

# Credit Union

MAGAZINE

WINTER 2020

## 2021 LENDING OUTLOOK

EMBRACE  
LASTING CHANGE

CEOs focus  
on the future

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TFCU - El Paso

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**JIM BLOCK**



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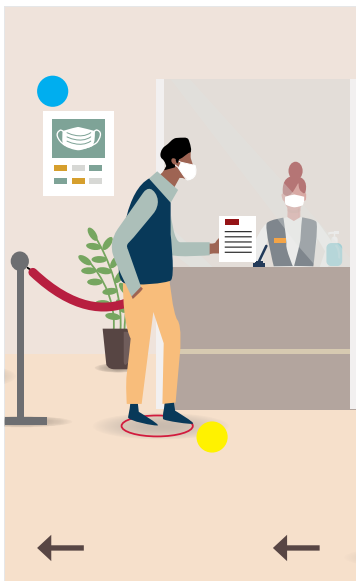
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# Digital Features

▶▶▶ VISIT [CUNA.ORG/NEWS](https://news.cuna.org/news) FOR THESE ONLINE EXCLUSIVES

## Don't miss: stories of military service

In honor of Veterans Day, we shared stories of people in the credit union movement who have served in the military. Check out complete coverage of the 2020 Salute to Veterans, sponsored by FIS, at [news.cuna.org/veterans](https://news.cuna.org/veterans).



## Sharing hope on International Credit Union Day

To celebrate International Credit Union (ICU) Day during a year of uncertainty and anxiety, \$3.2 billion asset Royal Credit Union, Eau Claire, Wis., held a contest that allowed members to nominate someone who inspires hope for them.

This year's ICU Day theme was "Inspiring Hope for a Global Community."

"We want people to take this opportunity to shine a light on a person in their community that truly makes them feel hopeful," says Jennifer McHugh, Royal's vice president of community engagement.

Prizes were awarded to nominators, nominees, and a nonprofit of the nominee's choosing.

## Hear from the 2020 Credit Union Rock Stars

Several of *Credit Union Magazine's* 2020 Credit Union Rock Stars appear on the CUNA News Podcast to discuss the innovation and creativity that makes them some of the best and brightest in the movement. Episodes featured:



achieved growth in recent years.

**Pathways to growth.** CEOs Lisa Brown of Tallahassee-Leon Federal Credit Union, Pam Brown-Graff of MED5 Federal Credit Union, and Kabir Laiwalla of Platinum Federal Credit Union

explain how their credit unions have



### Meeting the COVID-19 challenge.

Tillery Durbin of 121 Financial Credit Union and Amber Rahn of Blue Federal Credit Union discuss how they watch out for members and staff. Durbin aimed to help as many people as possible with Paycheck Protection Program loans, while Rahn organized virtual events to engage staff.

The Credit Union Rock Star program

is sponsored by Fiserv.

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## A blended approach to training

Before the coronavirus (COVID-19) struck, Mountain America Credit Union in Sandy, Utah, was already adjusting its training and talent development program to meet the future needs of employees. But when the pandemic hit, Aaron Brown, vice president of talent and member development at the \$11 billion asset credit union, knew that goal was more important than ever.

"We needed to convert a lot of content and courses to virtual, but we also needed to think about other elements," he says.

Brown, who spoke at the 2020 CUNA HR & Organizational Development Council Virtual Conference Collection, says the pandemic allowed the credit union to reevaluate its curriculum.

The Mountain America team implemented after-class learning sessions, experience-based learning, and an audit of its training resources, including mobile-based training options.

"There's a lot of leverage we can still gain from our existing tools without having to add tools," Brown says.



# CUNA CREATING MEMBER LOYALTY™

*“CUNA Creating Member Loyalty™ skills are critical to the success of communication because it starts with focusing on member needs and helping find solutions by listening and asking high impact questions. If we continue to keep member interests at the heart of our interactions and maintain personal responsibility to assist them, we can continue to meet and exceed their perceived and unperceived needs.”*

-Mark Stetzer, training manager, First Florida CU

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## Fast forward to 2021

How you manage today's 'constellation of change' will define success.

December traditionally is a time to reflect on the year behind us and to look at the year ahead.

But since March, the credit union movement has been in fast-forward mode—reconfiguring branches, supporting small businesses and communities, making emergency loans, caring for employees, and reimagining talent needs.

The global pandemic delivered the future to our front doors.

In this issue, we examine the 2021 landscape and how credit unions are addressing:

**>Membership.** The U.S. will become a minority-majority nation by 2043, the U.S. Census Bureau reports, when people of color will comprise a majority of the population.

Credit union leaders are working hard to understand their changing marketplace and create equitable

products and services in response. This includes consideration of board governance and recruitment practices to ensure representative service as communities evolve.

**>Lending and the economy.** Loan growth should settle in at 6% in 2021, and mortgage refinancings will ease, CUNA economists say. As the economy recovers, expect a shift from mortgage to consumer loans, such as auto loans, credit cards, and personal loans.

BCU in Vernon Hills, Ill., sees its mortgage growth continuing in 2021 despite “headwinds” from the pandemic, says Jim Block, executive vice president/chief operating officer.

**>Operations.** Credit unions continue to experience the transformation of digital services and branches. Adopting new technologies, offering flexible work ar-

rangements, and planning for less infrastructure will shape the future for many credit unions.

The digital and virtual experience is at the forefront of every decision, says Lynette Smith, president/CEO of TruEnergy Federal Credit Union, Springfield, Va.

To futurist Amy Webb, major events like the global pandemic often accelerate technology trends that stick for years to come. “Catastrophe tends to catalyze innovation,” she says. “Myriad factors and inputs create the constellation of change that becomes our future.”



**Ann Hayes Peterson**

Editor-in-chief  
Credit Union National Association  
apeterson@cuna.coop  
608-231-4211

### MANAGEMENT

**ANN HAYES PETERSON** // vice president/editor-in-chief  
apeterson@cuna.coop • 608-231-4211

### EDITORIAL STAFF

**BILL MERRICK** // deputy editor • bmerrick@cuna.coop  
608-231-4076

**CASEY MYSLIWIY** // deputy editor • cmysliwy@cuna.coop  
608-231-4213

**MICHELLE WILLITS** // deputy editor • mwillits@cuna.coop  
608-231-4067

**RON JOOSS** // senior editor • rjooss@cuna.coop  
608-231-4321

**JENNIFER PLAGER** // senior editor • jplager@cuna.coop  
608-231-4290

### DESIGN & PRODUCTION

**BEN TENORIO** // senior digital media designer

**CARRIE DOYLE** // graphic designer

### SUBSCRIPTION SERVICE

**SUBSCRIPTION DEPARTMENT**  
P.O. Box 461  
Annapolis Junction, MD  
20701-0461  
800-356-9655

### ADVERTISING

**KARIN SAND** // vice president • ksand@cuna.coop  
920-460-7430

**MICHELLE DOSHER** // mdoisher@cuna.coop • 608-231-4006

**LISA DUSHACK** // ldushack@cuna.coop • 608-231-4220

**MARLENE LAUFENBERG** // mlaufenberg@cuna.coop  
608-231-4341

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**CREDIT UNION MAGAZINE**  
P.O. Box 431  
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# Credit Union MAGAZINE

## Nominate your **CREDIT UNION HERO**

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Each year, *Credit Union Magazine* honors unsung professionals who devote their talent to shaping a brighter future for members and their community. Nominate your Credit Union Hero to give them the recognition they deserve.

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Share how your Credit Union Hero has made a difference. Submit your nominations at  
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# Ideas & Inspiration

## Be a pineapple

While a pineapple is prickly on the outside, it's a sweet fruit that can teach us how to react with courage and authenticity when faced with challenges.

"The 'Pineapple Principle' is about going through these changes and acknowledging the challenges we face and other people face," says Annie Meehan, a professional speaker with AM Speaking & Consulting. "When we're true to who we are and when we're courageous about taking care of ourselves, we can care for other people and show up even better."

Meehan explained the Pineapple Principle during the 2020 CUNA HR & Organizational Development Council Virtual Conference Collection.

The pineapple:

► **Stands up straight.** When you come in contact with another person, don't look down at your phone, Meehan says. Instead, look at the person. "When you stand up straight, you can truly see people."

► **Wears a crown.** By seeing yourself wearing a crown, you'll see the value in yourself, Meehan says. And that applies to others as well. "By valuing myself and others, I can then show up and take care



of others because we have value," she says.

► **Is sweet on the inside.** The most dangerous weapon in our arsenal is words—whether spoken, written, or typed on a keyboard. Make sure your words are not belittling or negative. Rather, use your words to spread kindness and encouragement. "Remind yourself that we're all feeling the disconnect," Meehan says. "That sweetness inside can come through verbally by saying kind words or sharing good news, hope, and positivity."

► **Is prickly on the outside.** Like a pineapple, we're sometimes prickly. But Meehan reminds us that being prickly is a choice each person makes. "We still have a choice to be kind," she says.

Remembering the Pineapple Principle during the coronavirus (COVID-19) pandemic is especially important, Meehan says, because people didn't sign up for remote work or other challenges that leave them stressed and anxious.

"The Pineapple Principle is about valuing myself and then valuing others, showing up with kindness and encouragement," Meehan says.

"Part of being authentic," she adds, "is acknowledging this is hard for everyone."

## Prepare for a crisis before it hits

Crises typically are unexpected. But preparing to lead during a crisis should take place continually.

"Sooner or later, no matter how well things are going, you're going to get punched in the nose," says Maurice Smith, president of Local Government Federal Credit Union and Civic Federal Credit Union, both in Raleigh, N.C. "There will be a challenge that arrives at your credit union's doorstep."

The preparation for the kind of leadership required during a crisis needs to begin long before the crisis occurs, says Smith, who spoke at the CUNA HR & Organizational Development Council Virtual Conference Collection. And that preparation should involve everyone at the credit union.

Smith says it's imperative that human resources (HR) take the lead in preparing the credit union—and its employees—for a crisis. Other departments may

believe they are responsible for this role, but HR is the department that ensures the credit union is staffed with the right people and that the applicable training is available to develop their talents and leadership skills.

"The monkey is on your back. You have to rise to the occasion," Smith says. "There are too many stakeholders and followers who need you to be successful. If you do that, your leadership will be prepared for today, tomorrow, and whatever crisis may come."





## Lenders capitalize on digital channel trends

Since the onset of the coronavirus (COVID-19) pandemic, consumers have relied increasingly on the digital platform to drive commerce, as 40% of consumers now use these channels more frequently, according to a survey from TransUnion.

The increase is happening at a time when 60% of consumers say that most of their financial transactions are conducted via mobile applications, the survey reports.

One-third of consumers engage with their preferred financial institution multiple times a week via digital channels, and roughly two in three use such platforms a minimum of once a week.

Half of financial executives polled by TransUnion believe lending will take a year or longer to return to pre-COVID-19 levels.

However, the same percentage of executives also noted their organizations will be making more investments in digital capabilities as a result of the COVID-19 pandemic.

Consumers also are hungry to receive relevant credit offers that are tailored to their financial needs. According to the survey, 33% of consumers found customized credit offers to be very important and another 33% cited this as somewhat important.

To generate more leads and capture market share, lenders are capitalizing on these digital trends, TransUnion reports.

### Hungry for relevant credit offers

Consumers value credit offers that are customized to their financial needs, according to TransUnion, with more than two-thirds responding favorably.



**33%**

Very important to receive tailored offers



**33%**

Somewhat important to receive tailored offers

Source: TransUnion

## 1st United supports student ambassador program

An enterprising high school student was the impetus for a successful financial wellness program at \$1.2 billion asset 1st United Credit Union, Pleasanton, Calif.

After attending a 1st United financial education workshop hosted by Lisha Fabris, the credit union's communication manager, Mission San Jose High School student Jatin Chadha asked Fabris about expanding an existing ambassador program at Mission to other high schools.

Chadha worked with 1st United to develop the Youth Financial Literacy Ambassador (YFLA) program, a train-the-trainer partnership in which students learn financial concepts and host classes with their peers to share their new knowledge.

The YFLA program includes student members who support each other through education, marketing, and

social media with the credit union's assistance.

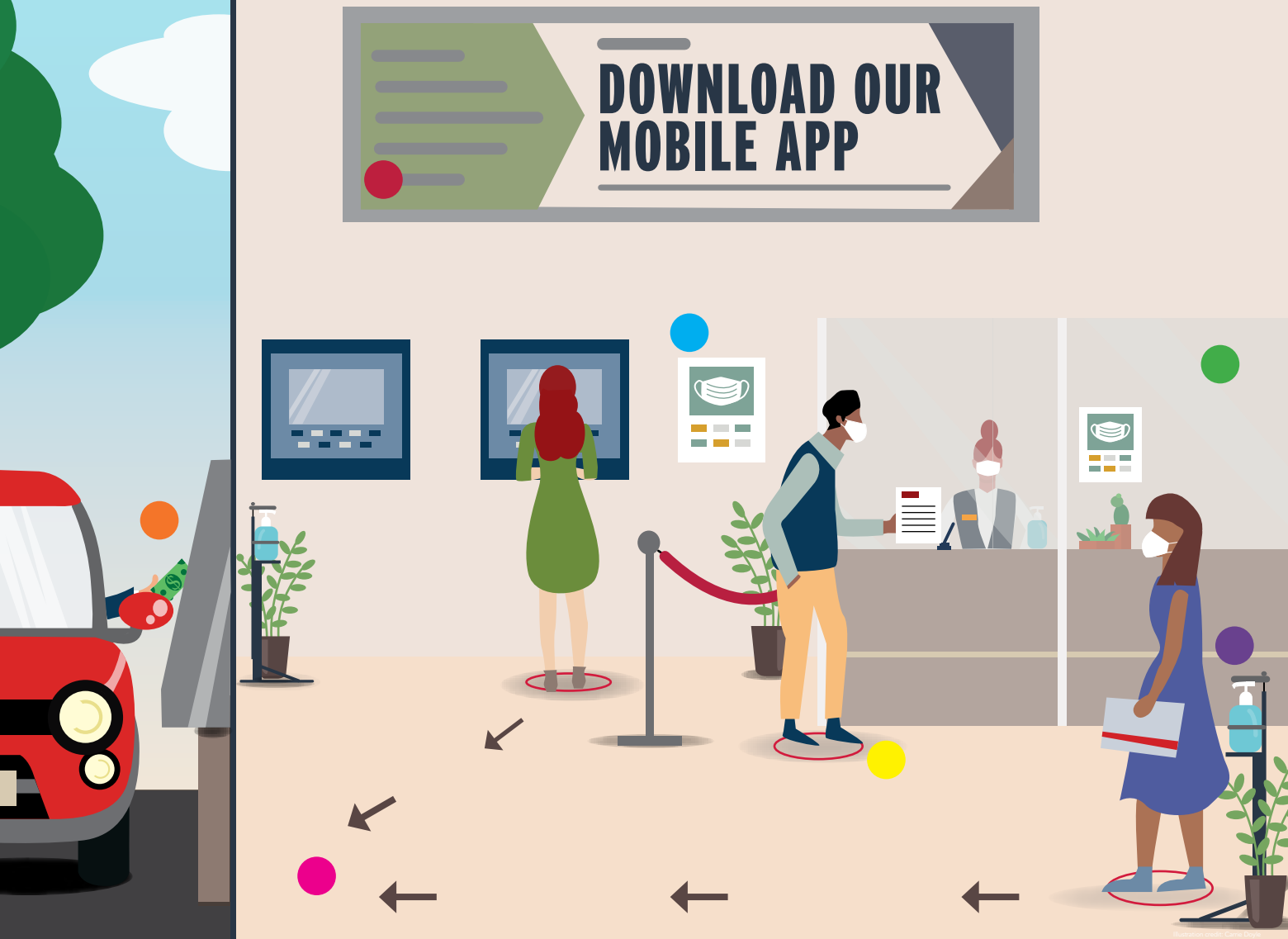
The project has turned out to be a win-win for the credit union: Great engagement with a young demographic and lots of financial education.

That said, Fabris admits to a little hesitation at the outset.

"I was a little cautious about having young people teach some of these concepts that we've been teaching for four or five years because we can get pretty technical," says Fabris. "The kids have done a great job. Even people at the credit union are amazed how well they've grasped it."

Fabris adds that the peer-to-peer teaching aspect creates a new set of obligations for the credit union. "There's much more of an onus on the credit union to train the trainer," she says.

# Branching today



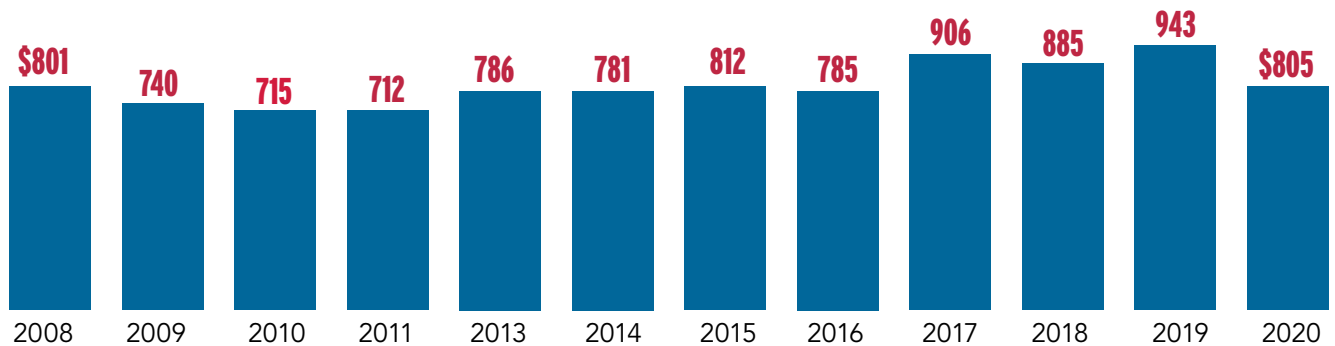
- **Mobile and online banking use has grown since COVID-19:** 58% of consumers prefer to interact with their primary financial institution via digital channels, according to Fiserv's Expectations and Experiences research.
- **More members use drive-thru and video teller services instead of the branch:** Credit unions are moving from open branches to appointment-only branch visits, or they encourage members to use drive-thru services or video teller services when available.
- **Social distancing markers** on the floor encourage and remind members to maintain six-foot social distancing when inside the branch.
- **Plexiglass** across teller stations protects members and employees.
- **Signage** on doors and throughout the credit union remind people that mask use is required.
- **Sanitizer stations** are available for employees' and members' use.
- **Directional arrows** on the floor regulate traffic flow.

# Ideas & Inspiration

## Tighter wallets this winter

Americans predict they will spend an average of \$805 on holiday gifts this year, significantly below the 2019 estimate of \$943. This October holiday spending projection is close to the level Gallup measured after the Great Recession.

**Average amount spent on holiday gifts**



Source: Gallup

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Ideas & Inspiration

## Flexibility in the face of challenges

Your innovation, creativity, and resilience this year have been nothing short of incredible.

Lending has certainly taken on a new meaning in 2020. In good times credit unions are there to meet member credit needs, whether it's to finance a first car, a mortgage on a dream home, or a small business. Credit unions provide that next step forward.

This year, loans became about something more—in many cases they're vital for survival.

The normal course of daily life shifted dramatically in March as the pandemic forced schools and businesses around the country to close.

As Americans, along with the rest of the world, found their businesses shuttered or their paychecks paused (or canceled), suddenly loans weren't for reaching dreams. They filled more basic needs.

As we've seen with other crises in the past, credit unions acted as financial first responders.

Even as Congress and the administration began formulating a response, credit unions put solutions into action. As branches closed, credit unions worked with members on alternative ways to reach their money, including enhanced drive-thru and mobile capabilities.

If there was a way to help a member, credit unions did it—from paycheck replacements, skipped loan payments, and fee

waivers to low- and no-interest loans.

Once government relief programs came together, credit unions quickly found their role, becoming Paycheck Protection Program (PPP) lenders almost overnight and making loans to businesses banks turned away because they were too small.

The PPP resulted in a deployment of nearly \$669 billion, overseen by regulations literally thrown together in a matter of days. While CUNA and leagues pushed for clarity and guidance on PPP loans, credit unions had

boots on the ground getting loans as small as \$1,000 to businesses to prevent many Americans from losing their jobs. Credit unions helped keep more than 100,000 Americans employed through PPP loans.

CUNA is pushing Congress and regulators to examine outdated regulations and laws that are hindering our economic recovery, including expanded liquidity resources and member business lending opportunities.

NCUA Chairman Rodney Hood told me himself how impressed he was with how credit unions immediately went to work, finding safe and sound ways to help those who needed it.

The innovation, flexibility, and creativity I've seen from credit

unions this year have been nothing short of incredible, all the more so because you did this to help your members get through a worldwide crisis on an unprecedented scale. It's that fantastic work that will help us foster change in Washington.

In addition to boosting lending to help members, the credit union system worked more closely than ever to support each other.

The National Credit Union Foundation launched its CUAid App, an evolution of CUAid that works to ensure there is a continuous pot of money ready to deploy as soon as disaster hits. Already the Foundation has made more than \$100,000 in grants to help credit unions on the front lines of wildfires, floods, and other disasters.

Leagues and state foundations found ways to provide credit unions with important personal protective equipment and other resources to stay open while keeping staff and members safe.

We're proud of credit unions every day. But it's impossible to ignore what we're capable of when things look their worst.

Our mission and structure help us stand out. But credit unions' people-helping-people attitude helps us go above and beyond for our members when they need it most.

“  
EVEN AS CONGRESS AND THE ADMINISTRATION BEGAN FORMULATING A RESPONSE, CREDIT UNIONS PUT SOLUTIONS INTO ACTION.  
”



**JIM NUSSLE**

President/CEO  
Credit Union National Association  
jnussle@cuna.coop  
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## A brighter future

Your members know credit unions are their best financial partners.

Credit unions have proved their value and partnership to members every single day of this memorable year.

No one could have anticipated the twists, turns, and curveballs that 2020 would throw out, but it is awe-inspiring how quickly credit unions doubled down on the “people helping people” mission when consumers most needed a financial partner.

Think back to early this year, when the first coronavirus (COVID-19) cases were confirmed in the U.S. Credit unions rapidly worked together to write the playbook, seemingly flying the plane as it was being built.

As states issued executive orders closing many sectors of the economy, collective advocacy efforts ensured credit unions were designated as essential businesses so they could keep operating and serving their members.

When Congress drafted the first federal relief packages, in some cases there were no specific mentions of credit unions. CUNA, leagues, and credit union advocates mobilized to message Congress, and we successfully addressed that issue.

Credit unions then became important conduits for getting money into the hands of consumers who had to shutter their businesses or who lost jobs.

From Paycheck Protection Program loans that helped to save millions of jobs to modifying loans that kept people in their homes, you made a difference.

As chair of your CUNA Board of

Directors, I got a front-row seat to witness the difference you made, and I could not be prouder of the way credit unions put their feet on the pedal, full throttle.

### Accelerating forward

Looking ahead, it's clear that the financial services landscape and how we serve consumers will never be as it once was. What we proved this year is that credit unions can be even better and more relevant.

Connecting with members is the movement's North Star. The coming year will be important for

the industry as the pace of change in financial services continues to accelerate.

Advancing the speed of digital adoption in the regulated financial services space is a necessary and winning

strategy for credit unions as they strive to remain relevant and grow market share.

While we expect competition among traditional financial institutions, the intensity of competitive forces from the nonregulated sector also is going to intensify. Because achieving growth and capturing market share still matter, we must strike a balance between maintaining human connectivity and accelerating to make greater strides into digital technologies.

The credit union environment is grounded in its historic roots, serving those who might not

otherwise have a voice in the financial services marketplace. This world-class movement is so ready for the opportunity to raise the bar of financial inclusion and to deliver next-generation service to Main Street.

CUNA and the leagues fulfill a critical role in enabling a future-focused operating environment for credit unions.

Consider that your advocacy in statehouses and inside the Beltway resulted in flexibilities allowing credit unions to safely serve their members during the pandemic, such as remote notarization and the ability to hold virtual board and annual meetings.

Why shouldn't we advocate to make these conveniences permanent for members?

Advocacy is a full-time job. This year's elections ushered in some new representatives and the opportunity for our movement to help them come to know the credit union difference and become our champions.

As consumers emerge from 2020's challenges and look toward better days ahead, I believe they'll look back and know credit unions had their back.

Your members know credit unions are their best financial partners.

Let's keep proving them right by advocating for and defining for them a brighter financial future.

“  
CONNECTING  
WITH MEMBERS  
IS THE  
MOVEMENT'S  
NORTH STAR.  
”



**TROY STANG**  
CUNA Board Chair  
President/CEO  
Northwest Credit Union  
Association  
tstang@nwcua.org  
503-350-2212

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# EMBRACE LASTING CHANGE

DARLA DERNOVSEK

Diversity, equity, and inclusion initiatives change board recruitment strategies.

**Creating a board of directors that members and employees alike see as leaders who want to hear the concerns of “people like me” is a vital part of diversity, equity, and inclusion (DEI) initiatives.**

Making DEI part of leadership selection and ongoing operations is a never-ending journey that mirrors the evolution of their communities, say board members

and senior leaders. While embarking on a continuous DEI journey is no small task, the alternative is losing touch with member needs.

**Fastest-growing demographic**  
Greylock Federal Credit Union, Pittsfield, Mass., serves communities in western Massachusetts, eastern New York, and southern Vermont that today are 90% white.





**Clockwise from far left:** Carlos Ruiz, board chair, Seattle CU; John Bissell, CEO, Greylock FCU; Robert Camarillo, board chair, Ironworkers USA FCU; Sheila LaBarbera, board member, Greylock FCU; Ty Allan Jackson, board member, Greylock FCU; Teri Robinson, CEO, Ironworkers USA FCU; and Tonita Webb, EVP/COO, Seattle CU.

Yet the fastest-growing demographic groups in those areas are immigrants and people of color.

“If we want to be here thriving in 20, 30, or 40 years as a region and as financial institutions, we need to embrace the change that is happening all across America,” says John Bissell, CEO of the \$1.4 billion asset credit union.

Considering white, middle-class experiences as the norm and all other experiences and value systems as “other,” he says, benefits a narrower demographic.

Roughly seven years ago, Greylock Federal leadership realized they needed to work toward having a board and workforce that reflect the wider community.

Due to that work, Greylock Federal has:  
**›Assembled** an 11-member board that includes six

members who are women or people of color. The board unanimously committed to the Credit Union DEI Collective Pledge to Action and has added “accessibil-

**Focus**

- › **Strive to mirror** your members’ demographics on the board.
- › **A diverse board** allows the credit union to be more innovative.
- › **Board focus:** Board diversity provides a better understanding of members’ needs.

Embrace lasting change

ity” to its Inclusion, Diversity, Equity, and Accessibility (IDEA) Program.

› **Increased** the percentage of employees of color from less than 5% in 2015 to 10% in 2020.

› **Developed** products that meet the needs of a broader range of members. The credit union offers more than 25 loans, including mortgages, that expand access to home ownership.

› **Reviewed** lending bias in credit scoring and account decisioning with the help of a data expert from a minority-owned business.

› **Partnered** with community organizations that serve specific demographic groups, including the Massachusetts Small Business Development Center Network, to gain insights into community needs.

### Finding the path to leadership

Recruiting a diverse board takes time and persistence. Greylock Federal board members Ty Allan Jackson and Sheila LaBarbera took different paths to board service.

Jackson, who is Black, joined the board in 2015 after being introduced to the credit union during two dinner events. Jackson is the founder of Big Head Books LLC and co-founder of Read or Else, which combats the cycle of illiteracy. He appreciated Greylock Federal’s efforts to verify that he had the “caliber and quality” to serve, as well as the credit union’s direct approach of asking him to join the board.

“

**You have to do the legwork.”**

TY ALLAN JACKSON

When other credit unions complain about their inability to attract diverse board members, he wryly responds, “How many did you actually ask?”

“You have to court diverse board members, you have to do the legwork, and you have to be able to see their level of commitment to the community,” Jackson says. He has “great pride” in serving on a board that includes people who are Black, Hispanic/Latinx, and female.

That wasn’t always the case.

LaBarbera sought a seat on the all-white, all-male board in 1999. A board member suggested it was “not the right time” for her to serve. Despite the pushback,

LaBarbera won election and became the first woman to chair the board.

She says creating a more diverse board makes it easier to consider new ideas.

“When you sit in a room where the demographic is all the same, you knew what you were up against because they all had the same thought process,” LaBarbera says. “Today, everyone has different perspectives.”

### Start with the ‘why’

Knowing the “why” for DEI efforts is critical to success, says Samira Salem, CUNA’s vice president of diversity, equity, and inclusion. For example, Greylock Federal pursues DEI both because it’s the right thing to do and because it helps reach members who represent the credit union’s future growth (“2 business impacts,” p. 24).

“This approach is a lifestyle choice,” she says. “It means applying a DEI lens throughout your organization and to your products, services, and outreach to current and potential members. It requires a high level of commitment and clarity about why you’re doing this work.”

Internally, DEI creates organizations that are more diverse, more inclusive, and more equitable. Externally, DEI helps organizations have a greater impact on marginalized populations.

For example, Salem says recent evaluations of both the Coopera Hispanic Outreach program and the Juntos Avanzamos designation found credit unions that participated in these programs achieved higher growth in membership, loans, and assets than those that did not.

“It should come as no surprise that diverse and inclusive organizations are more collaborative, more innovative, and better able to avoid risks,” Salem says. “We see better team performance, customer orientation, and improved decision-making. Ultimately, becoming more diverse, equitable, and inclusive is a win-win for all.”

### Rebuilding with diversity

Diversity has been an important part of efforts to rebuild Ironworkers USA Federal Credit Union. The Portland, Ore.-based credit union increased its assets from \$7.5 million in 2010 to \$56 million in 2020 by broadening its base of union ironworkers across the country.

Board Chair Robert Camarillo says that as more women and workers of color join the Ironworkers Union, they want to see “people who look like them” in leadership and on the board. Achieving that at Ironworkers USA Federal meant ending traditional referrals for board seats.

“I’m proud of the work we’ve done to reduce

“

## Everyone has different perspectives.”

SHEILA LABARBERA

barriers and be more diverse and inclusive,” he says.

Volunteer leaders on the six-member board and four-member supervisory committee include three people of color from varied age groups, starting at age 25. Finding those talented candidates took some work but wasn’t too difficult, Camarillo says.

A more diverse board is also more willing to

consider new approaches, such as loan products tailored to ironworkers’ needs, CEO Teri Robinson says. Meanwhile, Ironworkers USA Federal staff has grown from five to 10 employees, allowing Robinson to recruit two bilingual Latino employees to boost engagement among new members.

“Because we’re progressive, our board is diverse enough to understand we need to move ahead as a credit union to survive,” she says.

To ensure that diversity continues, Camarillo plans to introduce a formal DEI policy for board adoption.

Too many organizations have employees who are more wary than welcoming to diverse populations, Camarillo says. “That attitude drives a lot of people away.”

### Aiming for lasting change

Many experts say DEI must start with the CEO, says

## ‘LOOK FOR CHAMPIONS’

Credit unions can work toward greater diversity, equity, and inclusion (DEI) with these ideas from Greylock Federal Credit Union, Ironworkers USA Federal Credit Union, and Seattle Credit Union:



**Make a commitment.** The Credit Union DEI Collective offers webinars and materials that create a framework for diversity efforts. The board can formally commit to the collective’s Pledge to Action or approve a related initiative or policy.



**Network and ask.** Partnering with community organizations can help credit unions find talented young professionals with diverse backgrounds and talents. Asking them to become board candidates reinforces your commitment to DEI.



**Seek talents, not tokens.** Don’t appoint board members based solely on demographic characteristics. Focus your search on finding the right combination of skills, insights, and demographic characteristics.



**Offer training and coaching.** The board, CEO, senior executives, and all employees can benefit from in-depth, repeated DEI training.



**Look for champions.** Diversity efforts should be led by the CEO or another senior executive with the support of the board, where more diversity champions may emerge.



**Recognize the role of board size.** It can be easier to add diverse members to a larger board. But credit unions can also shrink the board to reduce over-representation by certain demographic groups. Seattle Credit Union began with 12 members before dropping to five members. It now plans to gradually expand the board by adding strong, diverse candidates.



**Build trust and empathy.** Hold events or meetings that help board members relate to each other on a personal level.

## 2 BUSINESS IMPACTS

Fostering diversity, equity, and inclusion (DEI) isn't simply the right thing to do, it's good for business, says Samira Salem, CUNA's vice president of diversity, equity, and inclusion. More than 60% of credit union membership growth has come from people of color, she says, citing CUNA Mutual Group research.

"Think of DEI as a three-legged stool that includes the values case, the business case, and the policy/regulatory case," Salem says. "Credit unions have a values case for DEI anchored in our cooperative principles and values of people helping people and serving all communities. Plus, our structure ensures credit unions' success depends on that of our members and communities."

Salem offers two business impacts of DEI:

**1. Access to a growing market.** The U.S. will become a minority-majority nation by 2043, the U.S. Census Bureau reports, meaning people of color will comprise a majority of the population. Credit unions need to understand the changing marketplace and create equitable products and services, and be responsive to these new groups.

**2. Financial performance.** Diversity is associated with stronger financial performance. Companies in the top 25% for gender diversity on their executive teams were 21% more likely to have above-average profits, according to McKinsey & Co.

According to a study by Deloitte, 69% of executives rate DEI as an important issue and 78% of executives report it increases competitive advantage. At the same time, 85% of CEOs whose organizations have a diversity and inclusion strategy say it has enhanced their organization's performance.



Hear more from Samira Salem at [news.cuna.org/podcasts](https://news.cuna.org/podcasts)



Carlos Ruiz, board chair at Seattle Credit Union.

"But who does the CEO report to?" he asks. "And how many boards are well-versed in DEI topics?"

Without a deep understanding of DEI's role and purpose, credit unions risk falling for the lure of achieving a quick win by "checking the box" to show they have diverse board members.

Tonita Webb, executive vice president/chief operating officer at the \$910 million asset credit union, says lasting change instead relies on a long-term plan to educate staff and remake the board.

Seattle Credit Union began conversations about DEI seven years ago, and launched its plan about five years ago. Webb says the former City Employees Credit Union gained a state community charter in 1998.

"But that didn't bring any diversity, so we knew we needed to change that," Webb says.

Today, the credit union uses an experience matrix to review all the elements that comprise a qualified board member, including diverse demographic characteristics. "It's a robust matrix," Ruiz says. "We look and see where we need more expertise, voices, and perspective on the board."

The result is a slate of strong candidates with "lived

experiences" that help them ask tough questions about products and services.

### Calling for courage

Becoming more diverse requires courage from executive staff and board members alike.

For example, the Seattle Credit Union board weathered criticism from members when it decided not to recommend board candidates for election at the 2018 annual meeting because the candidates didn't match DEI goals.

"You have to go against the status quo, especially when you're doing it when not everyone else is, and DEI is not the buzzword," Webb says.

Ruiz adds credit unions must help board newcomers from diverse backgrounds fight the "imposter syndrome" that makes them feel unworthy of sharing their opinions.

Ruiz leads a consulting firm, Sidekick Consultants LLC, that provides strategic and operations consulting to nonprofit organizations.

"As board members, you have to push through the fears and say, 'My voice is equal to everyone else's voice,'" Ruiz says.

Board diversity has led Seattle Credit Union to intro-



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**DEI requires a high level of commitment and clarity in terms of why you're doing this work.”**

SAMIRA SALEM

duce new products aimed at diverse member needs, including a bike loan, a renter's loan, emergency microloans, and citizenship loans for up to \$2,400. Loans designed for Muslim members charge only fees since their faith does not allow them to pay interest.

### Walking in privilege

Webb says all credit union leaders—both employees and volunteers—likely benefited from some form of privilege. As a Black, heterosexual woman she faced

professional challenges but says she had a relatively easy path to marriage and parenthood compared to people in the LGBTQ community.

“It's important that all of us understand we have biases and we walk in privilege,” Webb says.

Recognizing that reality can help credit union boards and executives have meaningful conversations along their ongoing journey toward meeting member needs through greater DEI.

Ruiz hopes that in the years ahead, more credit unions will ask hard questions about why so few people of color are promoted to senior executive or CEO positions, or invited to join the board.

“If you're not incorporating the board in these efforts, you're going to have limited effects at best,” Ruiz says. “It's where you're truly creating opportunity within a diverse community.”

### Resources

- › CUNA DEI training resources: [cuna.org/learn](http://cuna.org/learn)
- › Credit Union DEI Collective: [cudeicollective.org](http://cudeicollective.org)

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Embrace lasting change

## 'Solopreneurs' find a match in credit unions

Most sole proprietors want to expand their business but only 26% have applied for financing.

Sole proprietors, independent contractors, or "solopreneurs." No matter what you call them, these smallest of the small businesses (SMB) represent a unique opportunity for credit unions.

A recent Bank Administration Institute study revealed that 79% of small business owners use the same financial institution for their personal and business accounts. Quite often, the needs and preferences of solo SMBs closely mirror those of the business owner, allowing credit unions to serve both. This expands member wallet share without the need for more extensive commercial platforms.

Because many solo business owners operate as independent contractors or sole proprietors, they have no employees and claim income on their individual tax returns. Their banking needs are naturally simplified compared to that of a larger SMB and are often limited to a business checking account.

However, it is important that credit unions not lose sight of the lending needs of sole proprietors or even the needs of the one-person shop. According to the Federal Reserve Bank's 2019 Small Business Credit Survey covering non-employer firms, 71% of solo SMBs want to expand their business but only 26% have applied for any kind of financing.

Instead, solo SMBs rely on personal funds, borrow from family and friends, or use a personal credit card before seeking a business loan.

With no commercial credit history, non-employer firms are often passed over by financial institutions for business loans, even though 58% are considered a low credit risk. This became particularly evident as the federal

government began supporting the Paycheck Protection Program (PPP) in response to the coronavirus (COVID-19) pandemic.

Sole proprietors, who represent 81% of all small businesses, found it difficult to access PPP funding even when approaching their own financial institution. Fintech lenders took advantage of the opportunity to fulfill solo business needs, issuing \$4.7 billion in loans and becoming the fourth-largest supplier of PPP financing to date.

In the process, fintech lenders took more than lending business from credit unions. These tech-savvy market entrants also stole member loyalty.

A COVID Loan Tracker survey reveals that customer satisfaction with many primary financial institutions dropped dramatically as businesses went through the PPP application process. Nearly

a quarter have considered ending their current banking relationship.

By 2027, solo small business owners or freelancers will account for much of the workforce, according to a study conducted by Edelman Intelligence. They represent a unique opportunity credit unions.

Nearly a third of financial institutions are servicing commercial clients from retail platforms that lack business-specific products and services. For larger employer firms, this attempt to square peg commercial clients into a round hole results in low satisfaction.

In fact, 67% of SMBs say their bank does not offer services they would be willing to pay money to receive.

The needs of the solo SMB, however, more closely mirror those of a consumer, allowing credit unions to expand wallet share and instill loyalty without heavily investing in commercial platforms.

Consumer lending platforms make it possible for community lenders to satisfy both the personal and business needs of solo SMBs without heavy investments in commercial platforms.

Lenders should consider a complete loan origination system, offering streamlined processes and workflows, as well as a flexible online portal that reduces the need to enter duplicative data.

When integrating the right set of solutions, financial institutions can remove many of the manual steps associated with underwriting and also automate credit score considerations, rules and internal policies to reduce the total

time to cash and remove potential credit risks.

The financial institution of tomorrow will largely be built on the business of solo SMBs, and financial institutions that can meet their needs today will be positioned for the lion's share of their business.

To be part of the future, consider delivering mobile-ready applications that can be submitted in minutes and seamless integrations that carry them—and your team—effortlessly to close.

**STEVE HOKE** is vice president & general manager at Finastra. Contact Finastra about the Total Lending experience at [finastra.com/consumermoments](https://finastra.com/consumermoments).

“The needs of the solo SMB closely mirror those of a consumer.”

A photograph of a woman and a young girl sitting together, laughing joyfully. They are wrapped in a thick, purple, textured blanket. The woman is on the right, and the girl is on the left, leaning her head back. They are both wearing striped shirts. The background is bright and slightly out of focus, suggesting an indoor setting with large windows.

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2021 lending outlook

# 'CAUTIOUSLY OPTIMISTIC'

RON JOOSS

A sustained economic recovery and lending growth will require successful containment of COVID-19.

'Cautiously optimistic'

Although CUNA economists see “tremendous ambiguity” in the economic outlook due to the coronavirus (COVID-19) pandemic and resulting financial fallout, they’re cautiously optimistic about lending prospects for 2021.

Overall credit union loan growth increased 3% through June, an annualized rate of 6%, according to the latest CUNA Economic Update.

“This has been driven by first mortgages, which accounted for more than 70% of loan growth during



the first half of the year,” says Jordan van Rijn, CUNA’s senior economist. “This is different from the Great Recession when loan growth fell.”

Home values have increased, van Rijn says, citing data from Zillow. “People who have equity in their homes feel wealthier, and they can draw on that equity. Overall, consumers are in better shape compared with the last recession when many people were underwater in their homes, leading to foreclosures and bankruptcies.

“A sustained economic recovery will require successful containment of COVID-19,” he continues, “including the availability of an effective vaccine and/or widely available testing with real-time results.”

CUNA economists base their outlook for 2021 on several assumptions. One is that society will increasingly adapt to the new normal with social distancing, mask wearing, and other preventive measures to slow the spread of the virus.

Based on commentary from the Centers for Disease Control and Prevention and others, a vaccine won’t likely be widely available until the first half of 2021 at the earliest.

Another assumption is that the Federal Reserve and Congress will continue to support recovery through low interest rates and targeted (albeit substantially smaller) relief legislation, including additional stimulus.

CUNA economists offer this outlook for credit union lending and related measures.

### Loan and membership growth

Credit union membership and loan growth reached 3.3% and 7.1%, respectively, in the year ending June 2020.

This represents relatively strong growth for the movement, which typically experiences weak membership and loan growth during recessions.

Collectively, U.S. credit unions originated a record \$130 billion in first mortgages in the first half of 2020, nearly double the volume reported as the previous high. Overall, credit union first mortgage lending is up 5.9% year to date through June and 12.8% over the past year.

The Small Business Administration’s Paycheck Protection Program (PPP) boosted both unsecured personal loans and commercial loans, which reflected increases of 18.2% and 17.0%, respectively, over the year ending in June.

Credit unions made more than 170,000 PPP loans, averaging \$49,000 each, with some loans as small as

\$1,000, CUNA reports.

While credit union business lending rose 8.1% through June, the outlook for small businesses is not rosy, van Rijn says.

Nearly 200,000 small businesses have closed due to COVID-19, and 60% of these closures are permanent, according to September data from Yelp.

“When the pandemic gets under control, there may be opportunities for many small businesses to

open, especially if people return to work in downtown areas,” van Rijn says. “However, there likely will be structural changes in the economy due to the pandemic, such as the closures of small retail stores, restaurants, and a transition to larger online retailers and food delivery services.”

Used auto loans grew at a healthy 3.8% during the 12-month period, but other loan portfolios contracted.

This reflected the fact that many borrowers folded nonmortgage debt obligations into their newly refinanced home loans: New auto loan balances declined 3.3% in the year ending in June, while home equity/second mortgages fell 2.5% and credit cards contracted at a 2.4% pace over the 12-month period.

CUNA economists expect loan growth to settle in at 6% for both 2020 and 2021.

Next year, mortgage refinancings will ease due to both the unusually large surge in activity this year and to the new 0.5% adverse market refinance fee which took effect in December.

However, it’s reasonable to expect that the economic recovery will boost demand for consumer credit, such as auto loans, credit cards, and personal loans.

Therefore, the composition of loans will shift toward consumer credit and away from first mortgages in

“  
**OVERALL,  
CONSUMERS ARE  
IN BETTER SHAPE  
COMPARED  
WITH THE LAST  
RECESSION.**  
”  
JORDAN VAN RIJN

### Focus

- **Expect** 6% loan growth in 2020 and 2021, driven by mortgages.
- **The economic recovery** should boost demand for consumer credit, such as auto loans, credit cards, and personal loans.
- **Board focus:** Expect a Nike swoosh-shaped recovery, with a steep downturn and a gradual uptick.

‘Cautiously optimistic’

2021. This will help drive membership growth to 3% in 2021, slightly higher than the 2.7% membership growth anticipated in 2020.

### Savings outlook

On the liability side, CUNA economists see continued strong savings growth.

The combination of tax refunds, massive government stimulus checks, and a renewed member focus on building precautionary savings contributed to an 8.3% jump in credit union savings balances in the second quarter alone. With less fiscal stimulus since, savings growth should slow in the second half of the year.

Credit union savings growth will reach 18.6% in 2020 before returning to its long-term average annual growth rate of 8.0% in 2021.

While equity markets have performed well recently,

if that changes, flight to safety into insured deposits will become more pronounced, and savings balance increases in 2021 might remain closer to double digits.

Strong savings growth combined with earnings pressure may combine to push credit unions' aggregate net worth to a 25-year low, according to CUNA economists.

### Asset quality

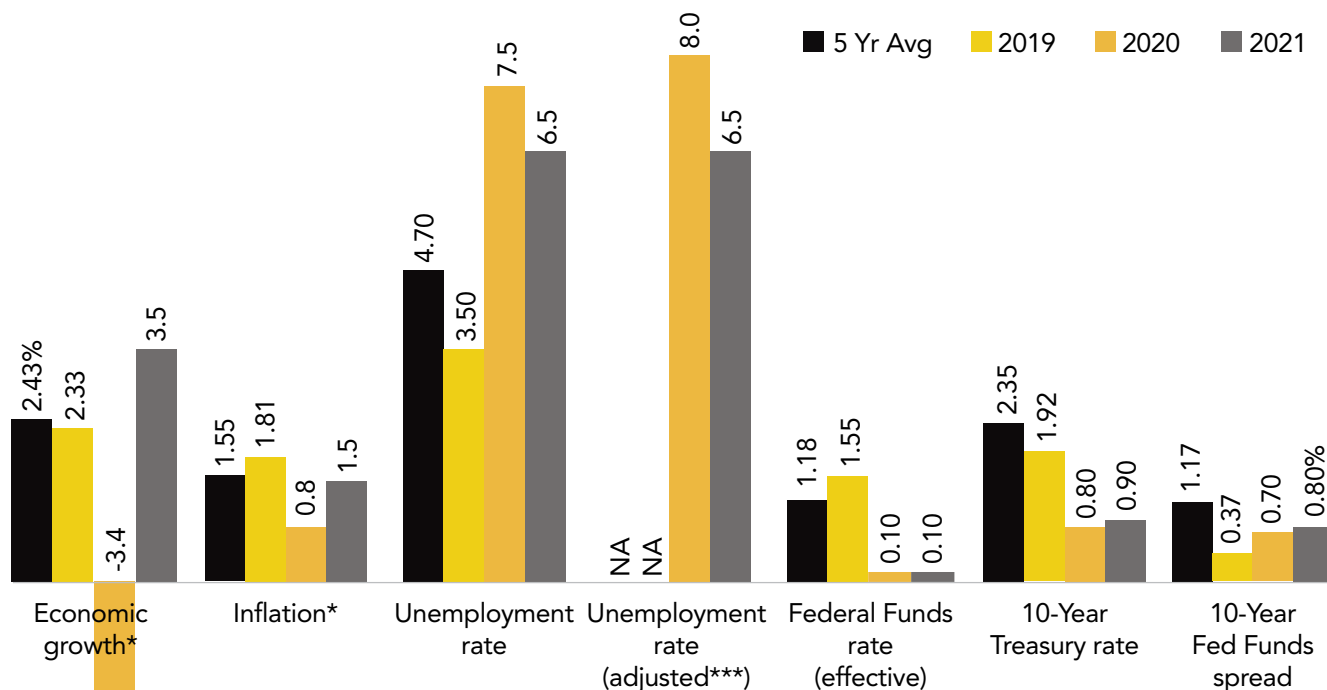
While the U.S. economy contracted at its fastest pace on record and job losses ballooned, credit union asset quality improved during the first half of 2020.

The credit union aggregate delinquency rate fell from 0.70% at the start of the year to 0.57% at midyear, and the net charge-off rate fell from 0.56% in 2019 to an annualized 0.52% during the first half of 2020.

Three main factors drove this development:

- 1. Effective** fiscal and monetary policy support

## Economic growth



\*Percent change gross domestic product, annual rate.

\*\*\*Estimated unemployment rate reported by Bureau of Labor Statistics if workers absent for work due to "other reasons" (e.g., COVID-19) were classified as unemployed.

Sources: CUNA and NCUA

'Cautiously optimistic'

during the crisis.

**2. Relatively strong** year-to-date loan growth, especially mortgage refinancings, which lowered monthly debt payment burdens.

**3. Credit unions' willingness** to work with members to modify and defer loans, thereby avoiding delinquencies and defaults.

However, given the likelihood of substantially lower government stimulus this year, households will not benefit from the additional larger extended unemployment benefits or any significant direct stimulus payments.

As a result, asset quality is likely to deteriorate in the second half of the year, especially if labor market improvements also slow. CUNA's baseline forecast has delinquency and charge-off rates rising to 1.00% and 0.64%, respectively, by year-end 2020.

Portfolio quality is likely to deteriorate further in 2021 as deferments and forbearances expire, temporary unemployment becomes permanent, and government stimulus dissipates. In that context, expect delinquency and net charge-off rates to increase slightly to 1.10% and 0.80% by the end of 2021.

To put that in context, during the Great Recession, credit union delinquencies and net charge-offs peaked in 2009 at 1.82% and 1.21%, respectively.

Credit union earnings as measured by return on assets (ROA) increased during the second quarter of 2020 from 0.53% to 0.61%. This was largely a result of strong mortgage lending and proceeds from mortgage sales to the secondary market.

Still, credit union earnings are expected to fall in the second half of 2020 and into 2021 as asset quality deteriorates and interest margin pressures intensify.

Fast asset growth in the face of relatively weak loan growth will mean low-yielding investments will grow quickly.

New mortgages and other loans originated in 2020 and 2021 will have relatively low yields, replacing existing balances with higher yields.

Under those pressures, credit union ROA is likely to decline by about half, from 2019's cyclical high of 0.93% to only 0.50% for full-year 2020 and to 0.35% during 2021.

## Interest rates

In August, Federal Reserve Board Chairman Jerome Powell laid out a new strategy for managing inflation which clearly signals the central bank's support for continued healing.

Powell's statement makes it clear the Fed now views inflation as less of a problem than in the past, and will allow inflation to rise above the 2% threshold for longer periods, van Rijn says.

This means the Fed can maintain interest rates at a lower level for longer periods with less risk of inflation exceeding the 2% target.

CUNA expects the Fed to maintain short-term interest rates near zero for the foreseeable future, which will continue to put downward pressure on long-term interest rates.

Combined, this means credit unions can expect a prolonged period of low interest rates, which will continue to boost lending (particularly mortgage lending) but may keep interest-rate margins near historic lows.

## Mixed results

As with many credit unions, \$4.3 billion asset BCU in Vernon Hills, Ill., has seen strong first mortgage growth in 2020.

"We're having a record year on both purchases and refinances, and we expect that to continue into next year," says Jim Block, BCU's executive vice president/chief operating officer and chair of the CUNA Lending Council Executive Committee.

BCU's auto loan growth has been flat in 2020 due in part to low inventory, Block says.

"As auto manufacturing improves, we're expecting stronger demand for auto loans," he says. "Our expectation is that the economy will improve next year, there will be

another round of stimulus payments, and as people feel they're on better financial footing, those who may have delayed car purchases will feel more comfortable entering the market."

Travel restrictions due to COVID-19 have put a dent in members' card use, Block says. This reflects CUNA data, which shows credit card balances fell 7.7% through June.

"Going forward, spending will probably be correlated to what you see reported by the airlines," Block says.

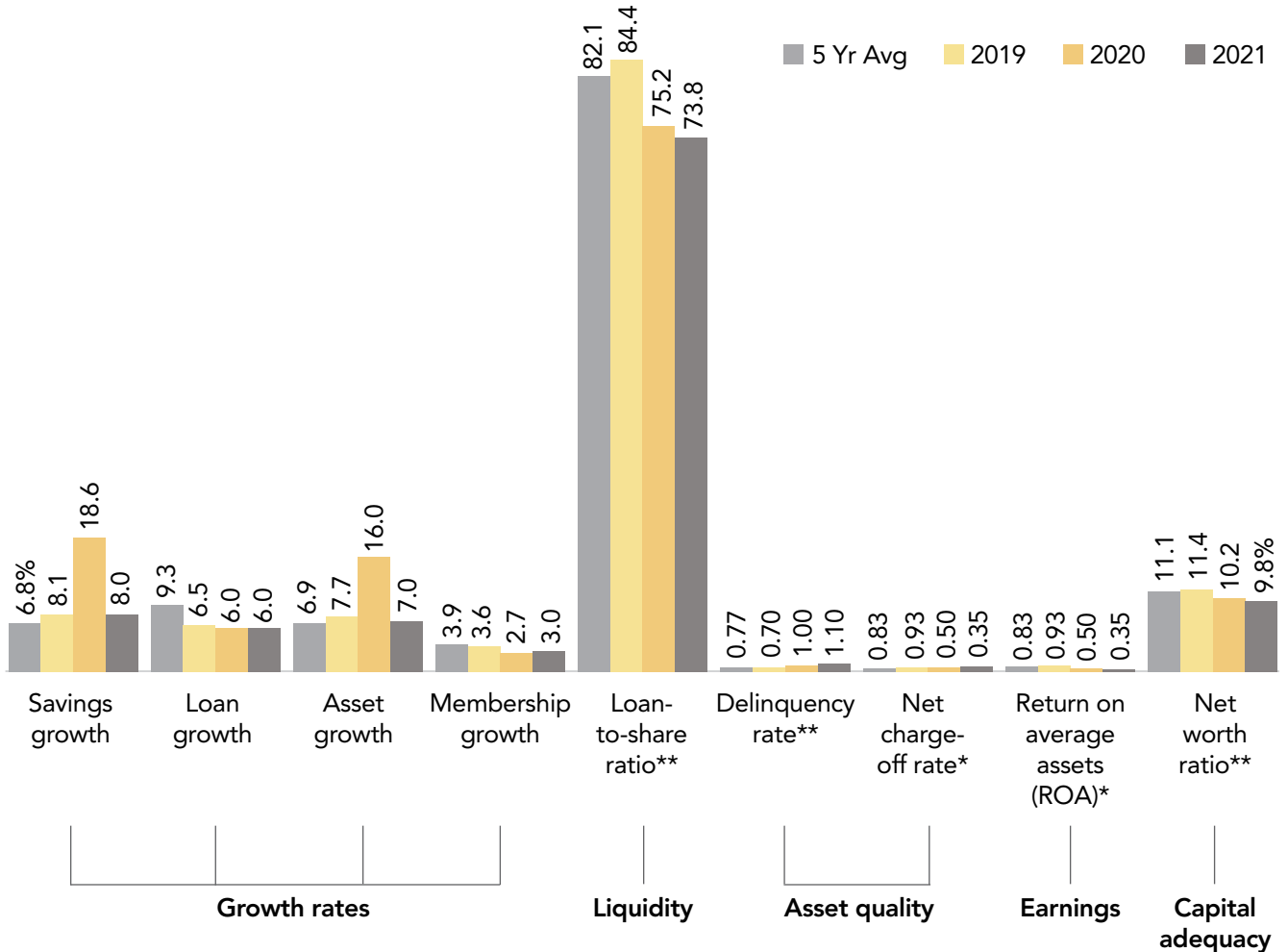
He sees a "bifurcation" among members and their confidence in extending themselves with credit.

"It's all about how confident they feel in their job or industry right now," Block says. "If a member is not confident in their financial future over the next year or so, they won't be willing to take on a big payment."

Overall, Block is "cautiously optimistic" for 2021's lending forecast. He believes economic recovery will



# Credit union forecast



\*Quarterly data, annualized  
 \*\*End of period ratio  
 Sources: CUNA and NCUA

take the shape of a Nike swoosh, with a steep downturn and a gradual uptick as the country slowly adapts to a new normal living with coronavirus considerations.

“I don’t think there will be a great skyrocket economic engine in 2021 because there are too many headwinds with the pandemic,” he says. “But the economy will start getting stronger.”

CUNA economists predict a 6.5% unemployment rate for year-end 2021, and that jobs recovery will take about three years.

That’s an improvement from the Great Recession of 2008, which required six years to recover from job losses.

“It will take a while for some consumers to get

their confidence back,” van Rijn says. “And as long as consumer confidence is somewhat deflated, people will be hesitant to take out loans.”

## Resources

- › CUNA:
  1. Economic forecasts: [cuna.org/economics](http://cuna.org/economics)
  2. Lending and collections solutions: [cuna.org/lending](http://cuna.org/lending)
  3. Environmental Scan resources: [cuna.org/escan](http://cuna.org/escan)
- › CUNA Lending Council: [cunacouncils.org](http://cunacouncils.org)

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B1. Paid: outside-county	8,294	4,569
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B3. Sales through dealers, vendors and counter sales	0	0
B4. Other classes mailed	351	349
C. Total paid distribution	8,645	4,918
D1. Free: outside-county	0	0
D2. Free: in-county	0	0
D3. Other classes mailed	129	300
D4. Free: outside the mail	1,278	100
E. Total free distribution	1,407	400
F. Total distribution	10,052	5,318
G. Copies not distributed	448	159
H. TOTAL	10,500	5,477
I. Percent paid	86%	92%
16A. Paid Electronic	207	210
B. Total paid print copies + paid electronic copies	8,852	5,128
C. Total print distribution + paid electronic copies	10,259	5,525
D. Percent paid	86%	93%

Statement of ownership

# MOVING

# FORWARD

RON JOOSS



Lynette Smith, president/CEO of TruEnergy Federal Credit Union, and Max Villaronga, president/CEO of TFCU - El Paso.



## Two CEOs share insights on adjusting to the pandemic and approaching the future.

**At the outset of the coronavirus (COVID-19) pandemic, credit union leaders embraced the qualities of collaboration, empathy, and dedication to member service to shift into emergency mode. They'll carry forward many lessons learned during this time.**

Two credit union CEOs share their pandemic experiences and how they're moving ahead:

› **Lynette Smith**, president/CEO of \$130 million asset TruEnergy Federal Credit Union, Springfield, Va. TruEnergy leveraged a largely remote workforce to serve 9,000 members during the pandemic with a blend of technology and appointment-only, face-to-face member service.

› **Max Villaronga**, president/CEO of TFCU - El Paso (Texas). The \$740 million asset credit union serves 65,000 members largely through remote services.

**Credit Union Magazine:** What has been your biggest challenge with the pandemic?

**Lynette Smith:** Our initial challenge and our top priority was the health, well-being, and safety of our members and employees. Without them, our industry would not exist.

Like all credit unions, we made a lot of changes in a short amount of time. But our biggest challenge will be planning strategically for the anticipated second wave of COVID-19. Credit unions need to review and update pandemic policies and procedures to include contingency plans for staffing, backup, and service alternatives.

Another challenge is that with so much economic uncertainty, we have never experienced a financial market quite like this. I call it "our new financial world."

**Max Villaronga:** We didn't know the virus would spread so fast throughout the U.S., but we activated our COVID response team quickly. We looked at it as a way to practice our disaster recovery and business resumption plan.

We anticipated an 18-month event, which was an unpopular view even within our ranks. But my explanation to our team was it's better to prepare for a marathon and run a sprint than prepare for a sprint and have to run a marathon because you're just going to be demoralized. You won't be properly prepared for

that sort of distance.

Even with all that, we've had difficulty recruiting for senior-level executive positions. It's taken about twice as long as expected. We have also experienced a certain level of fatigue that sets in with employees who must be quarantined and isolated for extended periods.

**Q:** It's an anxious time for members and employees. How do you provide comfort for stakeholders at your credit union?

**Villaronga:** Communication is our priority. During an emergency you need to increase your communication by three. We communicate at least once a week from my office.

One commitment we make is to speak the truth, and our employees trust the information we provide them. That's important because there's a ton of misinformation out there.

We provide catering every Friday for all of our team members. It supports our local restaurants and keeps our employees happy with a good meal. In El Paso, we like our food. It's a way to celebrate each week of our lives.

We also remind our team that we have free mental health resources available to them during this time so if anxiety or depression touch them, they can reach out and get help.

**Smith:** We have a COVID Task Force Team that meets daily. We wanted to make sure we continue our synergy with operations, member experience, and human resources.

By the end of March, 90% of our staff worked remotely. We're always looking for ways to keep our employees engaged.

### Focus

- › **Prepare** contingency plans for the next wave of the pandemic.
- › **The next normal** will see a greater focus on remote services and flexible work arrangements.
- › **Board focus:** Review your strategic plan and decide how to adapt boldly.



We have “Fun Fridays” and offer our team opportunities to share family photos of their pets, workspace at home, and their kids doing social distant learning. We’ve had brief after-hours social hours which include their kids.

We celebrated International Credit Union Day in October and engaged with more than 400 members virtually throughout the day while we offered gifts including face masks and hand sanitizer with our logo.

We held raffle drawing and provided basic gift cards for electronics, food, gas, and clothing. We also gave everyone time off to vote on election day in November.

**Q:** What leadership lessons did you learn during the pandemic?

**Smith:** I came across an article from the *Harvard Business Review* that really captured leadership lessons and behaviors we need during the pandemic.

The first behavior is to “decide with precision.” Leaders need to quickly process available information and make decisions with conviction. We’re not going to get it perfect all the time, but our decisions should make sense and be fact-based.

Second, “adapt boldly.” Review your current strategic business plan and decide what not to do. As leaders we need to remain flexible to change.

Third, “deliver reliably.” Take ownership in a crisis even if the situation is out of your control.

During a crisis, leaders must remain in charge and be responsible for their credit unions’ successes and failures. You must be accountable for what happens.

The last behavior is “engage for impact.” You must take care of your team. Listen to their recommendations and keep them engaged.

No one knows your member experience better than your team. If they remain engaged with our members and operations, it will guarantee the continued success of the credit union.

**Villaronga:** One lesson I learned as an infantry officer in the U.S. Marine Corps is that an 80% solution on time is better than a 100% solution too late. During the pandemic, leaders who wait for perfect information are going to be too late.

As Lynette said, you must make well-intentioned, fact-based decisions at that point of engagement every single day, every single hour, that are in the best interest of your stakeholders: your members, your team, and the public.

Leaders shouldn’t hide in corporate ivory towers. We must lead from the front. Leaders have to step up, put a mask on, make sure their team members are safe, and visibly verify that they’re following protocol. They have to be out there and be visible every day.

**Q:** What practices that you adopted during the pandemic will you keep going forward?

**Smith:** As well as putting e-commerce and the digital experience at the forefront of everything we do, credit unions must do comprehensive feasibility studies to determine the amount of square footage required at both branch and headquarter locations.

During the pandemic, we demonstrated that we don’t need all of our employees at a centralized location to serve our members.

Economists also tell us we’re going to be in a low-interest-rate environment for the next several years. Financial institutions and their regulators must find ways to provide pandemic relief to consumers.

**Villaronga:** There will be a lot less branch activity as members rely more on mobile apps, remote deposit, and other remote channels to access financial services.

The biggest barrier was getting them to use these channels the first time. Once they discovered those new channels, they thought they were fantastic.

This will accelerate the decline of in-person transactions and the value of branching in a traditional sense.

“

THE DIGITAL AND VIRTUAL MEMBER EXPERIENCE WILL BE AT THE FOREFRONT OF EVERY DECISION WE MAKE IN THE FUTURE.

LYNETTE SMITH

”

**Q:** How has COVID-19 affected your credit union from a financial perspective?

**Villaronga:** We have been extremely sound, considering we expected more significant credit losses early on. I’ve been through some significant economic events in the past, and post-traumatic stress disorder from those experiences has led me to prepare.

We’ve overfunded our allowance for loan and lease loss to the tune of about 37%. And that’s anticipating additional credit losses.

We haven’t had any additional credit losses so far, so we’re waiting for that shoe to drop. That overfunding has dampened our earnings, but we’ve remained quite

strong overall.

**Smith:** This is the calm before the storm because we allowed some members to skip their loan payments, not knowing what the outcome might be. We haven’t



experienced an increase in delinquencies yet.

We have seen deposits increase more than 15% during the first half of the year. We've had to purchase participation loans because our loan growth did not keep pace with share growth.

I encourage other credit unions to look at loan participations to help other credit unions that are overfunded or overextended in their loan-to-share ratio.

**Q:** How will the pandemic affect your credit union and the credit union movement in the long term?

**Villaronga:** I think mergers will accelerate. Usually after a crisis there's a delay of about a year, and then the mergers tend to accelerate.

I've worked at a small credit union, so I understand how it feels to wear all those hats at once, and the extreme stress associated with that operating expense ratio.

But there's also an opportunity for all credit unions to leapfrog in terms of technology adoption. E-commerce can be, to a degree, an equalizer for many organizations.

The adoption of more flexible work arrangements for our team members will be pushed by managers or employees. Credit unions will have to consider offering flexible work arrangements to be employers of choice.

There will be less physical infrastructure in the future. Labor allocation will be more efficient and will be leveraged by technology.

**Smith:** The long-term impact of COVID-19 will determine the sustainability of all credit unions. We should all strive to remain safe and sound financial institutions beyond the pandemic.

I am concerned that if small credit unions don't have the technology and digital platforms to serve their members during this time we might see more mergers and fewer credit unions over the next few years.

Credit unions may also experience an increase in provisions for loan losses and a decline in operating expenses.

We've discovered over the past six months that we don't need the expenses required to operate our headquarters given that more employees are working from home.

Overall, the credit union industry will come out stronger and better. I'm so proud of our industry and what we've accomplished thus far.

We just need to brace ourselves for the next round of the pandemic.

“

**DURING AN EMERGENCY YOU NEED TO INCREASE YOUR COMMUNICATION BY THREE.**

**MAX VILLARONGA**

”

## Resources

- ›CUNA CEO Council: [cunacouncils.org](http://cunacouncils.org)
- ›CUNA Environmental Scan resources: [cuna.org/escan](http://cuna.org/escan)

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# REDLINING & INCOME DISCRIMINATION

VALERIE Y. MOSS

Regulator finds ‘significant violations’ in two key areas of credit transactions.

**The Consumer Financial Protection Bureau’s (CFPB’s) “Supervisory Highlights: Volume 22” (September 2020) called attention to two areas where agency examiners found significant Regulation B violations among CFPB-regulated institutions: redlining via marketing campaigns and the failure to consider applicants’ receipt of public assistance in income calculations.**

The Equal Credit Opportunity Act (ECOA) and Reg B prohibit discrimination with respect to any aspect

of a credit transaction on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to contract), receipt of public assistance, or the exercise, in good faith, of rights granted by the Consumer Credit Protection Act.

ECOA and Reg B apply to both consumer and commercial credit transactions. Among other lenders, CFPB regulates credit unions with more than \$10 billion in assets.

Following are key issues to consider regarding redlining and the receipt of public assistance.

## Redlining

Redlining is the illegal practice of refusing to offer credit or insurance in a particular community on a discriminatory basis (i.e., based on residents' race or ethnicity). The term comes from the literal practice of drawing red lines around majority-minority neighborhoods for exclusion from lending, insurance, capital investment, and other business opportunities.

Redlining violates both the Fair Housing Act and ECOA ("Fair Housing Act checklist, p. 40).

CFPB examiners found lenders that intentionally redlined majority-minority neighborhoods in two Metropolitan Statistical Areas (MSAs) by engaging in acts or practices that may have discouraged prospective applicants from applying for credit.

Under ECOA and Reg B, "a creditor shall not make any oral or written statement, in advertising or otherwise, to applicants or prospective applicants that would discourage on a prohibited basis a reasonable person from making or pursuing an application" (12 CFR § 1002.4[b]).

This also covers acts or practices directed at prospective applicants that could discourage a reasonable person, on a prohibited basis, from applying for credit (12 CFR pt. 1002, Supp. I, para. 4[b]-1).

CFPB reports these lenders employed marketing practices that would discourage reasonable persons on a prohibited basis from applying to their institutions for a mortgage. These practices included:

- › **Repeatedly featuring** a white model in advertisements and marketing materials rather than reflecting the MSA's diverse population.
- › **Displaying** photos of white mortgage professionals in all open house marketing materials.
- › **Home Mortgage Disclosure Act (HMDA)** data indicating the lenders received significantly fewer applications from majority-minority and high-minority neighborhoods relative to peer lenders in the MSAs.
- › **The lenders'** direct marketing campaign focusing on majority-white areas in the MSAs provided additional evidence of their intent to discourage prospective applicants on a prohibited basis.

All of these factors taken together provided CFPB with sufficient evidence of the lenders' intent to discourage prospective applicants on the basis of race—redlining.

In response to the examination findings, the lenders implemented outreach and marketing

programs focused on increasing their visibility among consumers living in or seeking credit in majority-minority census tracts in the MSAs. The lenders are also working on improving compliance management systems, including board and management oversight, monitoring and/or audit programs, and handling of consumer complaints.

The takeaway: Review your loan marketing plan(s) and materials (whether in print, online, or via radio/TV) to ensure the messaging and images reflect the diversity of the communities you serve and your credit union's membership base.

Amend any materials that could suggest a discriminatory preference or possibly discourage minorities or other protected classes of individuals from applying for a loan from your institution.

## Public assistance

Under ECOA, it is "unlawful for any creditor to discriminate against any applicant, with respect to any aspect of a credit transaction... because all or part of the applicant's income derives from any public assistance program" (15 U.S.C. § 1691[a][2]).

The official staff commentary to Reg B defines "public assistance program" this way: "Any federal, state, or local governmental assistance program that provides a continuing, periodic income supplement, whether

premised on entitlement or need, is 'public assistance' for purposes of the regulation. The term includes (but is not limited to) temporary aid to needy families, food stamps, rent and mortgage supplement or assistance programs, Social Security and supplemental security income, and unemployment compensation."

Although Reg B allows a creditor to consider the

“

**REVIEW YOUR  
MARKETING  
PLANS AND  
MATERIALS  
TO ENSURE  
THEY REFLECT  
THE DIVERSITY  
OF THE  
COMMUNITIES  
YOU SERVE.**

”

## Focus

- › **Evidence** of redlining often includes the use of marketing practices that could discourage applicants from applying for a mortgage on a discriminatory basis.
- › **Lenders can't** automatically exclude public assistance as an income source when determining someone's loan eligibility.
- › **Board focus:** Lending policies, procedures, and practices should be inclusive and consider applicants' various forms of income.



# FAIR HOUSING ACT CHECKLIST

**1. Does the credit union** avoid these actions based on race, color, religion, sex, handicap, familial status, or national origin:

- › **Refuse** to make a mortgage loan.
- › **Refuse** to provide information regarding loans.
- › **Impose** different terms or conditions on loans.
- › **Discriminate** in appraising property.
- › **Refuse** to purchase a loan.
- › **Set** different terms or conditions for purchasing a loan.

**2. Does the credit union** avoid any statements or advertisements that indicate a limitation or preference based on race, color, religion, sex, handicap, familial status, or national origin?

**3. Does the credit union** include in its advertisements of real estate-related loans that such loans are made without regard to race, color, religion, sex, handicap, familial status, or national origin?

**4. If the credit union** makes real estate-related loans, does it display a notice of nondiscrimination in its public lobby and in the public area of each office where such loans are made?



Source: NCUA

amount and probable continuance of any income in evaluating an applicant's creditworthiness, the creditor cannot automatically discount or exclude from consideration any protected income. Any discounting or exclusion must be based on the applicant's actual circumstances.

CFPB examiners found lenders that had violated ECOA and Reg B by maintaining a policy and practice of excluding certain forms of public assistance income (e.g., SNAP benefits, unemployment compensation) from consideration when determining borrowers' eligibility for mortgage modification programs.

Lenders acknowledged that they excluded certain types of public assistance income from income calculations when evaluating loss-mitigation applications even though they didn't have written policies directing the practice.

Examiners identified several instances whereby the applicant listed certain forms of public assistance income in the loss-mitigation application. In each instance, the lenders excluded the public assistance from their income calculations and, in certain instances, the applicant was denied a loss-mitigation option due to insufficient income.

In response to the examination findings, the lenders updated policies and procedures and enhanced training to ensure their practices concerning public assistance income comply with ECOA and Reg B.

In addition, they identified borrowers who, due to their reliance on certain forms of public assistance income, were denied mortgage modifications or otherwise harmed. The lenders provided these borrowers

with financial remuneration and an appropriate mortgage modification.

The takeaway: Under Reg B, "income" includes funds derived from part-time employment, annuity, pension, or other retirement benefit; alimony, child support, or separate maintenance payments; and public assistance.

You may consider the amount and probable continuance of payments in evaluating an applicant's creditworthiness. However, you cannot automatically exclude any of these income sources from consideration when determining a person's eligibility for a loan.

Make sure your lending policies, procedures, and practices adequately consider the various forms of income based on the applicant's actual circumstances.

**VALERIE Y. MOSS** is CUNA's senior director of compliance analysis. Contact CUNA's compliance team at [cucomply@cuna.coop](mailto:cucomply@cuna.coop).

## Resources

- › CUNA:
  1. Compliance resources: [cuna.org/compliance](http://cuna.org/compliance)
  2. Credit Union Compliance Management System: [cuna.org/cucms](http://cuna.org/cucms)
- › Consumer Financial Protection Bureau: [consumerfinance.gov](http://consumerfinance.gov)
- › NCUA: [ncua.gov](http://ncua.gov)



## Rebuild for 2021

'If you're going through hell, keep going.'

First, we had the pandemic. Then social unrest. Then murder hornets. And as I write, wildfires.

Basically, we are at the point most of us would like to curl up in a warm bed and set the alarm for "2021."

That seems suitable to my two cats and three dogs but not to my wife who seems to think having her husband home every day is a bad thing. So let's focus on rebuilding. What to rebuild, when to start, how to go about it, and, above all, why it should be our focus.

We'll start with the easy part.

### Why?

Whether you saw wildfires take out homes in your community, social injustice separate neighbors, or COVID-19 ruin families, we have been through a series of natural (and unnatural) disasters. It's like being in our own season of "Black Mirror."

Like all setbacks, we need to get past them. As Winston Churchill is purported to have said, "If you're going through hell, keep going."

While we all want to return to "normal," it won't happen unless we act. To paraphrase the second law of thermodynamics, life becomes more chaotic naturally, and only by injecting action and energy into a system can you make it less disordered.

While I doubt the creators of this physical law thought much about credit unions, the analogy works. Simply put, things will not get better on their own. We need to work on it.

### What?

This is the hardest part. Most of us are flush with cash and our inclination is to lend it out. But we all know cash can disappear faster than a teenager when there



is work to do. Plus, finding qualified borrowers is challenging, too. The economy is so fractured it is hard to predict where members are financially.

Are their jobs coming back? Will they find something else? Did we really need to buy so many Costco paper products?

This is where taking some risk comes in. Credit unions have the ability to understand members and what they are capable of.

We need to factor in that, not their current FICO score. What have they proven to do?

### When?

Many want to wait until life calms down. I hate to break this to you, but 2020 is like being in a kindergarten class full of kids who have consumed Pop-Tarts and Red Bull for three hours. We need to deal with the hand we are given. I don't think naptime will happen until late 2021.

So, start now. Go slow but start. Rolling Stones gather no moss, but they somehow manage to do concerts when they are 100 years old. Get the ball going. Now.

### How?

This situation is unlike any other. The economic issues created due to COVID-19 were not the normal gradual reduction in the economy.

Rather, the decline was sudden and inexplicable, not unlike our sudden penchant for staying home and moping about the pandemic while simultaneously eating enough food to become a nation of sumo wrestlers. Certain industries and groups were ravaged while others have gotten away (thus far) with relatively little damage.

To help, you first need to know who was impacted, who wasn't, and, most importantly, who may be. You can start first with businesses that received Paycheck Protection Program loans, people who began collecting unemployment, and other triggers. These are the people we most need to help.

There also are opportunities. Rapid change in the economy elevated some businesses and occupations to be critical and growing. These people also need you, albeit for a different reason.

We can't wait for 2021. At least I can't. The dogs are tired of walks.



### JAMES COLLINS

President/CEO  
O Bee Credit Union  
jcollins@obee.com  
360-943-0740



## with Pamela Lambkins

Together Credit Union, St. Louis

As a graduate of the St. Louis Business Diversity Initiative's Fellows Program, Pamela Lambkins is motivated to make a difference. The branch manager at \$2 billion asset Together Credit Union in St. Louis honed her leadership skills and built essential relationships with other professionals. Of the 87 Fellows in her cohort, Lambkins was also the only graduate from the credit union industry.

Lambkins will apply her expertise to her work on the credit union's Diversity and Inclusion Council. "In the words of John Lewis, I want to be purposeful to get into 'good trouble,'" she says.

**Credit Union Magazine:** What are some of the most important insights you gained during the program?

**Pamela Lambkins:** Something that's always going to stick with me is showing up and being present. You can't sit back and wait—when you want to develop, you have to go for it.

Working for a company that values you and that is aligned with your goals is also important. You need a paycheck, but it makes it so much more worthwhile when you work for a great company. I know Together Credit Union values me.

Finally, the program inspired me to get involved with my community by finding a volunteer opportunity or sitting on a board for something that's near and dear to me.

**Q:** What did you learn about yourself as a leader?

**A:** I realized I'm more of an introvert than I thought. I used to be more comfortable in one-on-one settings. The program not only made me aware of who I was, but also what I could do by getting

comfortable with networking in a group setting. I had 86 other people reinforcing my confidence, so I'm more of a social introvert now!

**Q:** As the only participant from the credit union movement, what knowledge did you share?

**A:** There were many Fortune 500 companies represented, so I felt excited to spend time with people from these large companies.

But during the program, my credit union went through a name change from Anheuser-Busch Employees Credit Union to Together Credit Union. And then we went through a core conversion. Those experiences made me unique within the group.

Most of the participants were also working from home because of coronavirus (COVID-19), and several have asked me how Together Credit Union handled reopening and functioning during the pandemic. I've had people reach out to me regarding membership, mortgages, loans, community development, and financial classes.

**Q:** How will this experience affect your work at the credit union?

**A:** I'm more confident and able to speak out more. I actually see myself as a leader. I think my credit union has seen me grow. I became part of a year-long leadership program at the credit union, in which we have a project we will present to senior management.

The program also helped me become a better leader and show more empathy for my peers and employees.

**Q:** As a member of Together's Diversity and Inclusion Council, what goals are you pursuing?



**A:** We're tackling talent and development to make sure we're being intentional about where we post job openings. We're making sure we create an environment that is diverse and all-inclusive.

We also started sessions for sharing and listening in which members of the Council, other employees, and senior leadership participate. That's what I'm most excited about. Those conversations open a door because we can hear from staff whether we're living up to our mission.

**Q:** What advice can you share for other leaders who are striving for greater diversity, equity, and inclusion at their credit unions?

**A:** To start the journey, you've got to have buy-in from the top. If you have that, you can develop goals and build your business case. Then, focus on getting employees involved. Learn about yourselves and move forward with action. From there, you just have to preach it and live it.

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