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Get Smart

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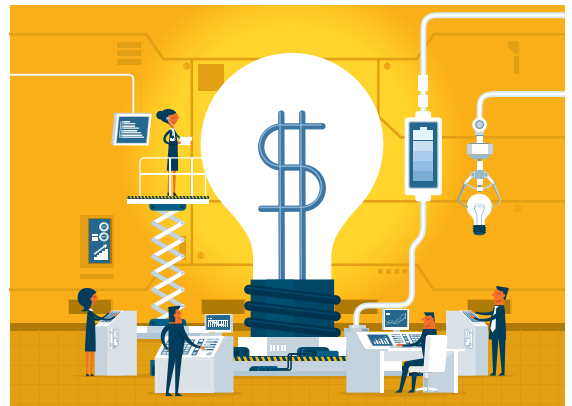
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What the financial markets are telling us

Tulane University Professor Peter Ricchiuti gives his perspective on financial markets, the importance of portfolio diversification, and the cyclical nature of stocks and investments.



Reaching millennial homebuyers

Millennials currently account for one in three home purchases, and they're expected to increase their market share significantly over the next year. This demographic presents a significant opportunity for lenders, but capturing their business requires an understanding of marketing and service preferences.

Disney's approach to employee engagement

Ensuring employees consistently deliver exceptional experiences requires organizations to design processes that reinforce their desired culture. See how The Walt Disney Co. attracts, develops, and retains employees dedicated to its vision of creating memorable experiences.

One-on-one lending skills remain relevant

As more members use mobile apps and other remote channels to apply for consumer loans, credit unions naturally focus on improving the member experience for those channels. But focusing on face-to-face lending interactions is more important than ever. To enhance the member experience, seek a balance between the speed, depth, and consistency of your face-to-face lending process.



Instant issuance: SFP or SaaS?

Instant issuance has become a valuable service offering as credit unions respond to on-demand member expectations, expedite cards into members' hands, and capture greater interchange revenue potential.

For credit unions exploring instant issuance, the big question is whether to adopt a software for purchase (SFP) or software as a service (SaaS) model.



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NOMINATE A CREDIT UNION HERO TODAY!

Credit Union Magazine is seeking nominations for 2019 Credit Union Heroes, those who serve as examples for the entire movement through their service, advocacy, and commitment to credit union ideals.

Qualified individuals:

- // Are credit union system employees or volunteers;
- // Are working or retired;
- // Are unsung heroes, going above and beyond to promote credit union philosophy;
- // Take a stand or exhibit a firm belief in credit union values;
- // Show dedication to credit union principles; and
- // Make a difference in their communities.

Credit Union Magazine will feature those selected as Credit Union Heroes in the March issue. Then, readers will vote at news.cuna.org to decide the 2019 Credit Union Hero of the Year, who will be honored at the America's Credit Union Conference, June 17-20, 2019, in Orlando.

Nominations will be accepted online from Nov. 1 to Dec. 7.

news.cuna.org/nominatehero

Our New Normal

We're building a deeper digital strategy—just for you.

SOME SAY CHANGE IS THE NEW normal, but it's always been that way.

Credit Union Magazine, for example, began life as *The Bridge* all the way back in 1924. Our first editor was Roy Bergengren, one of the credit union movement's founders.

Just like the movement our magazine chronicles, we continue to evolve. But our guiding principle—serving our readers—remains the same.

With that in mind, we're excited to announce that starting next year, the print edition of *Credit Union Magazine* will move to a quarterly production schedule while we bolster our online CUNA News presence on news.cuna.org.

Based on extensive stakeholder research, we know our readers expect content in a variety of channels and formats, and they also value our long-form, in-depth coverage. By preserving our print publication and placing a greater emphasis on digital content, we're ensuring *Credit Union Magazine* remains relevant to our readership.

We'll publish our four print issues—which will include the popular Credit Union Rock Stars edition—in March, June, September, and December. They'll remain high-impact and immersive.

But instead of waiting for magazine content to be delivered monthly, subscribers will receive weekly news emails connecting them to exclusive digital content: short articles, economic updates, videos, podcasts, in-depth features,



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

and more. This multipronged approach aligns with the results of our readership survey.

In other words, we're delivering content in the channels you rely on every day. Whether it's coverage of credit union events, profiles of the people who make our movement great, best practices, or a breakdown of key legislative, compliance, or economic issues, we're here to keep you informed.

"Progress," said Bergengren's peer and fellow credit union pioneer Edward Filene, "is the constant replacing of the best there is with something still better."

We'll continue to give you our best, whatever form it may take in the future.

THOUGHTS? QUESTIONS?
COMMENTS? SEND THEM TO
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Slow Down, Be Agile

Credit unions always want to enhance the member experience. But in the case of strategic thinking, faster isn't always better, according to a white paper from the CUNA Operations & Member Experience Council.

"There's nothing wrong with wanting to be more agile, but agility organizationally doesn't necessarily mean more hurried," says Deedee Myers, CEO of DDJ Myers. "In order to implement something faster, we might need to take

a little bit longer than we expected to get aligned.

"It comes down to an investment of time," she continues. "Do we want to make that investment on the front end or piecemeal it on the back end playing clean-up and catch-up? That's the danger in implementing a project without developing an overarching strategy first."

The white paper "Game Changer: How Operations and Member Experience Leaders Inspire Strategic Thinking" explores strategic conversations and the benefits this type of thinking has on operations.

Agile thinkers embrace change and are forward-thinking.

"Continuing to do things the same way only because 'that's how we've always done it' is not enough to survive in today's world," says Anika Davis, assistant vice president of retail sales and services, at \$5.8 billion asset Delta Community Credit Union in Atlanta. "As leaders, we set the tone

for everyone else in our organization. We must proactively embrace change as a positive way to improve."

This includes staying current on industry trends and developments, challenging the status quo to learn from successes and failures, and attracting and hiring talent who can navigate simple and complex change.

Leaders may need to rethink their willingness to take on risk to try new ideas and embrace a culture that lets people try and fail, says Adam Kearns, vice president of business development for the Ohio Credit Union League.

This entails "knowing what's happening, being cognizant of what the credit union needs to do to serve members today, and the willingness to adapt to make that happen," Kearns says.



OVERHEARD

'DON'T PLAY WHACK-A-MOLE WITH YOUR COMPLIANCE CHALLENGES.'

CUNA Chief Compliance Officer Jared Ihrig on the need to be proactive when tackling compliance challenges. He addressed the co-located 2018 CUNA Technology Council and CUNA Operations & Member Experience Council conferences. Visit news.cuna.org for coverage.

'Talent Is at the Center'

Ram Charan's introduction to business came from working in his family's shoe shop in India.

While he's now a sought-after consultant for some of the world's largest companies, Charan says the basics of business are the same for all organizations.

"The basics are the same whether you're a street vendor or a multinational company," Charan tells the CUNA News Podcast. "Just the scope, the speed, the complexity, and the outcomes are different."

In his latest book, "Talent Wins,"

Charan says succeeding in business today requires companies to deploy talent in new ways. Doing so will allow them to seize new opportunities and adapt to constant change.

"Talent is at the center," he says. "In this era of technological change, the real issue is, do we have raw talent? Is there a shortage? Is the talent we have obsolete? Talent creates value."



CUNA COUNCIL MEMBERS CAN DOWNLOAD THE FULL VERSION OF THE WHITE PAPER AT CUNACOUNCILS.ORG



HEAR MORE FROM CHARAN ON THE CUNA NEWS PODCAST AT NEWS.CUNA.ORG/PODCASTS

Look to Trends to Anticipate the Future

Provided you know where to look, anticipating the future isn't impossible. For starters, just look at the trends.

Hard trends are based on future facts that will happen. Soft trends are based on assumptions, futurist Daniel Burrus says.

"I love both hard trends and soft trends," says Burrus, who spoke at the co-located CUNA Technology Council and CUNA Operations & Member Experience Council conferences in San Francisco. "I love hard trends because I can see them coming. I love soft trends because I can influence them."

Burrus says hard trends fall into three categories:

1. Technology. Virtual reality, social media, cloud computing, and artificial intelligence are all examples

of technologies that will continue to grow at an exponential rate, Burrus says. None of them are temporary trends that will end in the near future.

2. Demographics. The 78 million baby boomers in the U.S. will continue to age. As they get older, there will be many challenges and opportunities we can be certain about.

3. Government regulation. Burrus says more government regulation also is a certainty. The opportunity is using technology to navigate its requirements more efficiently.

Soft trends are based on assumptions. As a result, they involve more risks.

Typically, these trends are based on cycles, such as the stock market or housing market. Burrus says

blockchain technology is a soft trend credit unions can use to bring increased security to consumers.

While there still might be some uncertainty about the future even after examining trends, he says the No. 1 certainty is that the future will be all about relationships.

"We live in a human world," Burrus says. "It's all about relationships, and relationships are based on trust."



Understand Employees' 'Superpowers'

Organizations typically have succession plans for C-suite positions—"and then it falls off a cliff," says Mollie Bell, CUNA's chief engagement officer.

"We're in the tightest job market in our lifetimes," says Bell, who spoke at the co-located CUNA Technology Council and CUNA Operations & Member Experience Council conferences in San Francisco. "We need a succession plan for every position."

Start creating a succession plan by completing these tasks:

► **Plan it, map it.** Help staff identify their strengths, aspirations, and where they want to be in five years.

"That might be where they are now," Bell says. "But map it out. This will let people know where they stand."

► **Use tools** such as the Myers-Briggs Type Indicator or the Big Five Personality Test to identify employees' traits and skills.

"Make these part of your culture," Bell says. "That's a huge gift for your team. You have to understand your people's superpowers and maximize them."

"This starts with you as a leader," she adds. "Know your superpowers and then help others find theirs."

► **Develop yourself** so you can develop others. "Ultimately, talent

wins," Bell says. "We need people working in our organizations who are passionate and engaged every day."

► **Stretch and reward your team.** Allow staff to perform to their strengths.

"Help them take calculated risks, and reward them for it," Bell says. "Part of our job is to understand where people's gifts are and navigate them to the right role."

► **Be honest.** Let people know when their best path might lead them out of the organization.

"We need to help others care about their own careers," Bell says.



The Innovation of Cooperation

As my mother told me, two heads are better than one.



MAURICE SMITH,
CUNA board chairman

TODAY'S BUSINESS CONVERSATIONS often address the influence of innovation on existing industries. Innovation is usually mentioned as a disruptive force, where new ideas displace old models and introduce novel approaches.

We frequently talk about innovation in the credit union space. New entrants and fintech startups introduce products unthinkable just a few years ago. This is an exciting time to be in the financial services sector.

As we contemplate the challenges and opportunities innovation presents, we need to remember what makes us special in the first place. The credit union movement was an innovation itself. We were established to disrupt an industry that failed to serve the needs of working consumers.

I don't believe innovation should be regarded as an expired quality of the credit union movement. The spirit of innovation that drove cooperative finance pioneers in the past remains with us today. We have the tools to keep our industry relevant in the face of new technology and players.

All innovators look for a competi-

tive advantage. This may be a feature or product that gives them an edge over competitors.

Sometimes, the secret weapon is a fancy new technology. In other cases, the advantage comes as a unique business model.

For credit unions, our edge is our willingness to cooperate.

At first blush, cooperation might not seem like a distinctive advantage. After all, don't all companies within an industry cooperate with each other?

No, they don't. The cooperative spirit that drives credit unions to work with each other is a rare trait.

Cooperation strengthens each individual credit union and the larger movement as a whole. By supporting each other, we build upon the principle that we are stronger together by combining our individual talents.

This isn't just a nice thing to do—it's a shrewd business strategy.

Cooperation increases our innovation. As my mother told me, two heads are better than one. This is truer than ever for credit unions.

In finance, we are familiar with the concept of leveraging. We use leverage to turn a relatively small balance sheet item into a larger asset.

The same occurs when credit unions cooperate. We take the innovations of one credit union and maximize it for the benefit of members everywhere when we cooperate.

Cooperation as a leverage tool equips credit unions to meet market challenges head-on. This is because we understand the power of pooling resources.

This is what happens at our individual credit unions. Our members pool their funds to fuel our credit unions. Volunteers come together to combine talents for the benefit of the

membership. Cooperation is truly an innovative tool.

Cooperation becomes more powerful when we apply this notion to advocacy. Certainly, we can undertake advocacy as a fragmented, individual activity. But the result will be limited and marginal.

When we combine the power of our collective voices, cooperation leverages our advocacy efforts.

Let's face it: The world of advocacy is as crowded as the financial services industry. Just conduct an online search of trade associations in Washington, D.C., or your local state capitals. You will likely find a host of lobbyists, activists, and campaigners fighting to get their message heard by policymakers.

COOPERATION IS
A SHREWD
BUSINESS STRATEGY.

Your CUNA is one of those voices. We get our messages heard through the innovation of cooperation.

Credit union advocacy is more powerful when we combine our voices. This takes cooperation and pulling together in the same direction. The folks at your CUNA understand the importance of cooperative advocacy.

Cooperation among credit unions was an innovative idea more than 100 years ago. This philosophy remains relevant today.

MAURICE SMITH is CUNA chairman and CEO of Local Government Federal Credit Union in Raleigh, N.C. Contact him at 919-755-0534 or at maurice.smith@lgfcu.org.

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– Sean Scranton,
Director, CEFCU

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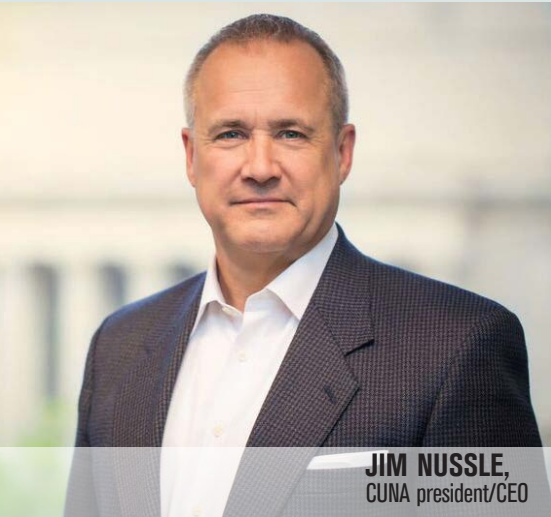
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Tops in Advocacy

Ballast Research names the CUNA/league system 'most influential.'



JIM NUSSLE,
CUNA president/CEO

FROM PASSING S. 2155 TO securing dividend payments totaling \$735.7 million for more than 5,700 credit unions by successfully advocating to close the NCUA Corporate Credit Union Stabilization Fund, the CUNA/league's fierce, bold 360-degree advocacy has secured some big wins for the movement this year.

In fact, our CUNA/league advocacy is the strongest and most effective it's ever been—and it's not just me saying that!

For the third year in a row, an independent study by Ballast Research, formerly National Journal Research, rated the CUNA/league system as the most influential financial services organization in Washington, D.C.

Let me repeat that. Of all the financial services organizations in the study, including all bank and credit union groups, the CUNA/league system is No. 1—period.

Other good news from the study: **► The CUNA/league system** has the No. 1 reputation in financial services and No. 9 overall, as rated by

senior Washington policymakers.

► We're the only financial services association to improve its reputation in a year when all other organizations studied declined.

► On top of an industry-leading reputation with Democrats, CUNA's reputation with GOP policymakers improved more than any other financial services association studied from 2017 to 2018.

These findings demonstrate that our fierce, bold 360-degree offensive approach is working. You see that in not only our influence on Capitol Hill, but in more seamless collaboration between CUNA and the leagues; the growth of our grassroots outreach; wide participation in new Member Activation Programs like Stop the Data Breaches; and the strength of Credit Union Legislative Action Council (CULAC), our political action committee.

For the 2017-2018 election cycle, CULAC already has raised \$4.4 million and is on pace to exceed the record set in the 2016 cycle of \$5.1 million raised. Thus far in primaries and special elections held during this cycle, CULAC-backed candidates have won 332 times, and we've had only five losses.

Not only are we working to stack Congress with pro-credit union candidates, we're building the next generation of credit union advocates. Based on the popularity of last year's young professional advocacy training, we hosted two all-day crash courses in advocacy for young credit union professionals this fall.

In each training, more than 30 young people learned how to tell their personal stories about credit unions, build and sustain relationships with their members of Congress, and advance the interests

of the movement and their credit unions.

The training included:

- **A look** at the role credit union staff and volunteers play in credit union advocacy.
- **An overview** of CUNA's political and grassroots programs.
- **A discussion** on the role of state leagues and the importance of in-state advocacy.
- **A panel** of congressional staffers who shared insights on how to make an impression during meetings with legislators.
- **Hill visit preparation** and run-throughs.

OUR FIERCE, BOLD
360-DEGREE OFFENSIVE
APPROACH IS WORKING.

When the class concluded, the young professionals tried out their new skills during actual Hike the Hill visits—one of our most high-impact advocacy initiatives.

During Hike the Hill season, policymakers visit with hundreds of dedicated credit union professionals from across the country.

No one can tell the credit union story like you—those who work in credit unions every day and see how the decisions on Capitol Hill impact our 110 million members.

The Ballast Research findings demonstrate that we have Congress's ear. By working together, we'll ensure they never forget why credit unions are the best financial partner for Americans.

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Developing Digital Trust

Pete Nohelty, executive vice president/chief technology officer for \$4.5 billion asset Royal Credit Union in Eau Claire, Wis., has made it his mission to spread the word about blockchain and what distributed ledger technology can do for credit unions. A member of the CULedger advisory board, Nohelty addressed blockchain during the 2018 CUNA Technology Council Conference in San Francisco.

Q What's your role at Royal?

As chief technology officer, I try to peer around the corner, so to speak, as to where technology is going in our industry and other industries. We need to be able to drive solutions, not just what we do internally at Royal but with our vendors, and to build common visions and solutions that benefit the entire credit union industry.

Q What are you working on these days? Lots of things. We're seeing what a lot of people call the "Amazon effect," where we're trying to deliver a frictionless experience. Certainly, the retail sector and Amazon are leading the way in providing an experience that's fast, easy, and effortless. We're looking at technologies that will enable us to do that.

One of the common threads for this is establishing a digital identity and building strong trust in that transaction. As John Ainsworth, CEO of CULedger, says, "It all starts and ends with identity."

What drives that frictionless experience is having a good handle around who we're dealing with, especially when we can't see them across the teller line or at the branch.

Q What should people know about blockchain? A lot of people think of cryptocurrency when they hear "blockchain." And they may have other preconceived notions of what blockchain is.

Blockchain is still an early technology—in its teenage years. For

our industry, we're targeting it around identity.

With blockchain you get a distributed single source of truth, and everybody has a copy of the data. As changes are made, everyone comes to consensus that the change is valid and should be made.

The advantage is that you don't have a centralized point where that identity data is stored. Blockchain will give us a fabric of identity and trust, and it certainly will help control fraud as well.

Q What's your biggest cybersecurity-related concern? Cybersecurity certainly requires upping the level of digital trust and identity. A lot of schemes involve trying to impersonate someone else and sending phishing emails.

The more you have assurances that you are who you say you are, the better off you'll be with cybersecurity.

Q How did you get interested in technology? I grew up not as a digital native in a small town in western Wisconsin. We really didn't have a lot of technology in those days—not even a pocket calculator. My dad owned a community bank, and my mom was a nurse.

I still remember when my dad bought a Texas Instruments calculator that probably was the size of an adding machine with the crank handle. It actually had vacuum tubes.

I think he paid \$2,000 or \$3,000 for that. Essentially, it had add, subtract, multiply, and divide within a



PETE NOHELTY

couple decimal points of accuracy. Think about using that to hand-calculate interest.

In college, we could use a terminal with an acoustic coupler with phones to program in Fortran, Pascal, and BASIC. One of my friends and I used to sweep the floors after school, and we'd sit there until 2 a.m. programming.

We got into technology because it was nifty and new. They were pretty crude tools compared with what kids are being exposed to today.

Q When you brag about Royal, what do you say? It all starts with our people.

Right along with that, we have great members who give us support, enjoy our products and services, and give us great feedback. That certainly energizes our team to go forward and do great things.



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



Residential Mortgage Lending: Be ready to do more, earn more – without adding staff.

By Alex Rivera AMP, CPA, Managing Director, QRL Financial Services



Over the past five years, credit unions' share of the first-mortgage market has grown significantly.

Added to that increase? Important industry changes (TRID 2.0, HMDA, URLA) that require the services of a lending partner who's ahead of the curve. A partner you can trust to ensure that your loans are compliant and salable. One with extensive industry knowledge to help you prepare for new government mandates and the spring home-buying demand. Here are three crucial factors to consider when choosing the partner that will complement your mortgage staff and offer your members a great experience.

1. Exceptional Service

No credit union (or its members) should have to put up with an unresponsive, non-supportive "service" provider. Choose a lending partner that will expand your mortgage capabilities – invisibly – without adding staff. Many credit unions refer to QRL Financial Services as their "**secret weapon**". Our **Dedicated Loan Coordinator** is a huge reason why. This person serves behind the scenes and answers any questions you may have at every step in the mortgage process. Think of this must-have asset as someone who keeps you on task so you can concentrate on what you do best: taking care of members.

2. Expert Resources

Do you offer a full digital mortgage with an eNote? Can you provide the products members need and expect, such as FHA, VA and USDA loans? Is your in-house technology behind the times? The right lending partner will address these issues – with experienced people, **free and fully integrated technology**, plus industry-proven processes. Want to boost efficiency? Lower mortgage operation costs? Increase non-interest income? **We are experts** at helping you realize these goals.

3. True Flexibility

Many lending service providers expect you to fit into their ways of doing business. Reverse that. Go with a partner genuinely committed to your total success. You can depend on our company to help you originate mortgage loans, buy your loans, and **create compliant portfolio loans** for you. We also provide a **federally regulated appraisal management company** using best-in-class software solutions, along with underwriting and closing services.

Grow with what you know. Why try to predict interest rates? Rely on the fact that **home purchases will grow with the onset of spring**. Partnering with us now to augment your mortgage operation can reduce your costs, create efficiencies, cut turn times, and increase income. It all adds up to lower rates for members, stronger relationships, and more future business — a great roadmap for success.

Alex Rivera is a 13-year leader of the QRL Financial Services team and has served in the position of Managing Director since 2016. His active participation in the credit union marketplace spans 24 years, including 11 years with CUNA Mutual Group and CUNA Mutual Mortgage Corporation. To learn more about QRL Financial Services, call us at 888.766.4734.



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GET SMART

RON JOOSS

Artificial intelligence improves the member experience and boosts security.

Artificial intelligence (AI) is fast becoming a day-to-day part of the consumer experience. By 2020, for instance, 50% of all Internet searches will be AI-enabled voice searches, according to comScore.

Fifty-five percent of U.S. households will own a smart speaker by 2022, up from 13% in 2017 according to OC&C Strategy Consultants.

“Consumers are adopting this technology to get things done in the real world—from ordering groceries when an ingredient is low in supply to modifying the temperature in their home without being there,” writes Mia Perez, chief administrative officer at \$280 million asset Louisiana Federal Credit Union, LaPlace, La., in the 2018-19 CUNA Environmental Scan. “It affects the way members consume information and how they interact with brands and service providers.”

Why has AI gained so much traction? “We now have the computational power to extract patterns and insights from huge amounts of data,” says Fotis Konstantinidis, senior vice president of fraud products for CO-OP Financial Services. “Something that in the past would take supercomputers two years, we can now get in milliseconds because of cloud computing and the computational power we have at our disposal. Smartphones today are more powerful than the IBM mainframes of 50 years ago.”

Credit unions are employing AI to improve the member experience, boost security, and make other improvements.

Fraud detection

CO-OP Financial Services recently introduced the COOPER Fraud Analyzer, which employs AI and machine learning to improve security and increase member engagement. CO-OP has invested in AI to

build data models that score each transaction credit union members make.

“COOPER also has a processing engine that provides a response within milliseconds,” says Konstantinidis.

The ultimate result is an improved member experience, primarily through a drastic reduction in false positives.

“Through artificial intelligence, we have a better understanding of who the member is and their behavior, so fewer transactions are flagged, and those that are flagged are more accurate,” says Konstantinidis. “Members are much more likely to use that credit union’s card.”

Chatbots

One way credit unions engage members directly through AI is with voice-controlled personal assistants, such as Amazon Echo and Alexa, and Google Home. Nassau Educators Federal Credit Union (NEFCU) in Westbury, N.Y., has offered basic member services through such devices for about a year using a platform developed by Conversation.one.

Members can check their account balances, recent transactions, and amounts spent with a specific retailer on a specific date. They also can find the nearest branch or ATM, and get loan and deposit rates.

continued ►

FOCUS

- **Expect** more digital screens in branches.
- **Technologically** advanced branches require new employee roles and skills.
- **Board focus:** Consumers want more self-service options.

Jojo Seva, chief information officer at the \$3 billion asset credit union, calls these “phase one” functionalities, with the hope NEFCU can develop more transactional capabilities in the near future. “We spent a lot of time last year making sure these sessions are secure,” he says.

“Ultimately, we implemented the same security protocol with voice banking that we use with online banking,” Seva says. “For both systems we use multifactor authentication. Whenever members want to invoke Amazon Alexa or Google Home to access their accounts, they are asked for a personal identification number they set up ahead of time.”

Conversation.one prepopulates the application with roughly 80% of the questions members typically ask about basic account information. For example, if a member seeks balance information, Conversation.one provides 600 or 700 phrases typically used to ask for this information, even if they are grammatically incorrect.

‘WE HAVE THE COMPUTATIONAL POWER TO EXTRACT PATTERNS AND INSIGHTS FROM HUGE AMOUNTS OF DATA.’

Greg Woolf



“The idea of our platform is to reduce the amount of repetitive calls that don’t require the intervention of an agent—and at the same time provide good member service,” says Rachel Batish, co-founder of Conversation.one. “The platform helps [staff] field or take advantage of some preconsidered conversational flow that’s relevant for credit unions. It could be anything from finding the nearest ATM or branch or getting information about loan rates, all the way to checking balances, paying bills, and finding ways to save money.”

First Abilene (Texas) Federal Credit Union also implemented the Conversation.one AI platform. Like NEFCU, members can access basic account information and transfer money between accounts.

“We’re still working toward certain functionality, like giving members the ability to alert us when their plastic cards have been compromised or to apply for a loan,” says Troy Kyle, president/CEO of the \$73 million asset credit union. “But there’s a certain risk there.”

One must-have function, both Seva and Kyle say, is the ability to connect members with a credit union representative. “If they know they have that option, they always have a certain comfort level,” Kyle says.

That comfort level is essential as AI becomes more ubiquitous in everyday life, Kyle says. “It’s in your living room,” he says. “As a credit union, if you don’t have it, you need to at least understand it because members are going to ask for it pretty soon. It’s becoming the new standard.”

Cognitive banking

Another company has developed a “cognitive banking brain” that continually analyzes member transactions and enables financial institutions to identify and predict issues and opportunities related to specific transactions, personal spending trends, and savings opportunities.

Personetics offers financial institutions a digital assistant—typically a mobile app—that prompts consumers with relevant insights and provides advice to improve money management skills.

“If a member has a little extra money to put in savings or pay off a credit card, we’ll notify them of that,” says Eran Livneh, Personetics’ vice president of marketing. “At the same time, if they’re spending more than usual, they may be on track to run out of money in checking before the next payday. We can send them an alert.”

Perhaps most important, recommendations are based on hard data. “We look at historical [behavior] as well as what’s happening in real time,” Livneh says. “Based on this, we will analyze patterns, anomalies, and data points that are of interest to you personally.”

Livneh calls these alerts “nudges” that keep members on track and engaged with their financial institution. “We don’t ask you to prepare a budget,” Livneh says. “You’re not overloaded with information. We do the heavy lifting and highlight what’s important to the consumer. That’s the secret sauce of AI.”

PSECU in Harrisburg, Pa., began beta testing the Personetics platform with a member feedback panel. It dubs the Personetics alerts as “financial insights,” says Jessica Hutchinson, director of digital channels,

strategy, and quality assurance for the \$5.3 billion asset credit union.

PSECU plans to include employees in beta testing before rolling out the Personetics platform to its full membership. “We have a strategic goal to make member experiences more personalized,” says Hutchinson. “Using personalization, we would like to anticipate members’ financial needs and provide them with timely and relevant insights.

“We’re always striving to improve financial literacy for our members,” she continues. “We believe that with Personetics, we can create a value-added experience that differentiates us from other financial institutions within the digital channels.”

Hutchinson explains that the solution’s real-time interaction with users was a key part of that value-added experience.

The ultimate goal in adopting Personetics is to deepen engagement with members, she says. “We will measure the success of the product through engagement: members clicking on the different insights, members rating each insight, increases in awareness of products and services, and an overall increase in use of our digital channels due to personalization.”

Task automation

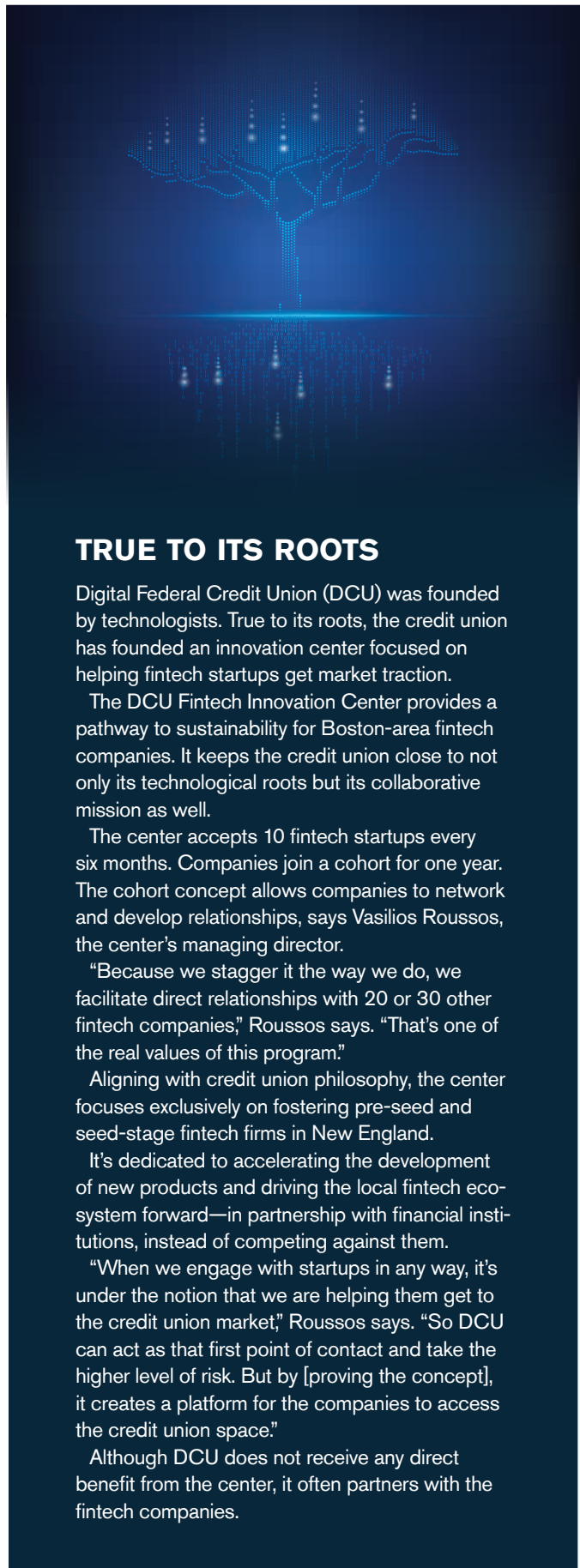
Digital Federal Credit Union (DCU) has adopted two AI-based solutions from a fintech startup participating in the DCU FinTech Innovation Center (“True to its roots”).

One solution from Coalesce.ai automates a task any office worker can relate to: managing emails. Employing AI, users categorize emails into several “buckets” that differentiate messages based on routine and value-added tasks.

The AI platform learns to distribute most of these emails within a 90% level of certainty. Users read messages with less certainty.

“The obvious goal is cost reduction,” says Greg Woolf, founder/CEO of Coalesce.ai. “We want to process emails more effectively, and we want to provide better service for members. We can be more responsive because the lag time of getting through tens of thousands of emails is tedious.

“We taught the system to identify typically repetitive inquiries,” he continues. “To the extent the system can confidently identify those messages, there’s no need to wait for a human to respond to the email



TRUE TO ITS ROOTS

Digital Federal Credit Union (DCU) was founded by technologists. True to its roots, the credit union has founded an innovation center focused on helping fintech startups get market traction.

The DCU Fintech Innovation Center provides a pathway to sustainability for Boston-area fintech companies. It keeps the credit union close to not only its technological roots but its collaborative mission as well.

The center accepts 10 fintech startups every six months. Companies join a cohort for one year. The cohort concept allows companies to network and develop relationships, says Vasiliou Roussos, the center’s managing director.

“Because we stagger it the way we do, we facilitate direct relationships with 20 or 30 other fintech companies,” Roussos says. “That’s one of the real values of this program.”

Aligning with credit union philosophy, the center focuses exclusively on fostering pre-seed and seed-stage fintech firms in New England.

It’s dedicated to accelerating the development of new products and driving the local fintech ecosystem forward—in partnership with financial institutions, instead of competing against them.

“When we engage with startups in any way, it’s under the notion that we are helping them get to the credit union market,” Roussos says. “So DCU can act as that first point of contact and take the higher level of risk. But by [proving the concept], it creates a platform for the companies to access the credit union space.”

Although DCU does not receive any direct benefit from the center, it often partners with the fintech companies.

right away.”

Woolf uses the “needle in the haystack” analogy with a twist. “We teach the system to identify what’s clearly hay,” he says. “Instead of looking for a needle, we’re reducing the size of the haystack.”

Woolf says the email surveillance system provides a great example of how AI can ease the average worker’s workload.

“From an adoption perspective, instead of being threatened, users are saying we’re taking away 90% of the work that is tedium and leaving the 10% that is better suited for humans,” he says. “Machines can’t do everything, but they can do a lot of the repetitive work. Instead of being concerned, users feel free to do their jobs.”

Coalesce.ai also developed an AI solution that automates the loan application process. First, the AI application reads and enters the data from the loan application and purchasing documents.

“The content of those documents is consistent but the formatting isn’t, and that’s where AI is good,” Woolf says. “It’s able to identify and read that data, and pull it out just like a person would.”

AI also automates the loan verification process through the National Automobile Dealers Association database and related services \$8.6 billion asset DCU subscribes to. “The goal is to make people more productive so they can focus on higher-value work,” Woolf says, “as opposed to just the monotonous checking of the data.”

Small-business loans

One company is using AI to boost small-business loan originations by looking beyond traditional credit scoring methods.

A typical loan officer will consider around seven variables when making loan decisions, says William Beaver, co-founder/chief technology officer for Mirador. “But the world is a little more complicated than that. Our model might look at as many as 2,500 factors when considering an application.”

The Mirador platform doesn’t provide a thumbs-up or down decision. Instead, it improves efficiencies in loan application processing, “and we use machine learning to help do that,” he says.

Beaver says the key to the Mirador platform is its abil-

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ity to engage potential borrowers. Borrowers are more likely to complete the application process when it's done through the Mirador platform: 65% compared with an industry average that ranges between 25% and 40%, he says.

"We widen the top of the funnel to bring more loans to the credit union, while helping them make more timely, informed decisions," Beaver says.

The Mirador platform covers credit lines, commercial real estate loans, business credit cards, equipment purchases, and some types of U.S. Small Business Administration loans. The average size of a loan approved through the Mirador platform is \$136,000.

Lucro, a credit union service organization based in Tallahassee, Fla. (formerly Member Business Services), began employing the Mirador platform last year after a beta testing period.

Lucro CEO Jim Gallagher describes the Mirador interface as "Apple-like" and "elegant."

"Most borrowers are filling out these applications after hours," Gallagher says. "Small-business people, almost by definition, are pressed for time. This platform meets them where they are."

Tillery Durbin, business manager at \$564 million asset 121 Financial Credit Union in Jacksonville, Fla., says the online process eliminates loads of paper required offline but engages members with automated mail reminders.

"Everything is simple and straightforward for the user," Durbin says. "At the same time it's more efficient for the credit union."

RESOURCES

- ▶ 2018-2019 CUNA Environmental Scan Report: cuna.org/escan
- ▶ Coalesce.ai: coalesce.ai
- ▶ Conversation.one: conversation.one
- ▶ CO-OP Financial Services: co-ops.org
- ▶ CUNA Technology Council: cunacouncils.org
- ▶ DCU Fintech Innovation Center: dcufintech.org
- ▶ Mirador: miradortech.com
- ▶ Personetics: personetics.com

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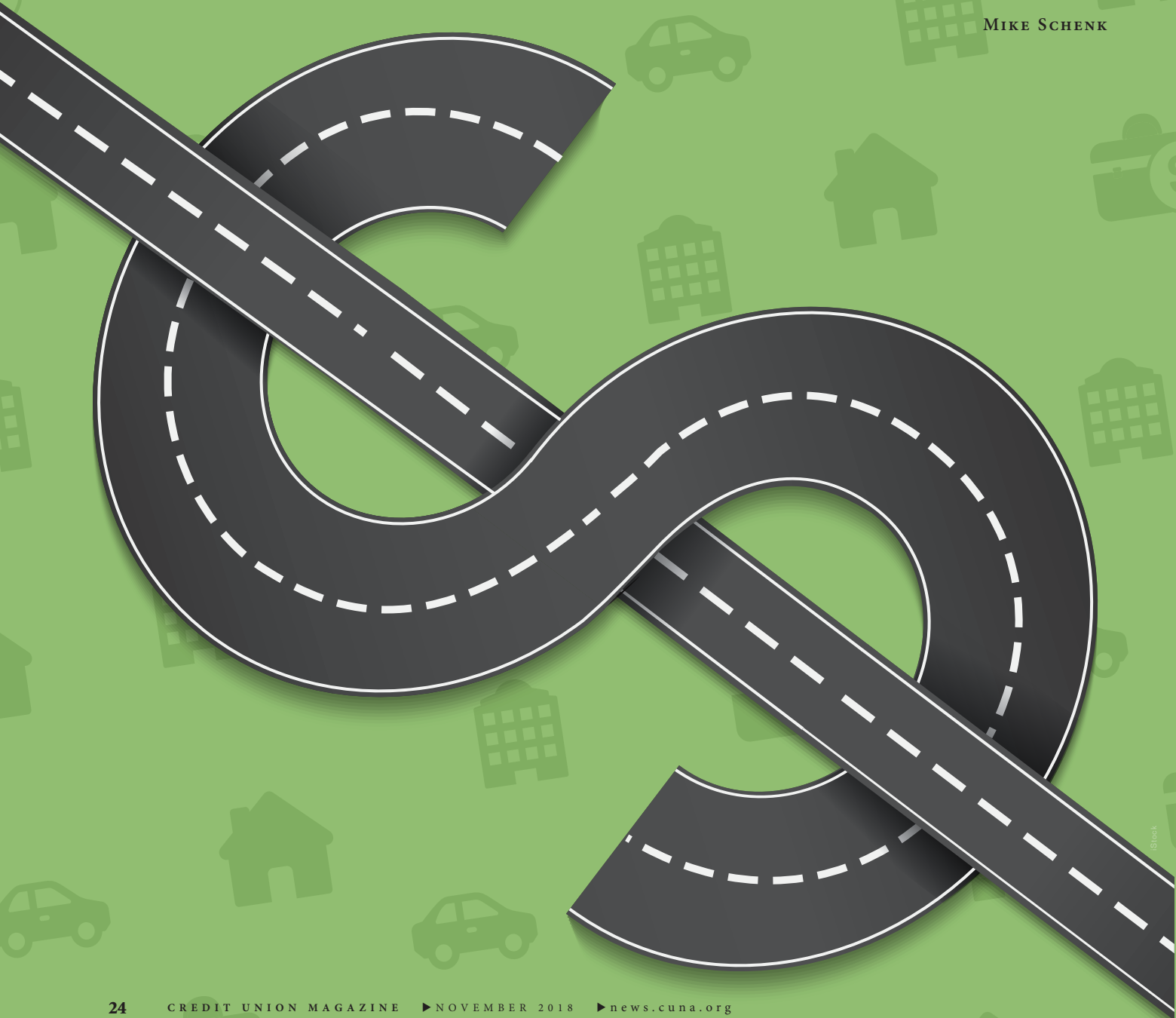
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LENDING ROAD MAP

MIKE SCHENK



Expect solid loan growth to continue next year due to a strong economy and ‘supremely confident’ consumers.

As the strategic planning season soldiers on, we once again find ourselves wondering if this incredible run of favorable credit union operating results can continue. You’re probably having similar thoughts.

For our part, CUNA economists remain optimistic about the future. And we’re especially optimistic about credit union lending.

We have two big reasons to be hopeful: The economy is in good shape overall, and consumers are supremely confident.

Midyear 2018 NCUA Call Report data reflects solid overall results with an acceleration in membership growth, solid loan growth, high asset quality, and strong earnings.

Credit union memberships increased by nearly 4.8 million in the year ending in June—a 4.3% advance. That helped keep loan growth near double-digit levels, with overall loan balances up 9.6% during the 12-month period.

Bottom-line results were solid, with return on assets rising from 77 basis points (bp) in 2017 to an annualized rate of 90 bp in the first half of the year.

The earnings bump was due in part to the National Credit Union Share Insurance Fund (NCUSIF) equity distribution.

But it also arose from broad-based increases in

loans: The interest yield on credit union assets grew from 3.53% in 2017 to an annualized rate of 3.68% in the first half of 2018 (“Broad-based loan growth,” p. 26).

Strong labor market

The Conference Board’s Consumer Confidence Index rose to 138.4 in September, which is up from 134.7 in July, and is the highest level since October 2000.

That’s not surprising. The economy added 134,000 jobs in September, bringing the 12-month total increase to 2.54 million—an acceleration over the full-year 2017 increase of 2.19 million new jobs. It also exceeds the 2016 total of 2.34 million new jobs.

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FOCUS

- **Auto loans** will continue to be a shining star in credit union loan portfolios.
- **Credit union asset quality** will remain strong due to higher take-home pay and record levels of household net worth.
- **Board focus:** Many key measures suggest consumers are willing and able to borrow.

The September unemployment rate declined from 3.9% to 3.7%, its lowest level since 1969. The improvements have been broad-based from a geographic perspective. Unemployment rates now are lower than year-ago readings in 83% of the 388 metropolitan areas the Bureau of Labor Statistics tracks.

In addition, the U-6 unemployment rate settled in at 7.5% in September, reflecting a 1.1 percentage point decline over the previous year. The U-6 rate includes everyone who is unemployed, those who are employed part time but who'd prefer to work full time, and those marginally attached to the labor force.

Most important, the number of people who are underemployed (the part-timers in the U-6 data) has declined by about 825,000 over the past year.

The difference between the headline and U-6 rates (3.8 percentage points) is now below the long-run average reading, which is closer to four percentage points. That's a clear reflection of labor market health.

Strong labor markets have translated to modestly higher pay for many workers. Average hourly earnings are up 3% in the past year, which means they're keeping pace with inflation.

The Census Bureau reports that inflation-adjusted

median household income increased 1.8% in 2017 to \$61,372. This is the third-consecutive annual increase in median household income.

Household debt

In addition, household balance sheets have never been in better shape: The stock market remains near all-time highs, and home prices are rising at healthy rates; about 6.5% over the past year nationally.

You may have seen reports on the liability side of the balance sheet: Household debt levels now stand at an all-time high. But household debt as a percentage of take-home pay now is 95%, and it has hovered near a cyclical low for the past two years.

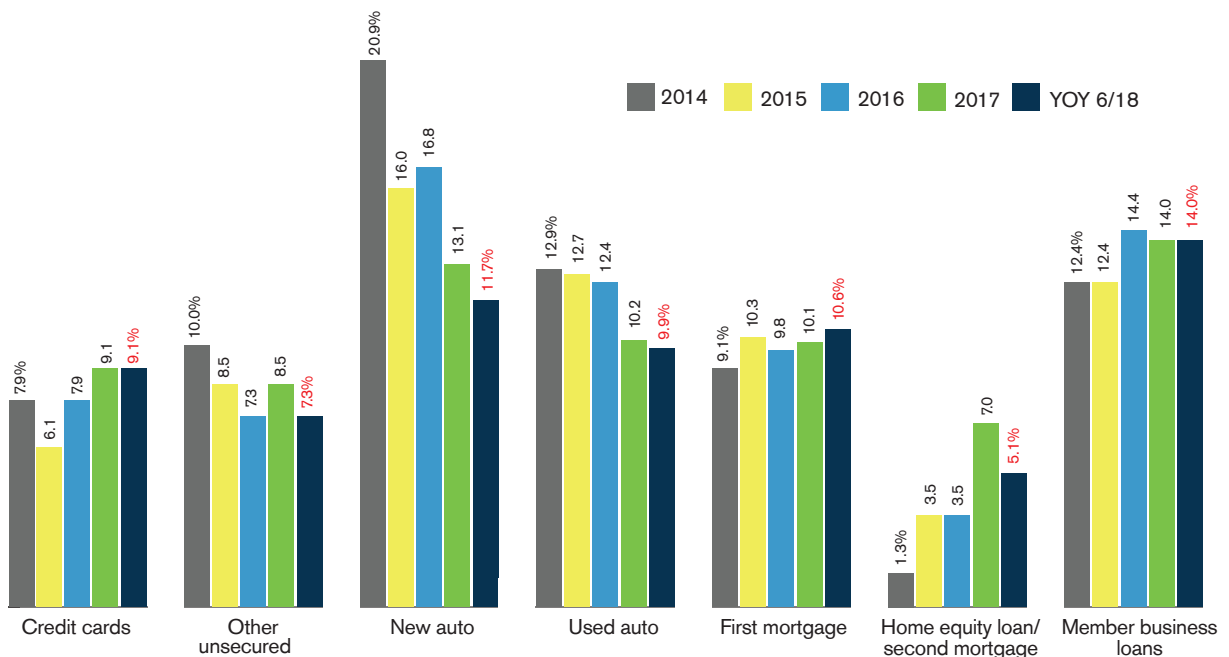
The current reading is about where debt-to-income levels were 16 years ago, and is well below the peak level of almost 125% seen amid the formation of the real estate bubble during the last expansion.

This combination of rising asset values and declining liabilities means household net worth is increasing—quickly. Net worth as a percent of take-home pay is now 683%, an all-time high.

It's no surprise that increasing wealth is associated with household spending increases and household borrowing increases over time.

The bottom line: Many key measures suggest consumers are willing and able to borrow. And the Fed-

Broad-Based Loan Growth



Source: CUNA

ASSET QUALITY REMAINS HIGH

Strong labor markets, higher take-home pay, record levels of household net worth, and low debt holdings mean credit union asset quality should remain strong. Of course, continued healthy loan growth also will play a role.

Overall, credit union delinquencies have eased of late, with 60+-day delinquencies falling from 0.81% at the end of 2017 to 0.67% at midyear 2018. Five of the six portfolios CUNA tracks reflected declining delinquencies, both relative to year-end 2017 and to year-ago results.

The exception was agricultural business loans, which experienced an increase from 1.07% at year's end 2017 to 1.67% at midyear 2018.

Net charge-offs are virtually unchanged and remain about 10 basis points higher than recent cyclical lows. Full-year credit union net losses in 2017 were 0.59% of average loans outstanding, and the annualized total came in at 0.60% during the first half of 2018.

Bankruptcies per 1,000 members also inched up from 1.52 in 2017 to 1.71 (annualized) for the first half of 2018.

CUNA economists expect delinquencies to finish the year at 0.75%, then drift up to 0.85% by year-end 2019. Net charge-offs should move modestly in the same direction, averaging 0.60% in full-year 2018 and rising to 0.65% in 2019.

Asset Quality Forecast

	2017	2018	2019
Delinquency rate	0.81%	0.75%	0.85%
Net charge-off rate	0.59%	0.60%	0.65%

Source: CUNA

eral Reserve isn't likely to ruin the party.

CUNA economists believe the Fed will continue to raise interest rates. But we also believe the magnitude and pace of those increases will be manageable, and they won't likely cause a significant decline in loan demand over the next year.

Expect one additional quarter-point federal funds rate increase this year and two increases of similar magnitude in 2019.

More than one Fed policymaker has stated a reluctance to purposely invert the yield curve by pushing the federal funds target rate above the 10-year Treasury yield. Historically, there's a strong link between aggressive Fed tightening that inverts the curve and the onset of recessionary periods.

Auto loans lead the way

Against this backdrop, we believe credit union loan growth will remain strong but begin to reflect smaller increases going forward. In the aggregate, we see credit union loans increasing 9.5% this year and 8% in 2019 ("Growth rate forecast," p. 28).

Auto loans will continue to lead the way. The average age of cars on the road is at an all-time high of 11.6 years, which suggests healthy underlying demand going forward. Credit union auto loan growth has been a consistent standout throughout the current recovery.

Federal Reserve and NCUA data reveal that new- and used-auto loans outstanding accounted for 31.6% of all credit union loans at midyear 2018. That's up from

30.3% at yearend 2017 and 22.4% in 2007.

The consultancy IHS Markit projects full-year 2018 new-auto and light truck sales of 17.2 million units, a 1.3% decline from 2017 with continued softening going forward. The firm predicts overall sales will decline 0.9% in 2019.

Wards Intelligence has a similar forecast, with U.S. sales declining 2.1% in 2018 and 1% in 2019.

The dollar amount of credit union new-auto loans outstanding increased 13.1% in 2017 and 11.7% in the year ended June 2018. That tracks with the HIS Markit view of modestly softer sales trends.

The outlook for used-auto lending also looks favorable. Credit union used-auto loans outstanding increased 10.2% in 2017 and 9.9% in the year ended June 2018. Moody's Analytics projects used-car prices to stabilize over the next several years.

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ONLINE EXTRAS

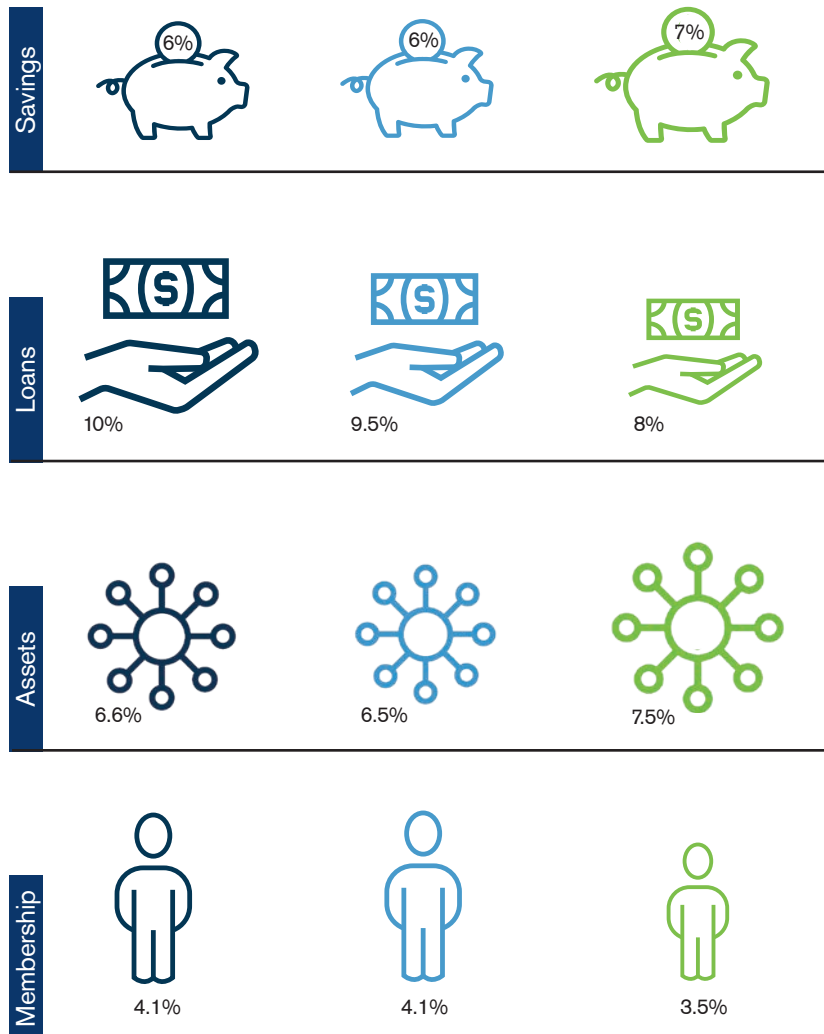


Video: CUNA Deputy Chief Advocacy Officer and Chief Economist Mike Schenk explains why he's optimistic about credit union lending in 2019



Lenders share their predictions for 2019 at news.cuna.org/lending

Growth Rate Forecast



Source: CUNA

■ 2017 ■ 2018 ■ 2019

That, in combination with rising interest rates and tighter credit standards, should have more consumers seriously considering used cars throughout our forecast horizon. Expectations of growth remaining near double-digit levels seem reasonable in the current environment.

Going forward—into the 2020s—most experts predict more obvious slowing in the auto business. That’s when many expect the effects of society’s mobility transformation such as ride-sharing, car-sharing, subscription services, and autonomous vehicles to become more pronounced.

Those changes should be slow at first, but gain momentum throughout the next decade.

Berylls Strategy Advisors sees car sale declines over the next decade averaging 2% per year.

Mortgages

Home loan originations also should help credit unions maintain healthy portfolio growth. The Mortgage Bankers Association (MBA) expects mortgage originations to decline 6.1% in 2018 and a modest 0.9% in 2019, followed by a 2.4% increase in 2020 as slower home price increases help to stabilize affordability.

Against a backdrop of modestly higher interest rates, MBA’s August 2018 forecast reflects declining refinance activity. Refinancings accounted for 35% of total originations in 2017. But that’s expected to decline to 28% this year and to roughly 25% in both 2019 and 2020.

We expect credit unions to continue to outperform in the mortgage arena. Credit union mortgage originations accounted for only 1.9% of the national total in 2007. That share has increased steadily over the years, reaching 8.2% at year-end 2017 and 8.7% at midyear 2018.

Business lending

As with auto loans and mortgages, credit unions have routinely outperformed other financial institutions in business lending. This is reflected in a near tripling of market share of outstanding loans from 3.5% of depository small-business loans in 2007 to 9.7% in 2017.

Business lending growth should remain strong over the next year. The Small Business Optimism Index rose to 108.8 in August, easily beating market expectations and landing as the highest reading in the survey’s 45-year history.



‘Household balance sheets have never been in better shape.’

Mike Schenk

The index set new records in terms of owners reporting “job creation plans” and “job openings.” Hopeful signs.

Some headwinds and areas of concern are on the horizon, however. The biggest of these has to do with tariffs and the potential for higher prices and related market disruptions.

Nearly all economists agree free trade is good for economic growth in the long-run. Free trade allows countries to specialize in what they’re good at, creating more and better products at lower prices for everyone and contributing to economic growth.

In a similar vein, trade disputes threaten the benefits arising from free trade. A recent National Association of Business Economists survey found that 90% of economists consider the “current tariffs and threats of tariffs as having unfavorable consequential impacts on the U.S. economy.”

The Tax Foundation estimates the cost to the U.S. economy of enacted and announced tariffs is a 0.6% reduction in long-run gross domestic product (\$150 billion), a decline in wages of 0.4%, and a loss of 470,000 jobs.

To date, the negative economic effects of current trade disputes have largely been isolated to sectors directly hit by retaliatory tariffs (e.g., agricultural goods, American steel and aluminum, dairy, seafood, and alcohol), and to downstream industries such as auto manufacturing.

CUNA economists don’t expect the current trade disputes to have much of an impact on the overall number of people joining credit unions or on members’ behavior. And we’re not hearing from many credit unions about significant adverse impacts yet.

However, if President Donald Trump’s administration implements tariffs on autos and auto parts, the impact on credit unions could be significant. In the short-term, there may be an increase in memberships and new-car loan originations as people try to beat the tariffs.

More important, if and when the tariffs are enact-

ed, the National Automobile Dealers Association estimates a 1.2 million unit decline in new-car loan originations—which would translate into a decline in credit union new-auto originations of roughly 360,000.

That total represents an approximate 9% decline in the movement’s aggregate annual new-vehicle originations based on 2017 totals.

Demand for used cars, however, may increase if consumers substitute used vehicles for new ones. That could soften any blow from the loss of new-car loan originations.

But the impact on consumer confidence isn’t easy to forecast.

Looking across loan portfolios, it’s not difficult to find reasons to believe credit union loan growth might waver into 2019: tariffs, higher-than-expected interest rates, difficulties in attracting deposits to fund loans—the list goes on.

But economic fundamentals are strong; consumers are engaged; and many seem ready, willing, and able to borrow. Loan growth will almost certainly decline over the next 18 months, but most credit unions should continue to enjoy healthy portfolio increases.

In short, economic fundamentals look solid through the end of 2019. And that’s good news for credit union members and for credit union lending operations.

MIKE SCHENK is CUNA’s deputy chief advocacy officer for policy analysis and chief economist. Contact him at 608-231-4228 or at mschenk@cuna.coop.

RESOURCES

► CUNA:

1. Credit union data & statistics: cuna.org/economics
2. Economic Update: cuna.org/economicupdate

► CUNA Lending Council: cunacouncils.org

BRIGHT IDEAS

CRAIG SAUER



Creative measures allow small credit unions to serve members outside the financial mainstream.

There's power in a great idea. But dozens of excellent ideas, such as those shared during the CUNA Small Credit Union Roundtable at the 2018 CUNA Governmental Affairs Conference (GAC), hold exponentially more power.

CUNA packaged many of these ideas into a "Small Credit Union Loan Promotion Idea Book," a free resource for CUNA's small credit union members.

Ideas range from credit card balance transfer campaigns to innovative auto loan promotions to incentive programs that lead to lower interest rates for members.

The resource embodies CUNA's strategy for supporting small credit unions, says Tom Sakash, CUNA small credit union advisor.

"Everything we're working on to support small credit unions centers on collaboration and sharing ideas," he says. "Our online Small Credit Union Community, for example, allows credit unions nationwide to interact with each other, share best practices, and provide guidance and advice."

The Small Credit Union Loan Promotion Idea Book is available on the CUNA Small Credit Union Community, which has more than 1,000 users nationwide.

Sakash encourages small credit unions to not only use the ideas from the book, but to share ideas as well

"so they can pay it back, or forward."

Following are several ideas that emerged during the Small Credit Union Roundtable.

No credit? No problem

While most financial institutions require borrowers with no credit history to have a co-signer or make a large down payment to take out a loan, Homestead Federal Credit Union in Billings, Mont., has an alternative option.

The \$5.7 million asset credit union will offer personal loans to such members without traditional requirements at a middle-tier risk rate.

Homestead Federal will refinance the loans after members make timely payments for a year. This establishes a positive credit history.

continued ►

FOCUS

- **Share-secured loans** build members' credit scores while reducing credit risk.
- **Creativity** goes a long way in serving nontraditional members.
- **Board focus:** Collaboration is critical for the survival of small credit unions.



WORKSHOPS TO PROVIDE STRATEGIC PLANNING SUPPORT

CUNA will unveil a new program for small credit unions during the 2019 Governmental Affairs Conference (GAC): the CUNA Small Credit Union Strategic Planning Workshop.

The event's purpose is two-fold, says Tom Sakash, CUNA small credit union advisor.

"First, we want to give the leaders of small credit unions who don't necessarily want to hire a consultant or third party the skills they need to run effective board planning sessions themselves," he says. "It can be challenging to facilitate an impactful session that allows your credit union to have the difficult discussions it needs to set a path forward. This event will give small credit union leaders confidence to lead those conversations all year long."

The second purpose is to illustrate the need for small credit unions to identify their strategic focus and differentiate their operations from competitors.

Sakash says successful small credit unions have one common denominator: "They have a specific focus, and they don't try to be all things to all people. This workshop will feature small credit unions that have found that strategic focus and identify how other credit unions can identify theirs."

Following GAC, CUNA will host regional strategic planning workshops during which a strategic planning facilitator will walk attendees through the strategic planning process.

The first event at GAC, slated for March 10-14 in Washington, D.C., is free with conference registration.

"If we can get small credit unions together to collaborate and talk about strategy, we can make a big impact," Sakash says. "Rethinking your focus as a credit union can be intimidating, but it's absolutely paramount for success."

The program is part of Homestead Federal's lending philosophy of finding ways to work with members with credit issues.

When the credit union does say "no," it's an extensive process in which it walks members through ways to fix their credit.

This includes opening a checking or savings account at the credit union to show they can manage an account effectively.

Credit card balance transfer

New York University Federal Credit Union in New York City generated a lot of buzz with a credit card balance transfer promotion.

Members with loans at the \$24 million asset credit union were entered into a lottery to win a \$1,000 payment toward their loan.

The credit union accepted balance transfers of up to \$50,000, with lower rates for members with credit scores higher than 700. The credit union financed about \$750,000 in loans through this program.

The lottery was held at the credit union's annual meeting, which brought more members to the event.

'Let US Fix Your Credit'

The "Let Uncle Sam (US) Fix Your Credit" program at Caprock Federal Credit Union in Lamesa, Texas, identifies members with credit problems, and encourages them to speak to a loan officer when they're about to receive their income tax refund.

"We will place the funds on hold in an account as collateral for the loan," says Dale Hansard, president/CEO of the \$31 million asset credit union and a member of the CUNA Small Credit Union Committee. "As they pay the principal down, the pledge releases against their shares until they have paid it off. The loan is always secured by the underlying share."

Caprock Federal also pulls members' credit reports and educates members about the importance of making timely payments—and how paying off this loan according to schedule improves their credit score.

The idea is simple but powerful, particularly as the share-secured loan directly supports a demographic the credit union works to serve: single-parent-led households who rely on tax rebates at the beginning of the year, and who also struggle to maintain solid credit.

‘EVERYTHING WE’RE WORKING ON TO SUPPORT SMALL CREDIT UNIONS CENTERS ON COLLABORATION AND SHARING IDEAS!’

TOM SAKASH

The program is a win for members, who improve their credit standing while receiving nearly their entire tax rebate. It’s also a win for Caprock Federal.

“We have seen a great deal of people come through our doors with this program, and it builds awareness of the credit report and its importance to people of modest means,” Hansard says. “Our [membership] is predominantly single-mother-led households. No one needs good credit more than these households.”

Quick loan

Phenix Pride Federal Credit Union in Phenix City, Ala., makes it simple for members in good standing to take out small loans during the Christmas or back-to-school seasons.

Its seasonal “Quick Loan” program offers members who have had a direct deposit for 12 consecutive months or more to take out a loan without a credit check.

The \$9.6 million asset credit union charges a \$25 application fee for loans of less than \$500 and a \$50 application fee for loans between \$501 and \$1,000. It charges no interest on loans less than \$1,000.

To qualify, members must have worked for their current employer for at least 12 months, and use direct deposit for loan payments.

They also must be in good standing with the credit union, with no losses, excessive delinquency, or overdrafts.

WOW Auto Loan

Opportunities Credit Union in Winooski, Vt., offers an auto loan that also builds members’ savings, says Cheryl Fatnassi, president/CEO of the \$37 million asset institution.

Through the WOW Auto Loan, Opportunities adds money to the balance of the auto loan. Once borrowers repay the full loan, which includes the extra funds, they’ll have an extra \$1,000—for example—on top of the new mode of transportation.

This is a “wow” for members, Fatnassi says, because they pay little in interest for the sizable savings account they generate by taking out the loan.

It’s also a “wow” for the credit union because it not only generates loan interest, the extra funds secure the loans in case members can’t repay, or problems with the vehicles arise.

The WOW Auto Loan is designed for members who are paying too much on an existing auto loan, owe more than the vehicle is worth, lack a down payment for a newer vehicle, or have insufficient savings to cover an unplanned vehicle repair bill.

To be eligible for the loan, members must be current with their loan and other bill payments, and be at their current address and job for at least 12 months.

Opportunities also requires a checking account, direct payroll deposit with the credit union, and an electronic payment.

The credit union encourages members to use its free e-banking services, automated account alerts, financial education resources, and financial counseling to help with timely payments.

RESOURCES

► CUNA:

1. 2018-2019 CUNA Environmental Scan Report: cuna.org/escan
2. Small credit union resources: cuna.org/smallcu
3. Small Credit Union Community: community.cuna.org
4. Governmental Affairs Conference: cuna.org/gac

NCUA Issues FAQ on S. 2155

The third-quarter issue of *The NCUA Report* contains a FAQ regarding the impact of the Economic Growth, Regulatory Relief and Consumer Protection Act (S. 2155).

S. 2155 makes a number of statutory changes, and NCUA's list addresses many of them, including major changes in the area of member business lending.

Section 105 of the act amends the statutory member business loan limit to exempt all loans secured by a one- to four-family dwelling (residential property) from the definition of a member business loan. The board made the necessary change to its rules and regulations May 30, 2018.

NCUA updated the Call Report instructions for the June 30, 2018, cycle. Credit unions will only report loans that meet the revised definition of a member business loan in account 400A and should no longer report any loans secured by a one- to four-family residential property in account 400A.

Additionally, NCUA amended the

Call Report instructions related to how nonmember business loans are reported for purposes of calculating a credit union's risk-based net worth requirement.

All "long-term real estate loans" that are secured by a one- to four-family residential property are now included in the "long-term real estate loans" risk portfolio for purposes of calculating a credit union's risk-based net worth ratio.

Loans secured by a one- to four-family residential property that will contractually refinance, reprice, or mature within the next five years are included in the "average-risk assets" risk portfolio for purposes of calculating a credit union's risk-based net worth ratio.

Additionally, nonmember business loans are no longer included in the "member business loans outstanding" risk portfolio for purposes of calculating a credit union's risk-based net worth ratio. These loans are now included in the risk-based net worth risk portfolio, based on the type of loan and underlying collateral.



As with all loans, a credit union's risk assessment and management should be appropriate for the type of loan and the specific risks associated with the borrowing arrangement. The repayment source should always be identified and evaluated for sufficiency and reliability.

Loans secured by a one- to four-family residential property that's not owner-occupied have some risk characteristics that are similar to commercial real estate loans. Credit unions should have credit risk-management policies and processes suitable for the risks specific to this type of lending.

The NCUA Report also examines changes from S. 2155 affecting appraisals and the Home Mortgage Disclosure Act (HMDA) in the third-quarter issue.

Letter Provides CDD, Beneficial Owner Rule Info

NCUA issued a supervisory letter (SL-18-01) addressing compliance with the new Bank Secrecy Act (BSA) customer due diligence (CDD) and beneficial ownership rules.

Staff will begin evaluating compliance with the new CDD rules once the BSA questionnaire and consumer compliance violations citations are added to AIREs questionnaires.

However, the letter notes that through the end of the year,

NCUA field staff won't take exception to a credit union's noncompliance with the new BSA standards found in the final CDD and beneficial ownership rules and won't identify any such noncompliance as a significant BSA violation, provided the credit union is "making a good faith effort to comply with the new rules."

NCUA field staff will begin more in-depth reviews of credit unions' BSA/anti-money laundering policies,

procedures, and processes in 2019.

The letter also provides a list of additional guidance relevant to the CDD and beneficial ownership rules, including:

- **The** Financial Crimes Enforcement Network's (FinCEN) guidance (FIN-2018-G001), and FAQ on the CDD rule from April 2018.
- **FinCEN** guidance (FIN-2016-G003) on the CDD rule from July 2016.
- **A link** to NCUA's April webinar on CDD compliance.

BCFP Clarifies S. 2155 HMDA Exemption

The Bureau of Consumer Financial Protection (BCFP) issued a final rule in August clarifying what changes in the Economic Growth, Regulatory Relief and Consumer Protection Act (S. 2155) mean for credit unions in terms of Home Mortgage Disclosure Act (HMDA) reporting.

The rule clarifies that the changes took effect when the bill was signed into law May 24, and also includes the exact data points that are covered by the partial exemption.

Credit unions that don't meet the loan volume threshold of 500 open-end lines of credit and/or 500 closed-end loans don't need to report 26 of the data points. They only have to report 22 of them.

The bureau's chart is available in a *CompBlog* entry in the CUNA Compliance Community.



The rule also contains a change regarding the Universal Loan Identifier (ULI). Insured credit unions aren't required to report a ULI for loans that are partially exempt; they can voluntarily report the ULI if they prefer. But, credit unions that qualify

for the partial exemption must still provide information so that each loan and application they report is identifiable for HMDA purposes.

The rule requires credit unions must provide a non-ULI that complies with certain requirements for a partially exempt loan or application for which they don't report a ULI.

The ULI:

- ▶ **May** be composed of up to 22 characters.
- ▶ **May** be composed of letters, numerals, or a combination thereof.
- ▶ **Must** be unique within the credit union.
- ▶ **Must** not include any information that could be used to correctly identify the applicant or borrower.



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FCRA Model Disclosures Updated

The Bureau of Consumer Financial Protection (BCFP) issued an interim final rule updating two model disclosures to reflect changes made to the Fair Credit Reporting Act (FCRA) by the Economic Growth, Regulatory Relief and Consumer Protection Act (S. 2155).

The bill requires nationwide consumer reporting agencies to provide “national security freezes” free of charge to consumers, which restricts prospective lenders from obtaining access to a consumer’s credit report and makes it harder for identity thieves to open accounts in the consumer’s name.

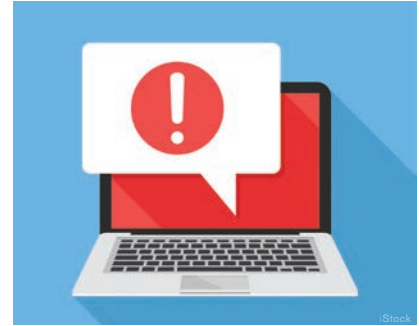
S. 2155 also mandates that whenever the FCRA requires a consumer to receive either the summary of consumer rights or the summary of consumer identity theft rights, a notice

regarding the new security freeze right also must be included.

The summary of consumer rights is a summary of rights to obtain and dispute information in consumer reports and to obtain credit scores. The summary of consumer identity theft rights is a summary of rights of identity theft victims.

The FCRA requires the bureau to write model forms of these documents. Consumer reporting agencies and other entities can use the BCFP’s model forms or their own substantially similar forms.

S. 2155 also extends to one year (up from 90 days) the minimum time that nationwide consumer reporting agencies must include an initial fraud alert in a consumer’s file. A fraud alert informs a prospective lender that a consumer may have been a



victim of identity theft and requires that the lender take steps to verify the identity of anyone seeking credit in the consumer’s name.

These provisions went into effect Sept. 21, 2018.

The interim final rule updates the bureau’s model forms, incorporating the new required notice and the change to the minimum duration of initial fraud alerts. The interim final rule also takes steps to mitigate the impact of these changes on users of the model forms published by the BCFP in November 2012 by permitting various compliance alternatives.



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‘Fixed’ Rates on Open-End Loans

What you need to know about disclosures and advertisements.



MICHAEL MCCLAIN

HAS YOUR CREDIT UNION advertised or disclosed rates on open-end loans as “fixed” without specifying a time period that the rate will be fixed?

If so, you’ll likely have to maintain that fixed rate until the account is closed either by the member or by the credit union.

In February 2010, the Federal Reserve Board issued a Regulation Z final rule that amended the general disclosure requirements for certain open-end loans and the advertising requirements for all open-end loans (Reg Z Sections 1026.5 and 1026.16, respectively).

The Fed adopted the two amendments to restrict the use of the term “fixed” (or any similar term to describe a rate disclosed in tabular disclosures provided with account-opening documents and in advertisements) for open-end loans to instances when the rate would not increase until the expiration of a specified time period.

However, if no time period is specified, and the term “fixed” or a similar term is used, the rate must not be increased while the plan is open.

In other words, if no time period is specified for the “fixed” rate in either

the account-opening documents or in the advertisement, the credit union must maintain the rate as “fixed” until such time as the borrower closes the account or the credit union terminates the account.

The Fed points out in the supplemental material to the final rule that Section 127 of the Truth in Lending Act states that a rate described as “fixed” may not change or vary for any reason.

The Fed also states that you may not increase a rate that’s described as “fixed.”

However, the Fed realized that it would be beneficial to consumers to permit a creditor to reduce the rate at any time even though a rate described as “fixed” may not be increased.

Reg Z Section 1026.55’s provisions regarding treatment of protected balances on credit card accounts prevents a creditor from closing a fixed-rate card account to move the borrower to a new card account at a higher rate.

That’s because the provisions concerning protected balances continues to apply to a card balance transferred from one credit card account to another card account issued by the same creditor.

Even though other open-end loans are not subject to the provisions regarding treatment of protected balances, any attempt to increase a “fixed” rate (with no specified time-period) would fail to comply with Reg Z requirements.

It could also lead to an Unfair, Deceptive, or Abusive Act or Practices (UDAAP) claim.

The amendments to the general disclosure requirements of Section 5 apply to all open-end loans, including credit card accounts.

But they don’t apply to home-

secured loans such as home equity lines of credit (HELOC).

The amendments to the advertising requirements of Section 16(f) apply to all open-end loans, including home-secured loans such as HELOCs.

The amendment in the open-end general disclosure section of Section 1026.5 states: “If an annual percentage rate is required to be presented in a tabular format pursuant to this section, the term ‘fixed,’ or a similar term, may not be used to describe such rate unless the creditor also specifies a time period that the rate will be fixed and the rate will not increase during that period, or if no such time period is provided, the rate will not increase while the plan is open.”

In addition, the amendment in the open-end advertisements section of 1026.16(f) under the heading, “Misleading terms,” states: “An advertisement may not refer to an annual percentage rate as “fixed,” or use a similar term, unless the advertisement also specifies a time period that the rate will be fixed and the rate will not increase during that period, or if no such time period is provided, the rate will not increase while the plan is open.”

Section 1026.24 covering closed-end advertising, prohibits the use of “fixed” to refer to rates or payments in an advertisement for variable-rate loans unless “adjustable-rate mortgage” or “variable-rate mortgage” appears in the advertisement before the first use of the word “fixed.”

In addition, the lender must disclose the time period the rate or payment is fixed as well as the fact that the rate or payment may increase after that period.

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IRS Restores HSA Family Contribution Limit

Five steps your credit union can take to assist health savings accountholders.

DENNIS ZUEHLKE

THE INTERNAL REVENUE Service (IRS) reversed course this year, restoring the 2018 health savings account (HSA) family contribution limit to \$6,900 and granting relief for taxpayers who may have been affected by an earlier announcement that reduced the contribution limit to \$6,850.

The IRS issued Rev. Proc. 2018-27, restoring the contribution limit after determining that doing so was in the best interest of sound and efficient tax administration.

HSA contribution limits are subject to annual cost-of-living adjustments, and the IRS is required by law to publish the adjustments no later than June 1 of the preceding calendar year.

This earlier deadline gives health insurance providers time to design HSA-compatible high-deductible health plans (HDHP) for the following year and provides financial organizations time to modify their systems to reflect the new contribution limits. Employers also use the information to design and

price their employee benefit plans.

On May 4, 2017, the IRS issued Rev. Proc. 2017-37, which provided the 2018 inflation-adjusted HSA contribution limits: \$3,450 for single coverage and \$6,900 for family coverage. In early March 2018, the IRS issued Rev. Proc. 2018-18, which retroactively reduced the 2018 HSA family contribution limit to \$6,850. The single coverage limit was not reduced.

This retroactive reduction in the contribution limit was the result of a provision in the Tax Cuts and Jobs Act of 2017, which revised the formula used to compute the annual cost-of-living adjustments for HSA contributions and associated HDHP limitations. Use of the new formula going forward will result in annual contribution limits and other cost-of-living adjustments rising more slowly over time.

The agency's decision to apply the new formula to previously calculated 2018 cost-of-living adjust-

ments meant that the 2018 HSA family contribution limit would be reduced to \$6,850. The IRS announcement of the reduction in the contribution limit—three months into the calendar year—created an administrative nightmare for employers, HSA owners, and HSA trustees and custodians.

In many cases, employers had already fully funded employees' HSAs at the \$6,900 family contribution limit or permitted employees to contribute up to the \$6,900 limit through their cafeteria plans. Some HSA owners had also fully funded their HSAs at the \$6,900 limit. Plus, HSA trustees and custodians had modified their systems to accept up to \$6,900 in HSA contributions and had communicated the 2018 contribution limits to their HSA owners.

Employers that fully funded their employees' HSAs were concerned about the tax implications and whether they could take steps to reduce employee contributions to avoid exceeding the new lower contribution limit. HSA owners were faced with either removing the excess contributions or leaving them in the HSA and paying the excise tax. HSA trustees and custodians scrambled to notify HSA owners and front-line staff of the reduced contribution limit.

Stakeholders informed the IRS that implementing the \$50 reduction in the HSA family contribution limit—three months into the year—would cause unanticipated administrative and financial burdens. They informed the IRS that in many cases employers and HSA owners had already made the maximum family contribution of \$6,900, or had made salary



reduction elections through their employers' cafeteria plans based on the \$6,900 limit. And, HSA trustees and custodians informed the IRS that notifying HSA owners and helping them identify and remove excess contributions would be administratively burdensome.

Citing stakeholder concerns, the IRS reversed its decision and issued Rev. Proc. 2018-27 to restore the 2018 HSA family contribution limit to \$6,900 and provide relief for taxpayers affected by the reduction in the contribution limit.

The guidance allows any HSA owner who removed an excess contribution from their HSA, because of the reduction in the contribution limit to \$6,850, to repay the distribution to the HSA before April 15, 2019, and treat it as a return of a mistaken distribution. In such a case, the distribution is not included in the HSA owner's gross income or subject to the additional 20%, and the repayment is not subject to the 6% excise tax on excess contributions.

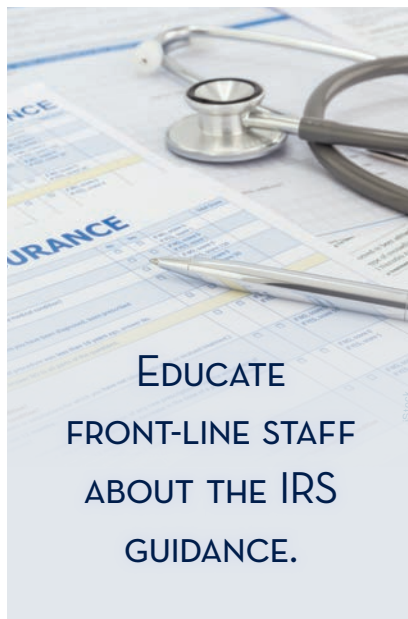
HSA trustees and custodians are not required to allow HSA owners to repay mistaken distributions—including distributions taken because of the reduction in the contribution limit.

But if they do, the mistaken distributions and their subsequent repayments are not reported as distributions on Form 1099-SA; distributions from an HSA, Archer MSA, or Medicare Advantage MSA; or contributions on Form 5498-SA, HSA, Archer MSA, or Medicare Advantage MSA Information.

If an HSA owner who removed an excess contribution from their

HSA—because of the reduction in the contribution limit—chooses not to repay the distribution to the HSA, the distribution is treated as the removal of an excess contribution before the tax return due date.

In such a case, the excess contribution is not included in the HSA owner's gross income and is not subject to the additional 20% tax provided the distribution is received on or before the due



date (including extensions) for filing the HSA owner's 2018 federal income tax return. This option does not apply to employer contributions (including contributions made through a cafeteria plan) unless the employer includes the contribution in the employee's taxable income.

Confusion exists with any regulatory change, but even more so in this case with the IRS decision to reverse its previous position.

Following are five steps you can

take to ensure you're prepared to assist HSA owners with this change:

1. Educate front-line staff about the IRS guidance that restores the 2018 HSA family contribution limit and provides relief for taxpayers affected by the reduction in the contribution limit.

2. Inform HSA owners about the restoration of the 2018 HSA family contribution limit and the relief granted for HSA owners who have removed excess contributions because of the reduced contribution limit. Newsletters and blogs provide a cost-effective means of notification.

3. Update your data processing system to reflect the restored 2018 HSA family contribution limit of \$6,900.

4. Determine whether you will accept repayment of any excess contributions taken as a result of the reduced contribution limit and treat them as a return of a mistaken distribution.

5. Ensure that your data processing system can suppress tax reporting of any excess contributions that are repaid to HSAs and treated as returns of mistaken distributions.

While the IRS chose not to apply the new formula for cost-of-living adjustments to the 2018 HSA contribution limits, the 2019 contribution limits (\$3,500 for single coverage and \$7,000 for family coverage) recently announced in Rev. Proc. 2018-30 reflect the new formula for determining cost-of-living adjustments.

DENNIS ZUEHLKE is compliance manager for Ascensus. Contact him at 608-229-1875 or at dennis.zuehlke@ascensus.com.

Internet of Things Poses Big Risks

The internet of things (IoT) is here to stay. In fact, there are currently eight billion IoT devices on the planet, says security consultant Jim Stickley, and that number is expected to reach 20 billion by 2020.

By comparison, he says there are roughly one billion PCs and eight billion mobile devices today.

“This market is getting saturated with devices, and clearly it’s not going to stop anytime soon,” says Stickley.

What’s more, many IoT devices are developed with web servers built into them, he says, making them more vulnerable to attack.

Stickley says IoT is dangerous for companies because it exposes so many devices to the network. “As

a hacker, I just want to get on the network,” he says. “If I just get on the network, everything will unfold for itself.”

Ultimately, education and awareness are the best defenses against security threats, he says, because as with most security issues it takes just one human error to bypass any security system.

He offers three pieces of advice to avoid potential threats:

- **Keep up** with firmware updates.
- **Never trust** phone numbers that pop up on a “help” screen. Use only phone numbers vendors provide.
- **Be cautious** of websites that don’t stop loading.

“You’re going to have these devices

on your network, so you’re better off planning for it now and figuring out ways to segment them,” Stickley says.

He addressed the co-located 2018 CUNA Technology Council and CUNA Operations & Member Experience Council conferences in San Francisco.



Jim Stickley

OVERHEARD

‘THE GOAL IS TO MAKE PEOPLE MORE PRODUCTIVE SO THEY CAN FOCUS ON HIGHER-VALUE WORK.’

Greg Woolf, founder/CEO of Coalesce.ai, on the power of artificial intelligence (“Get smart,” p. 18).

Build a Solid Retail Experience

Members don’t want service, they want an experience, says Bryn Conway, principal at BC Consulting and a former credit union marketer.

She outlines four ways to deliver a solid retail delivery experience:

1. Change your point of view.

Look at your credit union through the member’s eyes.

“Too often we think about what we need to get done—our processes and procedures,” Conway says. “We don’t often see what it feels like to become a member, get a loan, and see how the community views your credit union. Make it about them, not you.”

2. Organize around the member.

Every employee should either serve members directly or serve those who do.

This approach requires having engaged and empowered employees who understand and embrace your brand promise—or your “why,” Conway says.

Engaged employees are those who exhibit enthusiasm about their jobs, complete work outside their immediate role, and find ways to assist members.

3. Tap into members’ emotions.

People remember how you make them feel. “Talk about everything in a more positive light, and make it about them,” Conway says.

4. Deliver consistency. This requires a continual feedback loop for employees and members.

Make sure employees know your credit union’s core purpose, vision, mission, and values, Conway says. “Reliability equals trust.”

How to Detect and Prevent Ransomware

The financial services industry has been plagued with several notable ransomware attacks over the past couple of years, according to Chris Schatz, senior penetration tester for Info@Risk.

Common infection methods include malicious emails and attachments; vulnerable services such as server message block, malicious web pages, and “malvertising;” and corrupt media such as USB drives and CDs, says Schatz.

On the flip side, credit unions can take certain detection and preventive measures to ward off these threats, says Peter Misurek, senior information security engineer for Royal Credit Union in Eau Claire, Wis.

Tools to spot compromises

include enabling process execution auditing, part of which entails configuring reports and rules to monitor suspicious process executions, Misurek says.

He also advises centrally logging network traffic and monitoring domain name server traffic.

Misurek says credit unions can help prevent compromises by:

- ▶ **Practicing** proper password hygiene and enforcing strong passwords.

- ▶ **Limiting** storage of cached credentials.

- ▶ **Restricting** inbound and outbound internet protocol traffic to only what’s required to do business.

- ▶ **Implementing** geo-based traffic blocking.



Chris Schatz (left) and Peter Misurek

Meet Members Where They Are

Cole Downing, Vidyo’s vice president of sales, outlines how credit unions can offer video banking without sacrificing the personal touch.

“Implementing video technology is pretty straightforward,” Downing says, adding that members are ready and willing to accept the technology.

The goal of most video banking systems is to delight members with service and to meet members where they are, Downing says. “Of folks who were offered a video banking experience, 75% accepted.”

Implementing this service can take place in waves, he notes. For example, a credit union may

first blend video with its contact center, then later integrate it with its mortgage area.

“Those are different functions and have completely different requirements from technology and telephony perspectives,” Downing says.

Consider training employees who will deliver services via video banking.

“For example, dealing with an angry member via video is completely different than in person,” he says.

The benefits of video banking can be substantial, Downing says. Case studies show improved mem-



Cole Downing

ber satisfaction and wait times. At one credit union, loan conversion rates increased 42%.

“And most important, you’re not sacrificing personal interaction,” he says.

Vidyo is a CUNA Strategic Services alliance provider.

Provide an Intuitive Lending Experience

Member service is an important part of the loan application processes.

PATRICK TOTTY

AS CREDIT UNIONS BROADEN the scope of their lending operations, their traditional bread and butter—great member service—remains a crucial element to their success. That’s why they often look to third-party providers as a resource for that task.

Asset size isn’t a factor for credit unions seeking help with member service, says Samir Suri, senior vice president of product at LendKey, a CUNA Strategic Services alliance provider.

“By starting with the premise that nobody enjoys asking for a loan, we aim to make the experience fast, intuitive, and frictionless for borrowers,” Suri says. “Happy borrowers turn into lifelong customers. The advantage of LendKey’s turnkey, digital lending solution is that borrowers can shop around for loans without endangering their credit scores. There’s no hard credit inquiry until a loan is selected.”

For Lionel Urban, Fiserv’s vice president of product management lending solutions, the key to a good loan origination experience for members “is to make the process onscreen as intuitive and obvious as possible.”

‘MAKE THE EXPERIENCE

FAST, INTUITIVE, AND

FRICITIONLESS FOR

BORROWERS.’

Samir Suri

Loan applicants, he says, “can’t see nor are they interested in the complex processes behind the screen.”

Urban cites RocketMortgage’s current television ads as good marketing “because they succeed in showing viewers how quick and easy it can



be to apply for a loan. With us, after credit union members submit an application, they can track the progress of their loan request and see if they’ve left out information or need supporting documentation. Has the property been appraised? Is the property located on a flood plain? Any and all relevant information must be available online from a PC or their mobile devices.”

On the originator side, Urban says Fiserv’s system allows the credit union to search through complex documents to see if all relevant data has been provided. “When you’re talking about several hundreds of documents, this is a huge feature.”

Lending system technology continues to evolve rapidly. Besides the optical character recognition capabilities, Urban says an important new advancement is intelligent character recognition (ICR), which allows a computer to recognize the data found on documents—a boon to loan processing and filing by ensuring the right data, such as property address or loan terms, are filled in correctly on the right documents.

Suri says that while loan origination software has been around for some time, new capabilities are emerging every day. He cites two important aspects of the technology:

1. Software is now largely cloud-based. This means credit unions can access the latest technology without incurring large in-house expenses.

2. Automation has replaced manual loan origination processes.

An internal product group at LendKey conceives and designs each iteration of its lending software, says Suri. “We continuously research emerging technology that we can incorporate into our software. It takes an entire team to keep our technology competitive for our credit union clients, and you have to be proactive in your approach.”

One issue is that credit unions don’t always know what to ask for, Urban says. “We see where some credit unions look at technology as only a small component of the member experience, especially when they don’t have a ton of IT capabilities,” he says. “We address those concerns by providing hosting for all lending-

related processes in one place, and continuously updating our system's capabilities and configurations as we go along."

Aviv Lubell, sales executive at OneSpan, formerly known as eSignLive, and a CUNA Strategic Services alliance provider, agrees that some credit unions haven't advanced as quickly in the lending space as others. Although a credit union's "digital journey" can seem arduous, he advises clients to find the easiest process to digitize.

"That can get you into the space for a relatively low investment," Lubell says.

THE ABILITY TO REVIEW

A FILE ANYTIME,

ANYWHERE EASES

WORKLOADS.'

Lionel Urban

LendKey is a "turnkey and white-labeled solution," Suri says. "We do it all, including lead generation on behalf of our credit union clients. After the initial onboarding, our credit union clients only have one task, which is to provide the final credit decision on the loan application."

A 'brag worthy' solution

"There are two 'brag worthy' aspects of our solution," Urban says. "It ties all data back to a core banking system, and it drives down origination costs. Our strategic advantage is that we're able to populate the majority of fields in a complex document, which sometimes can run to several hundred pages. A credit union already knows a lot about its members—driver's license number, credit history, loans, age, location, sex, etc. These get filled in automatically."

Despite having an abundance of data, Urban notes many credit unions fail to appreciate how much useful

data they have on hand.

"There is a learning curve involved with using our solution," Urban says. "Going from paper to digital can be uncomfortable at first, but understanding that a virtual file cannot be destroyed or misplaced like a paper file is key. The ability to review a file anytime, anywhere eases workloads and lessens time spent on a file."

But he also offers a caution: "There are often big icebergs below the water: One credit unions should be preparing for are the updates to the Home Mortgage Disclosure Act. New guidelines require financial institutions to submit information about their loan rates and fees to the federal government. Any departure from strict nondiscriminatory procedures can open a credit union to a big black eye."

That's why, he says, Fiserv's software "provides an automated fair-lending process that manages loan prices and terms consistently for a credit union's members."

Looking ahead, Suri says that if a recession occurs, there will be a decline in loan originations.

He advises credit unions to diversify their loan portfolio so they don't rely on just one or two types of loans. "Spread the risk. The market is fickle, and credit unions should continually test pricing or different credit ideas."

RESOURCES

- ▶ CU Rate Reset, a CUNA Strategic Services alliance provider: curatereset.com
- ▶ Fiserv: fiserv.com
- ▶ LendKey, a CUNA Strategic Services alliance provider: lendkey.com
- ▶ OneSpan, a CUNA Strategic Services alliance provider: onespan.com



KNOCK KNOCK APPEALS TO YOUNG BORROWERS

"We're in the age of the customer, and customers are increasingly moving to mobile devices," says Aviv Lubell, sales executive at OneSpan, a CUNA Strategic Services alliance provider.

Credit unions need to enhance the member experience, he says. "The goal is ease of use."

A prime example of enhancing members' experience is KNOCK KNOCK, a digital engagement platform that recently won the National Association of Credit Union Service Organizations' 2018 Big Idea contest.

With KNOCK KNOCK, members receive real-time offers on loans, says Keith Kelly, CEO and co-founder at CU RateReset, a CUNA Strategic Services alliance provider. The app allows members to compare their credit union's loan terms to those at other financial institutions.

"Since their credit union has already vetted them, it can present preapproved loan terms almost instantly," Kelly says. "Members can use KNOCK KNOCK to access the same loan engine their credit union uses and see how a credit union views them as a borrower."

Kelly says the app is especially attractive to millennials. "It was astonishing to see how quickly millennials glommed on to KNOCK KNOCK. I asked an intern to bring his college friends an offer to use KNOCK KNOCK to help reset current loans or look for new ones. He gave them no directions on how to use it. They figured it out right away and loved it."



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B4. Other classes mailed	330	361
C. Total paid distribution	11,370	10,814
D1. Free: outside-county	0	0
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As the Yield Curve Turns

Now you'll have something to talk about during ALM committee meetings.

JAMES COLLINS



NEXT YEAR COULD BE challenging for credit unions as the flat yield curve squeezes margins thinner than a tapeworm on a diet.

Measured by the famous “2/10” curve (the difference between the two-year Treasury rate and the 10-year rate), this spread has dropped to roughly 0.5%, far lower than its historic norm of 1.78%.

This means four things:

1. **Deposits** will be more expensive.
2. **Your ability** to raise loan rates above a certain point will be affected.
3. **Margins** may decline.
4. **Your CFO** will finally be right when he predicted this back in 2011.

A flat curve can lead to some interesting behavior among credit union members.

Demand for real estate loans will focus on fixed terms and fixed rates. Members will avoid adjustable-rate mortgages as the rate difference between fixed- and adjustable-rate mortgages narrows.

Watch for current holders of variable-rate loans to refinance to fixed rates as well.

Still, with long-term rates in a reasonable range, the ability for well-qualified borrowers to purchase homes will still be good.

The picture is a bit bleaker for auto loans, which are priced more at the mid-point of the curve rather than the end. This means even tighter margins and, with higher rates,

declining affordability for members.

Credit card loans, a bright spot in 2018, will also slow as the economy fights against increasing headwinds. Rates here are always on the short end of the curve, which has pushed (and will push) higher as the Fed continues to tighten.

The biggest issue isn't loan demand, it's the spread. However, there are some ways to eke out a few points here and there—keeping you in the lending game and keeping your return on assets above zero.

Toward that aim, keep these thoughts in mind:

▶ **Indirect loans** with their dealer fees will be very low-margin. Know when to pull out of the market and take a breather. You can't use volume to overcome a negative spread.

Furthermore, look at lowering dealer fees and other fixed costs to increase margins.

Yes, that means your annual invite to the auto dealer's Christmas party is probably history. But margin is margin.

▶ **Tread carefully** on long-term, fixed-rate real estate loans. You might be thinking, “If there's a recession, the yield curve may invert, which will lead to lower mortgage rates.”

If that's what you're thinking, watch less CNBC and spend more time taking leisurely walks outdoors. You might be right. But there's a risk that inflation will rise, driven by a

worker shortage. Then you will have a bunch of long-term loans underwater.

▶ **One aspect** of the current loan-rich environment that's often missed are members who have not been able to easily obtain credit.

These “fallen angels,” who had an event mar their credit history, may be excellent targets for your credit union.

▶ **Higher rates** on credit cards can be dramatic to many members, and may force them to look for balance-transfer specials to jump out of higher-rate cards.

▶ **Liquidity**, or the lack of it, may be another challenge. Knowing how changes here will squeeze your margins is essential to choosing how you fund your loan portfolio: Certificates? Money market accounts? Borrowing? Bake sales? Each has its own drawbacks.

Over the past few years, we've had a relatively good operating environment with stable rates, sufficient liquidity, and a decent Seattle Seahawks team. Those days—particularly the latter—may be coming to an end.

Yield curves may not be exotic, but they are important. At least now you'll have something to talk about during those asset/liability committee meetings.

JAMES COLLINS is president/CEO at O Bee CU, Tumwater, Wash. Contact him at 360-943-0740 or at jcollins@obee.com.

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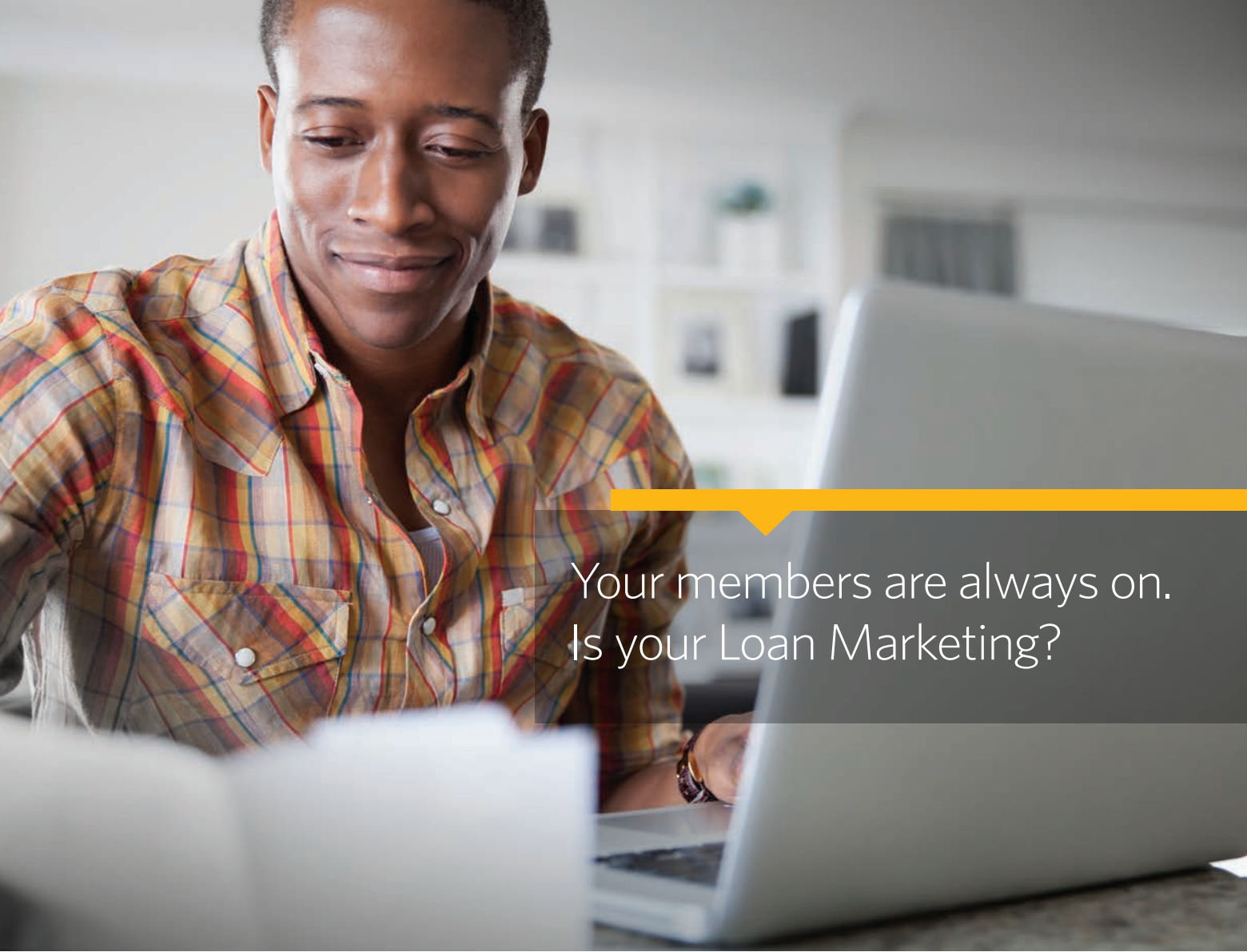
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