.

“You can seamlessly use these apps and work across all the devices, and they all pick up right where you left off,” Wooden says. “Think about an Apple’s iMessage. I can message a co-worker from my iPad and pick up the conversation on my iPhone while getting calendar alerts on my Apple Watch. Google, Samsung, Microsoft, and Amazon have similar environments.”

Channels that fit into those ecosystems instantly make sense. Those that don’t, however, might not, Wooden says.

“The ones that don’t pan out don’t fit that across-device model,” he says. “Google Glass is a great example. It had a small app store that didn’t match the large Google Play app environment, and you couldn’t do all the same things across the other devices.”

Further, follow websites such as CultofMac, 9to5Mac, Mashable, and Techcrunch, Wooden advises. “These sites give great reviews and discuss tech trends. Just like a chief financial officer watches the market, someone needs to watch tech trends daily.”

Apps will be a driving force in the next five years, according to Wooden.

“The credit union industry is experiencing what

the music industry went through,” he says. “Napster and iTunes changed the music industry, and it had to adapt and cope. We’re having these same issues due to fintech companies changing the way we do business.”

## 2 Omnichannel experience

Creating a consistent banking experience for members across all channels is a growing challenge, credit union technologists say.

While it’s not purely a technology issue, many credit union leaders are working to harmonize the member experience across the growing number of channels and devices they’re responsible for maintaining.

But that’s no simple task. Credit unions must push technology vendors to create a consistent platform that simplifies the process, Wooden says.

“Walk into any credit union and ask a member service representative how many systems they have to use to open a new account,” he says. “I’m pretty sure it will be four or more. We have to use multiple systems to complete one task.

“Additionally, this same process of opening an account might use different systems via the website, online banking, over the phone, and mobile app,” Wooden adds.

Increased adoption of application programming interfaces (APIs) could bolster attempts at consistency, says Christopher Danvers, vice president of payments and digital services at \$6.5 billion asset American Airlines Credit Union in Fort Worth, Texas.

APIs, which allow devices and various programs to communicate with each other, might eventually integrate and harmonize member- and employee-facing experiences, according to Danvers.

“This would be helpful for credit unions that rely on many disparate applications/business partners to piece together their collective member and employee experience,” he says.

## 3 Cybersecurity

High-profile security breaches seem to be growing in both frequency and severity. The breakneck speed of personalized financial technology brings a heightened need for cybersecurity.

Members can expect to see enhanced gatekeepers at credit unions, as safeguarding personal information remains a top priority, says Samantha Amburgey,

### WHAT’S ON YOUR TECH TO-DO LIST?



According to Brett Wooden, chief retail officer at \$137 million asset Providence Federal Credit Union in Milwaukie, Ore., high-priority projects on credit unions’ to-do lists include:

- ▶ **Remote solutions** that create an immersive environment for members to meet with credit union staff face-to-face from the comfort of home.
- ▶ **Wearables** that connect members to rewards. For example, connecting higher Fitbit use to more favorable savings and loan rates.
- ▶ **Artificial intelligence** to delve into data that allows credit unions to better understand members.
- ▶ **Beacon technology** that ties messaging to location. For instance, members could go car-shopping at an auto dealership and have a loan preapproval pop up on their phone.



chief information officer at \$3.7 billion asset Michigan State University Federal Credit Union in East Lansing.

“It’s critical to continuously evolve our defenses and ensure that we, as credit union leadership teams, are prepared for cybersecurity incidents and data breaches in our own systems, as well as our vendors’ and partners’ systems,” she says. “Additionally, we need to communicate cybersecurity threats to both employees and the membership via information security education and awareness training.”

Credit unions should do whatever they can to protect members in data breach and fraud situations, Amburgey says. Michigan State University Federal has developed several tactics to protect members from data breaches and fraud.

“Internally, we monitor fraud trends very closely for identifiable patterns. We use these trends and patterns in conjunction with software tools provided by our card servicing vendor to write, test, and implement fraudulent transaction rules,” she says.

“These rules are designed to mitigate the risk of loss without affecting legitimate member transactions,” Amburgey adds. “We have found these practices to be very effective in managing loss and providing protection for our members.”

The credit union created talking points for employees who interact with members. And it provides helpful information on its website and via social media, mailings, and email.

“We also provide information to members about how to monitor their accounts for suspicious activity and protect themselves from identity theft,” Amburgey says.

“Many of these tips are available at all times on our website, in branches, and on brochures and signage,” she adds. “For specific data breach or fraud situations, we adapt a special communication for the circumstances and deliver that information through all of those methods.”

**4 Innovation** Credit unions’ ever-present challenge is maintaining and updating essential technology while keeping an eye on the future.

While credit unions fine-tune their delivery channels, omnichannel experience, and cybersecurity practices, they must think about what’s next (“A future



## PRIORITIZING APPS AND PLATFORMS

Few financial institutions can be on every channel and in every app marketplace. Sometimes you have to prioritize.

Brett Wooden, chief retail officer at \$137 million asset Providence Federal Credit Union in Milwaukie, Ore., offers these tips on doing so:

► **When in doubt, start with Apple.** Apple has tight guidelines for your app to be approved and allowed in their marketplace. If Apple approves your app, it’s easy to submit it to Google Play, which has less stringent guidelines, he says. “Most developers submit to the Apple App Store first,” Wooden says.

► **Watch what other local organizations are doing.** “When I worked at a credit union in Texas, we launched an academic calendar app for our school district select employee group [SEG] with Apple first,” Wooden says, because schools in his region were using iPads.

► **Let your analytics guide you.** Use Google Analytics to see which devices members use to visit your website.

► **Know your target market.** If one of your large SEGs is, say, a Microsoft-related company, don’t launch your app in the Apple store.

forum,” p. 18).

“Balancing ‘run the engine’ activities with innovation can be challenging, especially for smaller organizations,” says Paul Hendricks, chief information officer at \$3.5 billion asset Virginia Credit Union in Richmond. “But it’s a must if credit unions are to remain competitive.”

## RESOURCES

► CUNA:

1. 2017-2018 Environmental Scan: [cuna.org/escan](http://cuna.org/escan)
2. 2018-2019 Marketing & Technology Report: [cuna.org/marketingtechreport](http://cuna.org/marketingtechreport)

► CUNA Technology Council: [cunacouncils.org](http://cunacouncils.org)

## FinCEN Issues Disaster Relief Fraud Bulletin

The Financial Crimes Enforcement Network (FinCEN) issued an advisory (FIN-2017-A007) to warn financial institutions about the potential for fraudulent transactions in the wake of disasters such as the 2017 hurricanes and wildfires.

FinCEN urged institutions to pay close attention to the following types of fraud:

► **Benefits fraud** typically occurs when fraudsters apply for emergency assistance benefits to which they are not entitled. FinCEN has noted an increase in the use of wire transfers to perpetrate these frauds. Requests for withdrawals are made, funds are wired to the accounts, and then the fraudster immediately withdraws the funds.

► **Charities fraud** is also common. One red flag: The payee organization's name is similar to, but not exactly the same as, that of a reputable charity. Using money transfer services for charitable collections also is a red flag because legitimate charities typically don't solicit donations via money transfer services.



► **Cyber-related fraud** also occurs during natural disasters, which cyber actors use as an opportunity to conduct financial fraud and disseminate malware. FinCEN's advisory cautions financial institutions to look out for the criminal exploitation of crowdfunding platforms, which can defraud account holders who donate funds and expose them to potential identity theft.

Credit unions can report any internet-based fraud and crimes to the FBI's Internet Crime Complaint Center.

FinCEN also encourages financial institutions to use the resources from the Department of Justice's National Center for Disaster Fraud.

When filing a suspicious activity report (SAR) on these types of fraud, FinCEN requests that financial institutions reference the FIN-2017-A007 advisory and include the term "Disaster-related Fraud" in the SAR narrative and in field 31(z) (Fraud-Other) to indicate a connection between the suspicious activity they report and the possible misuse of relief funds.

## DOL Finalizes Extension of Fiduciary Rule Applicability

The Department of Labor (DOL) finalized an 18-month extension to the fiduciary rule's applicability date. The rule's amended definition of "fiduciary" became effective June 9, but fewer conditions will apply to financial institutions and advisers until July 1, 2019.

During the extended transition period, financial institutions and advisers must comply with the

"impartial conduct standards." These are consumer protection standards that ensure advisers adhere to fiduciary norms and basic standards of fair dealing.

The standards specifically require advisers and financial institutions to "give prudent advice that is in retirement investors' best interest, change no more than reasonable compensation and

avoid misleading statements."

According to DOL, the extension will give the department time to consider comments, as well as the criteria set forth in President Trump's Feb. 3 memorandum.

In addition, through July 1, 2019, the agency won't pursue claims against fiduciaries "working diligently and in good faith" to comply with the transition rules.

## Bankruptcy Rule, Forms Changes Now Effective

Federal rules for bankruptcy procedures dealing with requirements and timing of a proof of claim changed as of Dec. 1, 2017.

A proof of claim must be filed no later than 70 days after the date the bankruptcy case is filed, a decrease from the previous rule.

Credit unions can file generally required attachments—such as a note, mortgage, or security agreement—as a supplement to a claim no later than 120 days after the date the bankruptcy is filed.

The new rules also clarify that secured creditors must file a proof of claim for the claim to be allowed, but the creditor's security interest is

still valid even if the creditor fails to file the proof of claim.

A credit union should receive a notice from the bankruptcy court advising the credit union that the debtor has filed either a Chapter 7 or a Chapter 13 bankruptcy. The



notice in a Chapter 13 bankruptcy will indicate the deadline for a creditor to file a proof of claim.

In a Chapter 7 bankruptcy, the notice will provide a deadline for filing a proof of claim where there are assets available to pay creditors. Where there aren't currently assets available to pay creditors, it will indicate that a creditor should not file a proof of claim unless they receive a court notice.

If assets are available to pay creditors later, the bankruptcy clerk will send another notice indicating that a creditor may file a proof of claim, and noting the deadline for filing such claims.

## CDD to Include Owner, AML Provisions

Credit unions have a few months left to come into compliance with the Financial Crimes Enforcement Network's (FinCEN) Customer Due Diligence (CDD) rule, effective May 11.

The rule includes provisions that address identifying the beneficial owners of legal entity accounts and financial institutions' anti-money laundering (AML) programs.

New beneficial owner requirements include:

- ▶ **Identification** and verification of beneficial owners of legal entity members.
- ▶ **A new** certification form requirement.
- ▶ **Written** procedures.
- ▶ **Record** keeping.
- ▶ **Record** retention.

New AML requirements include:

- ▶ **A system** of internal controls to ensure ongoing compliance.
- ▶ **Independent** testing for compli-

ance, to be conducted by credit union personnel or outside parties.

▶ **Designation** of an individual or individuals responsible for coordinating and monitoring day-to-day compliance.

▶ **Training** for appropriate personnel.

▶ **Appropriate** risk-based procedures for conducting ongoing member due diligence.

NCUA's Bank Secrecy Act (BSA)/AML regulations currently require the first four bullets, and the fifth bullet reflects existing practices necessary to satisfy suspicious activity reporting (SAR) obligations.

CUNA has many tools to assist credit unions, including a CDD checklist, final rule summary, and CDD compliance chart.



## COMPLIANCE Q&A

by CUNA's Compliance Team

**Q** Are credit report fees considered finance charges under Regulation Z?

**A** Credit report fees aren't considered finance charges on transactions secured by real property but are considered finance charges for all other loans.

Regulation Z Section 226.4(b)(4) indicates that **credit report fees are considered finance charges unless specifically excluded.**

Paragraph (c) states that credit report fees are excluded from the finance charge for transactions secured by real property or in a residential mortgage transaction if the fees are bona fide and reasonable in amount.

FIND MORE COMPLIANCE Q&As AT

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# A Culture of Compliance

*Conference attendees learn critical components of Bank Secrecy Act.*

MORE THAN 300 CREDIT UNION professionals heard the latest information on Bank Secrecy Act (BSA) compliance during the recent CUNA/National Association of State Credit Union Supervisors BSA Conference.

Experts addressed anti-money laundering (AML), cybersecurity, member business accounts, fraud, and cybersecurity.

“The board, management, and owners and operators are all responsible for compliance with the BSA, and this commitment should be clearly visible,” says attorney David Reed. “The business side of the organization needs to support AML controls, and this needs to begin with leadership.”

Reed also discussed the additional due diligence credit unions must conduct for business accounts. Credit unions should develop a business



While business accounts can be beneficial to CUs and their communities, they also bring a measure of additional risk, attorney David Reed tells attendees at the CUNA/NASCUS Bank Secrecy Act Conference.

account policy to describe what entities it will serve and which services it will offer, and specify pricing to account for any additional risk.

“A business account agreement

needs to specifically recognize the nature of the relationship,” Reed says. “It needs to recognize the level of risk and the fact that regular consumer protection laws do not apply,

## FRAUD, MONEY LAUNDERING BECOME MORE COMPLEX

Fraud and money laundering are evolving into highly complex incidents, according to experts at the CUNA/National Association of State Credit Union Supervisors BSA Conference.

Fraud is now a profession with specialists, collaboration, and its own supply chain, says Mauriceo Castanheiro, director of fraud analytics for Verafin, a CUNA Strategic Services alliance provider.

Fraud has evolved from targeting financial institutions to targeting vulnerable populations. “A lot of resources are spent protecting data that financial institutions hold. This sort of front-line protection is actually causing fraudsters to instead focus on customers and members,” he says. “The members and customers are the people who control access to an institution.”

Current scams include:

► **Romance scams** that target the elderly, women, and wealthier individuals. Fraudsters will pose as a romantic partner before asking for money transfers.

► **Business email compromises** that trick employees into sending a large wire transfer, resulting in significant financial losses or reputational risk. While it is rare, and originally involved mostly international transfers, domestic money transfers are being used more often.

► **Work-from-home scams** in which unemployed or underemployed individuals are tricked into thinking they can make money from home if they put up a small investment first.

The basics of money laundering remain the same, but criminals are con-

stantly evolving their techniques, Secret Service Special Agent Joseph Hall says.

“BSA data is a major help to us when we conduct an investigation, whether it’s money laundering or fraud, whatever the case may be,” Hall says. “The ability to access those documents can give us the information we need to determine if we’re going to be able to prosecute a criminal.”

Credit unions and other financial institutions can be especially helpful when criminals place money into the system to begin money laundering. They might structure deposits a certain way to avoid detection, particularly when it comes to large amounts of illicit cash, such as a number of deposits just below the \$10,000 currency transaction report threshold.



and you need to create those by contract. You also need to make it clear any other information you'll need for Bank Secrecy Act purposes."

For higher-risk accounts, credit unions might consider collecting:

- ▶ **The purpose** of the account.
- ▶ **Financial** statements.
- ▶ **Financial** references.
- ▶ **Occupation** or type of business.

### Money-services businesses

With their local focus, credit unions might be well-situated to serve money-services businesses (MSBs), says John Vardaman, executive vice president and general counsel at Hypur.

"Rather than a Bank of America serving 1,000 money-service businesses nationwide, maybe it's more natural for a credit union to serve the three or four that are in their community," he says.

MSBs include dealers in foreign exchange; check cashers; issuers or sellers of traveler's checks or money orders; providers or sellers of prepaid access; and money transmitters.

Technology is another equalizer, says Andre Herrera, executive vice president of banking and compliance at Hypur. Smaller financial institutions can get the same software bigger institutions use, which helps with transparency, safeguarding data, standardization, accuracy, accountability, and collaboration.

### Cybersecurity

"Cybersecurity is intersecting in a new way with BSA/AML compliance, and it's becoming increasingly important that BSA/AML officers are aware of the kinds of cyberthreats out there," says Jim Vilker, vice president of CU Answers. "There used to be a lot of silos out

there—compliance, risk management, and network security were separate parts—but today's cybersecurity environment means all those departments need to be interconnected in a new way."

The suspicious activity report (SAR) will need IP addresses, websites, email addresses, and attack vectors. "This is definitely not your mom's SAR. There's a lot of specific information you want to have in this area that is specific to IT," says Marsha Sapino, AuditLink assistant manager at CU Answers.

The human element is still a big part of cybercrime. "A significant part of all data breaches involves some form of social engineering because it is taking advantage of the human condition," says Jerry Beasley of TraceSecurity, a CUNA Strategic Services alliance provider.

Social engineering prevention training improves credit unions' awareness, attitudes, and comfort when dealing with cybersecurity, he says.

### Risk assessments

"A well-thought-out assessment will both guarantee compliance with regulations and maximize the effectiveness of the program," says Vilker.

Consider the variables—account product, geography, and member—against the likelihood of each variable impacting the BSA/AML program.

Also, risk assessment programs will benefit from taking a more nuanced approach to grading risk levels.

"Low, medium, and high doesn't cut it anymore," he says. "Credit unions need to expand how they look at risk. Compliance, reputational, transaction, legal, and regulatory risk should all be considered."

## FATF UPDATE AFFECTS CORRESPONDENT ACCOUNTS

Michael Edwards, World Council of Credit Unions vice president and general counsel, focused on the international regulatory environment during his session at the CUNA/National Association for State Credit Union Supervisors BSA Conference.

Edwards particularly emphasized the concept called "Know Your Customers' Customers" (KYCC) that has resulted in many correspondent banks "derisking" or ceasing to do business with certain categories of institutions.

Misinterpretation of a 2012 Financial Action Task Force (FATF) recommendation has led to some prominent examples of banks closing credit unions' correspondent accounts in Ohio and West Virginia, as well as in the United Kingdom and the Caribbean.



An October 2016 update from FATF clarified that it does not require financial institutions to conduct customer due diligence on the customers of their customer.

"Institutions need to have an approved BSA policy, but are not required to conduct due diligence on their customers' customers," Edwards says. "Instead, the correspondent institution will monitor the respondent institution's transactions, focusing on changes to risk profile, implementation of risk mitigation measures, unusual activity, or potential deviations from agreed-upon terms."

Correspondent banks require this ongoing monitoring regarding the transactions they're processing, with an emphasis on "out of character" transactions.

Additional areas to monitor are wires and automated clearing house transactions.

Edwards expects forthcoming guidance on:

- ▶ **BSA** information-sharing from FATF.
- ▶ **Countering** the financing of terrorism and nuclear proliferation.
- ▶ **Beneficial** ownership transparency.
- ▶ **KYCC** regarding the use of alternate forms of identification.

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# Preparing for Reg Z Threshold Changes

2018 brings new calculations from the CFPB and Federal Reserve Board.



MICHAEL McLAIN

IT'S THE TIME OF YEAR WHEN the Consumer Financial Protection Bureau (CFPB) and the Federal Reserve Board are required to calculate the dollar amounts for certain thresholds in Regulation Z and to issue a final rule amending those dollar amounts if applicable. Changes are effective Jan. 1, 2018.

## Exempt consumer credit transactions

The Dodd-Frank Act amended the Truth-in-Lending Act to require that the dollar threshold for exempt consumer credit transactions be adjusted annually by the annual percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

If there isn't an increase in the CPI-W, the Fed and CFPB won't adjust this exemption threshold from the prior year.

Based on the annual percentage increase in the CPI-W as of June 1, 2017, the Reg Z exemption threshold will increase from the 2017 amount of \$54,600 to \$55,800 effective Jan. 1, 2018.

Any extension of credit—except that secured by real property or by personal property used as the prin-

cipal dwelling of the consumer—that exceeds the above threshold amount won't be subject to the requirements of Reg Z.

Dodd-Frank requires similar adjustments to the Consumer Leasing Act and Regulation M. Therefore, the exemption amount for Reg M also will increase to \$55,800.

Under three acts—the Dodd-Frank Act of 2010, the Home Ownership Equity Protection Act of 1994 (HOEPA), and the CARD Act of 2009—the CFPB is also required to determine annually if it should revise other Reg Z thresholds and, if so, to issue a final rule to amend the various thresholds.

## Minimum interest charges

Reg Z sections 1026.6 and 1026.60 require the disclosure of any minimum interest charge exceeding \$1 that could be imposed on an open-end loan during a billing cycle and provide that the minimum interest charge threshold will be recalculated annually using the CPI-W.

When the cumulative change in the adjusted minimum value has risen by a whole dollar, the minimum interest charge amounts set forth in Reg Z will be increased by \$1.

CFPB is not amending the minimum interest charge amount, so the \$1 amount will remain the same for 2018.

## Credit-card safe harbor penalty fees

Section 1026.52 establishes a safe harbor for the imposition of penalty fees, such as a late payment fee in association with credit card accounts.

The 2017 thresholds of \$27 for first violation and \$38 for a subsequent violation remain the same because the CPI-W didn't increase

a sufficient amount to warrant a change.

## HOEPA

Under Section 1026.32, when the total loan amount is \$21,032 or more, and the points and fees amount exceeds 5% of the total loan amount, the transaction is a high-cost mortgage. Also, when the total loan amount is less than \$21,032, and the points and fees amount exceeds the lesser of the adjusted points and fees trigger of \$1,052 or 8% of the total loan amount, the transaction is a high-cost mortgage.

## Ability-to-repay/qualified mortgages

Under Section 1026.43, a loan is not a qualified mortgage if the loan's total points and fees exceed:

- ▶ 3% of the total loan amount for a loan greater than or equal to \$105,158.
- ▶ \$3,155 for a loan amount greater than or equal to \$63,095 but less than \$105,158.
- ▶ 5% of the total loan amount for loans greater than or equal to \$21,032 but less than \$63,095.
- ▶ \$1,052 for a loan amount greater than or equal to \$13,145 but less than \$21,032.
- ▶ 8% of the total loan amount for loans less than \$13,145.

## Appraisals for higher-priced mortgages

Under Section 1026.35, the exemption threshold will increase from \$25,500 to \$26,000. Lesser loan amounts are exempt from the higher-priced mortgage loan appraisal requirements.

MICHAEL McLAIN is CUNA's senior federal compliance counsel. Contact him at [mmclain@cuna.coop](mailto:mmclain@cuna.coop).

## O Bee Taps Into its History With Brewpub Theme

O Bee Credit Union in Tumwater, Wash., is celebrating its roots with a beer-themed branch.

O Bee, which was formed in the 1950s to serve Olympia Brewing Co. employees, has opened a branch with the look and feel of a brewpub. In fact, at times it even serves beer.

The facility features a wood bar with brass rails, taps at every teller station, and a clock permanently set at 5 p.m. While the taps don't actually serve beer, the credit union does occasionally hold beer tastings at the branch.

While the suds scheme reflects O Bee's historical roots, it also serves as a differentiator, says Lee Wojnar, vice president of marketing at the \$255 million asset credit union.

"Nobody else is doing this," Wojnar says. "When you're unique in the marketplace you stand out. It creates a buzz in the community. It is a true celebration of our history



O Bee Credit Union's beer-themed branch features a wooden bar with brass rails, taps at every teller station, and a clock permanently set at 5 p.m.

in every sense of the word."

Jennifer Roberts, senior vice president/chief operating officer, says the design has created a "better than anticipated lift" in membership growth and traffic at the branch.

What's more, the branch has also been a great vehicle for connecting

with the community, Wojnar says. "We bring in craft brewers, who are small-business owners with a passion for what they're doing—just like credit union people.

"They can share their products with our neighbors and members. And we all have a place to gather."

## League's Health Program Wins 'Rock Star' Award

In recognition of its employee wellness program, the Montana Credit Union Network's Group Benefit Trust recently received the "Rock Stars of Health Bronze Award."

The Group Benefit Trust is primarily a self-funded, multi-employer arrangement that offers health and wellness insurance (along with dental, vision, and group and voluntary life coverage) to all Montana credit unions. The wellness program—"Healthy You!"—is an integral part of the package.

The Group Benefit Trust involves 24 credit unions, as well as their

employees and dependents. Health screenings that identify risk factors are an integral part of the program, and Healthy You! offers wellness coaching to help participants take control of those factors.

"We're providing innovative benefit solutions for subscribers, and we're also committed to the credit union ideals of cooperation and people above profit," says Tracie Kenyon, president/CEO of the Montana Credit Union Network. "It's truly a first-generation cooperation. It's exciting to band together and solve a problem that vexes

many credit unions and small businesses as well."

Businesses using Healthy You! have an average 70-80% participation in biometric screenings. That's driven by a 3% discount on premiums when participating organizations have at least 70% participation.

The Employer Rock Stars of Health Awards are awarded to businesses who demonstrate outstanding leadership and innovation through their efforts to unify expertise in wellness, employee health, safety/risk management, and employee benefits.



## Digitize Your Lending Process: 5 rules

Toddlers play games on tablets and young children use hashtags and emojis—and these same tech-savvy kids will someday be in the market for loans.

That’s why it’s essential for credit unions to digitize the lending process, says Courtney Angeley, impact director for the Filene Research Institute. She cites five rules credit unions should follow to digitize the lending process:

**1. Realize** that attitude is everything. Define what “digital banking” means for your credit union. Understand it’s a mindset and culture that you need to build, not simply the processes you need to carry out.

**2. Know** what’s important. Credit unions always have reasons why not to go digital, including cost, time, and employee resources. But consider the impact not doing so will have on members.

**3. Realize** that frictionless lending can be a help or hindrance. The speed of a process can be a competitive advantage. Identify sources of

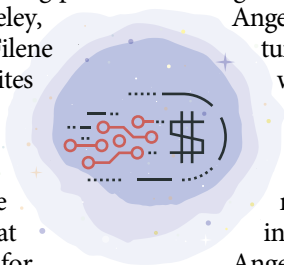
friction in the loan process, such as complicated policies, duplicate staff roles, or unnecessary steps.

But also remember there are times when slowing the process is an advantage, such as when you’re dealing with an emotional member, Angeley says. “There are opportunities to create friction that will benefit your member.”

**4. Embrace** the human touch. Digitizing the lending process doesn’t mean removing all human interaction with members, Angeley says. Rather, seek to adopt digital activities as a way to improve a personal, high-touch service model that allows members to feel important.

**5. Focus** on integration. Look at your lending process and determine which points are a priority for becoming digital. Possibilities include integrating your systems, establishing digital signatures, or offering online loan applications.

“It’s setting out what’s important for your credit union and following through on that,” Angeley says.



## Fintech Lenders Gain Traction

Financial technology (fintech) lenders continue to gain market share for personal loans, according to a study from TransUnion.

TransUnion studied unsecured personal loan originations over the past several years, as well as more detailed portfolio performance between 2014 and 2016. The analysis compared loans issued by banks, credit unions, fintechs, and traditional finance companies.

The results? The share of personal loans fintechs originated has risen dramatically in recent years, from about 4% in 2012 to 30% at year-end 2016.

This trend continued through the first six months of 2017, with fintechs representing 32% of personal loan balances.

“The personal loan market has rebounded nicely from the recession, with material consumer demand for personal loans across the credit spectrum,” says Jason Laky, senior vice president and consumer lending line of business leader at TransUnion. “Many lenders exited the market during the recession. Our study clearly shows that when demand for personal loans recovered, fintechs seized the opportunity.”

These nontraditional lenders focus originations in the near prime and prime risk tiers. During the fourth quarter of 2016, 59% of fintech loans originated fall in those two risk tiers.

Counter to general assumptions about fintechs, about 10% of originated fintech personal loan balances are subprime, compared with 14% for the overall market, TransUnion reports.

## SNAPSHOT

### Mortgage Delinquency Rate by State\*

#### Highest

Mississippi 2.1%  
New Jersey 2.1%

#### Lowest

Alaska 0.5%  
Colorado 0.5%

\*More than 90 days delinquent

Source: Consumer Financial Protection Bureau



# ‘Soup-to-Nuts’ Security Audits

*An organization-wide risk assessment can keep member information safe.*

PATRICK TOTTY

THE GREAT RECESSION exposed a lot of fault lines in the finance industry, leading regulators to take an expanded, hard-nosed approach to their audits. Regulators not only call the shots on regulatory compliance, they also focus on security issues.

That focus takes no notice of a credit union’s asset size. “Regulations are the same across the board, from small to large credit unions,” says Catherine Bruder, information technology (IT) and audit consultant at Doeren Mayhew CPAs and Advisors.

But which credit unions should look for outside help with security audits and protection?

Bob Miles, managing director of the information security practice group at Ongoing Operations, says credit unions in the \$200 million to \$250 million asset range usually need services like those offered by his company, while credit unions with \$500 million to \$1 billion in assets are less likely. Credit unions with more than \$1 billion in assets usually have the staff and resources to make security an in-house activity.

Credit unions that seek assistance from an outside company and undergo an overall risk assessment should be prepared to answer these questions:

- ▶ **Is** the data stored in secure place?
- ▶ **What** specific threats does the credit union face?
- ▶ **What** controls and measures does the credit union use to protect data?
- ▶ **Where** should the credit union devote its resources based on what it learns from a risk assessment?

## All-in-one audits

Credit unions seeking outside security should look for a “soup-to-nuts”

provider, says Ryan Castle, executive vice president at TraceSecurity, a CUNA Strategic Services alliance provider that offers a wide array of services, which credit unions can select on an as-needed basis.

“First,” he says, “we look at the entire organization and conduct a general risk assessment: Where does a credit union run the greatest risks? Examples would include deficiencies in incidence response to security

designing snail-mail documents that preclude dumpster diving.

“At this point, we basically are filling in security gaps,” Castle says. “Credit unions can choose which security measures they want, ranging from a general risk assessment to very detailed, drill-down analyses of the credit union’s specific structure.”

TraceSecurity also instructs credit union clients on how they can provide the latest security news to their members. But Castle cautions that advisories to members have only an indirect impact on the members’ awareness of security, whereas training staff to be aware is much more impactful.

Miles says typical problems Ongoing Operations encounters “include not having a good handle on asset management, or badly documented connections with third-party providers. So, when a breach occurs, it’s difficult to determine when it occurred and what data got stolen.”

An unwanted consequence, he says, is that unless the credit union can pinpoint which data was stolen, it has to alert all of its members to the breach.

“On the other hand, if the stolen data is identified as affecting 10% of the members, it’s a less arduous task to inform that group while a credit union repairs a breach,” he says.

## A comprehensive approach

Miles, who has worked as a security consultant for 20 years, says he aligns security audits with NCUA, Federal Financial Institutions Examination Council, and Payment Card Industry standards.

“We assess vulnerability levels, asset management, and whether the staff is supportive of security man-

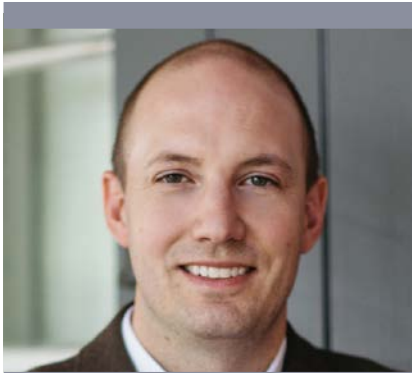


**‘PRESSURE FROM REGULATORS WILL CONTINUE TO MOTIVATE CREDIT UNIONS TO ASK FOR HELP.’**

**Catherine Bruder**

breaches, or lack of a robust business continuity plan.”

Other high risks include phishing directed at members and the mishandling of member data. Protections against a data breach include encrypting member data when sending it to another party, and



**'CREDIT UNIONS**

**CAN CHOOSE WHICH**

**SECURITY MEASURES**

**THEY WANT.'**

**Ryan Castle**

agement: Does the credit union have a dedicated security person?"

Sometimes it's a credit union employee who inspires management to retain a security consultant. Miles recently met with a \$200 million asset credit union that had one person responsible for all IT functions, including aligning policy to regulator demands, information security management, and tracking third-party patching.

"He was snowed under," Miles

says. "Once he trusted our approach, he went to his superiors to make the case for involving a third party—us—in data protection. If somebody wants it, I'll accompany an IT person who is doing a 'making-the-case' presentation. This doesn't make the IT person look bad. It's to show how much they have been taking on."

Doeren Mayhew offers comprehensive coverage that includes risk assessment, IT threats, and core system vulnerability. It also offers "social engineering" services, where it tests credit union employees to see if they know not to open questionable emails, especially spoof emails that try to pass as internally generated email.

Fraudsters will use repeated phishing attempts to amass enough sensitive data to pull off a theft. "Credit unions can be highly vulnerable to this," Bruder says. "We pretend to be the bad guy and test how far we can go into a core system. No one knows it's us testing the system."

"Pressure from regulators and the desire to know where they stand regarding security standards will continue to motivate credit unions to ask for help," Bruder continues. "The gamut of inquiries we receive runs from credit unions that don't know exactly what they're looking for to credit unions that send us a detailed list of concerns. Often what can start as a simple phone query develops into a full-blown relationship."

At the end of a security assessment, the results are plainly shown. "We provide a dashboard to the client with each area marked in red, yellow, or green: current danger, potential danger, and well-protected," says Miles. "That becomes our road map."

## TRACKING THE CASH

Security scans and audits occur in cyberspace, with billions of bytes tasked and redirected in millionths of a second. Results might appear in printouts and hard copy, but they're mostly electronic abstractions.

Not so with the one security issue that has no hint of abstraction about it: a strong-arm robbery at a credit union branch. What physical, concrete things can credit unions do to prevent robbery?

One way to snatch victory from a robber is the Cash Tracker from 3SI Security, a CUNA Strategic Services alliance provider. The device is made with real cash so it blends perfectly with the teller's real cash, says Lisa Moughan, global marketing communications manager.

"The device is small and covert and nearly impossible for robbers to detect," Moughan says. "The tracking is activated when the device is lifted from a magnetic baseplate. As soon as the tracking device is lifted along with the cash, a silent alarm goes out to the security manager and the police."

After the cash and tracker leave the branch, Moughan says it becomes a simple matter of GPS tracking: "Since the police can log in directly to 3SI's tracking website and view the tracker, they know the robber's direction and speed. We know when they become stationary."

Moughan recalls one robber who thought he could defeat the technology by finding and then throwing the tracking device into a neighbor's yard. "That told us he was at or near home, and it was enough evidence to get a warrant to search his house."

The average time it takes between a robbery and apprehension is 17 minutes.

Moughan notes that if a robber enters a branch already knowing about tracking devices or dye packs, "that lets us know that somebody inside might be helping him. Most robbers aren't that sophisticated."



## RESOURCES

- ▶ 3SI Security, a CUNA Strategic Services alliance provider: [3sisecurity.com](http://3sisecurity.com)
- ▶ Doeren Mayhew: [doeren.com](http://doeren.com)
- ▶ Ongoing Operations: [ongoingoperations.com](http://ongoingoperations.com)
- ▶ TraceSecurity, a CUNA Strategic Services alliance provider: [tracesecurity.com](http://tracesecurity.com)

## Volunteers Provide ‘Light of Hope’ in Ukraine

A World Council of Credit Unions project in Ukraine is improving the quality of services and products credit unions offer to rural farmers and agribusinesses.

The Credit for Agriculture Producers (CAP) Project is a four-year effort (2016-2020) funded by the United States Agency for International Development (USAID) and implemented by World Council with oversight and technical assistance from the Volunteers for Economic Growth Alliance.

The CAP Project contains a significant volunteer component, drawing upon credit union experts who possess a wide range of technical abilities and worldwide experiences.

“The entire experience puts things into perspective,” says Melissa Osborn, a regulatory and legislative affairs specialist at the Michigan Credit Union League & Affiliates, who served as a volunteer expert last summer. “I met with individuals who love what they do. With financial services in Ukrainian credit unions in an infancy stage, they were asking for more structure and regulation to have clear-cut guidance on operating.”

Osborn responded to a Global Women’s Leadership Network call for volunteers for CAP. The volunteer assignment aimed to begin the process of making gender mainstreaming a substantive part of the project.

She worked with Ukrainian regulators to improve regulation through engagement with credit unions and

presented the importance of maintaining open communication and finding balance within the regulations to ensure credit union growth.

As a gender specialist, she worked with the CAP Project team to provide training on gender equality and attracting women as new members.

Osborn says she relished the opportunity to combine her credit union experience and her passion for supporting women.

Ukrainian Federal Credit Union in Rochester, N.Y., also sent volunteers to support the project. Oleg Lebedko, CEO of the \$225 million asset institution, and Board Chair William George Kornlyo visited Ukraine last summer.

The volunteers worked with the All-Ukrainian Credit Union Association to develop a three-year growth strategy. Simultaneously, the Irish League of Credit Unions’ International Development Foundation worked with the Ukrainian National Association of Savings and Credit Unions on strategic planning.

“They were hungry for, and very receptive to, all kinds of information and experience,” says Lebedko, who initially compiled data and gathered material for the growth strategy.

Kornlyo compares the presence of volunteers working on the project alongside the national associations to “a light of hope.”

As the project reaches its midpoint in 2018, World Council expects the first assignments will bring to the surface Ukrainian credit unions’ other needs, and the demand for more volunteers.



Volunteer Oleg Lebedko (center), CEO of Ukrainian FCU, works with All-Ukrainian CU Association representatives.



Melissa Osborn, a volunteer and regulatory and legislative affairs specialist for the Michigan CU League, addresses regulators and the Credit for Agriculture Producers Project team.

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KASASA 11

FISERV 5

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# Performance-Worthy Predictions

*The time hasn't yet come for these prognoses.*

JAMES COLLINS

WHEN I WAS A LITTLE BOY, I wanted to be a meteorologist. Not because I liked the weather or science or even the outdoors. It was, as I told my fourth grade teacher, “the only job I knew where being consistently wrong was both expected and allowed.”

“Or being a school administrator,” the teacher quipped. I believe I was too young to note the sarcasm.

Which brings me to the topic this month: Pundits.

For me, the highlight of a credit union conference is a good speaker. And the best speakers are those who mix a unique recipe of expert knowledge and zeal. These aren't breakout sessions, they're performances worthy of an award—think “Hamilton does the credit union movement.”

But everything is a trade-off, and sometimes what you lose for sheer entertainment is accuracy. The goal of every industry pundit is to, at some point in the future, say “Just like I said....”

But the time hasn't come yet for many of these predictions, such as:

## The death of the branch

**Who:** Consumer behavior gurus.

**When:** 1990 onward.

**What happened?** As electronic transactions began taking more volume from branches, many thought the classic branch model to be dead. But, as Mark Twain once said, “The reports of my death have been greatly exaggerated.”

True, branch transactions have fallen. But consumers want and need a branch presence to perform more complex interactions and fix problems.

## Interest-rate risk is a crisis

**Who:** Examiners.

**When:** Since about 2010.

**What happened?** Historically speaking, rates cannot be “near zero” for extended periods of time. Unless, of course, they are.

Then this is a “temporary” situation and rates should shoot up at any time. Unless, of course, they don't.

Then this is a protracted lull but high rates are just around the corner. Unless, of course, they aren't.

## Millennials are the future

**Who:** People who could read demographic reports.

**When:** When their kids grew up and they didn't understand them anymore.

**What happened?** Once it became clear millennials were a larger group than baby boomers, the quest to find what made them unique was on.

But the initial information wasn't good. They seemed to be fiscally conservative, having watched their parents struggle through the Great Recession.

Further, they came complete with expensive cell phones and even more expensive student debt. While many in number, one would never confuse them with baby boomers.

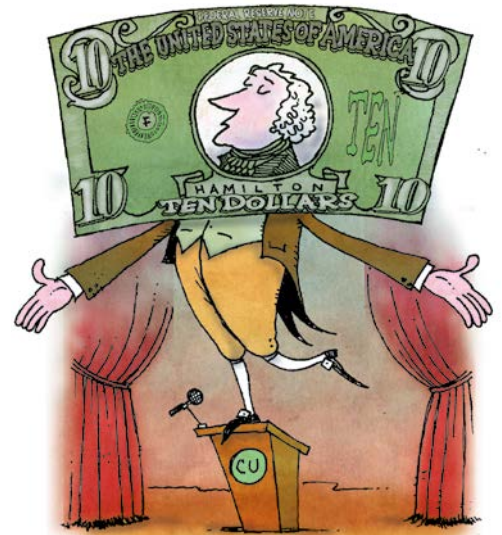
## Home loans are always good

**Who:** All of us.

**When:** 2007 was the best year.

**What happened?** The motto for many banks used to be, “They don't make new land, do they?” Then they'd lend 100% loan-to-value to someone with only three months on the job.

True, they don't make new land. But there are new suckers born every minute. They're often called “CEOs.”



## Bitcoin will dominate

**Who:** Geeks, mainly.

**When:** 2009 until now.

**What happened?** Bitcoin, the darling cyber currency, was invented in 2009 and quickly gained a cult-like following. With the potential power to undermine and disrupt normal banking institutions, many people thought this would be a formidable threat to both credit unions and banks.

However, the technology has subsequently failed to “scale up,” with an average bitcoin transaction taking 10 minutes. And bitcoin values have been as erratic as a movie star during a meltdown.

## Mobile wallets

**Who:** Everyone who thought they could make a buck doing a mobile wallet.

**When:** Never-ending.

**What happened?** What's easier than pulling out your phone, pressing a few things on a screen, and completing a transaction? Just about everything.

Even ApplePay hasn't broken out. It's not a bad product or a bad idea. But it's a solution in search of a problem.

JAMES COLLINS is president/CEO of O Bee CU, Tumwater, Wash. Contact him at 360-943-0740 or at [jcollins@obee.com](mailto:jcollins@obee.com).



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