

# Credit Union

MAGAZINE

WINTER 2021



## BROADEN YOUR BOARD

LENDING &  
CANNABIS

The state of  
auto lending

Mina Worthington  
Solarity Credit Union

 Credit Union  
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Association



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**DAWIT KEBEDE**



## BUILDING A BETTER LENDING EXPERIENCE

CUNA Mutual Group has invested more than \$100M since 2017\* to expand our lending program and digital capabilities. We are working to digitally enable our products and services across channels to help protect more members and create a cohesive, transparent experience. Talk with your account executive to learn how CUNA Mutual Group's lending program can help grow your business and expand your membership.

Learn more at [cunamutual.com/lending](https://cunamutual.com/lending)

\*Source: CUNA Mutual Group Internal Records, 2017-2020F.



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“  
**Lifelong learners who are willing to push themselves are the only ones who fit on our board.**  
”

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## Your source for exclusive credit union content

# Credit Union

MAGAZINE

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# Digital Features

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

## Don't miss: A Salute to Veterans

In November, CUNA News shared stories of credit union leaders who have served in the military and how those experiences have shaped their credit union careers. Sponsored by FIS, A Salute to Veterans highlights credit union employees' military experiences and shares reader-submitted stories of service.

Veterans also tell their military stories through photos, videos, and audio clips. A special Veterans Day episode of the CUNA News Podcast highlighted veterans' voices by exploring what they learned from their military service and how their credit union careers benefited as a result. See our coverage at [news.cuna.org/veterans](https://news.cuna.org/veterans).



### Credit unions celebrate #ICUDay on social media

The 73rd annual International Credit Union (ICU) Day took place Thursday, Oct. 21. The theme, "Building financial health for a brighter tomorrow," is central to the credit union movement's commitment to members' financial well-being.

Credit unions took to Twitter to share messages of inspiration and highlight plans to celebrate with their employees, members, and communities.

Check out a roundup of social media stories at [news.cuna.org/articles/120046](https://news.cuna.org/articles/120046).

### Credit Union Rock Stars on the podcast

Thirty-one credit union leaders were named 2021 Credit Union Rock Stars by *Credit Union Magazine*. The CUNA News Podcast featured conversations with several Rock Stars:

▶**Turnaround experts.** Steve Schmitz, president/CEO at \$1 billion asset First Community Credit Union in Jamestown, N.D., and Eric Bruen, president/CEO at \$60 million asset Desert Valleys Federal Credit Union in Ridgecrest, Calif., led their institutions through dire financial straits and learned many useful lessons along the way.

▶**Serving from the heart.** Sheri Szemplinski, operations administrator for the business operations team in commercial banking at \$2.3 billion asset CAP COM Federal Credit Union in Albany, N.Y., and Arnessa Belin, call center supervisor at \$28 billion asset BECU in Tukwila, Wash., are committed to serving their workplaces and communities.

▶**Engaging listeners.** Tansley Stearns, chief people and strategy officer at \$3.5 billion asset Canvas Credit Union in Lone Tree, Colo., and Kara Yaquinta, digital growth strategist at \$927 million asset Tropical Financial Credit Union in Miramar, Fla., explain how they started podcasts at their credit unions.

The 2021 Credit Union Rock Stars program is sponsored by Fiserv.

Listen and subscribe at [news.cuna.org/podcasts](https://news.cuna.org/podcasts)



### How do you manage cybersecurity?



Source: CUNA News poll. Vote in our current poll and view results from past polls at [news.cuna.org/polls](https://news.cuna.org/polls).

2021-2022 CUNA Environmental Scan  
is available in these formats:



**Report PDF:** comprehensive report; combines industry insights with expert analysis



**PowerPoint:** complements the full PDF report; provides clear representation of data and takeaways to help you speak to the content for meetings and planning sessions



**Streaming Video:** complements the full report and adds analysis, insights, context and background from chapter authors



# Invaluable insights on trends that affect credit unions

## CUNA Environmental Scan

Get the insights you need to make informed strategic decisions with 2021-2022 CUNA Environmental Scan (E-Scan).

CUNA E-Scan combines trends across industries, expert analysis and forecasting data to provide strategic planning guidance for credit unions. Insights are organized into 10 trend-based chapters and provide actionable takeaways from industry experts and practitioners. Gain the knowledge you need to make timely, future-focused decisions that keep your credit union agile and ready to meet member needs.



# The many layers of cannabis banking

Marijuana's illegality on the federal level makes serving marijuana-related businesses a delicate prospect.

Cannabis banking is the onion of the financial services world: Slice into it and you'll find new, increasingly complex layers throughout.

Marijuana's illegality on the federal level makes serving marijuana-related businesses (MRBs) a delicate prospect, even in the more than 30 states where it's legal in some form.

Lending directly to MRBs is especially fraught with peril. Doing so could lead to the federal seizure of business assets and even incarceration. But there's no denying the business potential.

"I've yet to see someone do a direct loan to a cannabis-related business," says James Collins, president/CEO at \$445 million asset O Bee Credit Union in Lacey, Wash. "We'll be among the first once we get over that 'you're going to prison' thing."

While O Bee and other credit unions lend to MRB employees and related entities such as landlords ("Lending & cannabis," p. 34), and earn fee income from servicing MRB accounts, revenue isn't the sole motivator. The safety issues involved with carrying and storing obscene amounts of cash—hundreds of thousands of dollars at times—are undeniable.

Collins has witnessed this hazard. Soon after O Bee began serving MRBs, he overheard gunshots down the street from his house.

"It was a gunfight in the middle of the neighborhood; a home invasion at an illegal marijuana grow operation," he recalls. "They didn't want the product. They wanted the cash. I thought, 'If we can get the cash out of the legal businesses they're much less likely to get robbed.'"

That's a clear justification to pass

the SAFE Banking Act, which would prohibit federal regulators from penalizing depository institutions for serving legitimate MRBs.

Another layer to the MRB onion: Simply declining to serve MRBs isn't enough, says attorney Bruce Pearson. "If you're going to be a 'no' shop, you need to have operational procedures to back that up," he says. "Are you actively looking for MRBs that are disguised as car washes and dry cleaners?"

If not, you may be subject to federal prosecution.

Happy slicing!



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# Credit Union Directors

## NEWSLETTER

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- Relevant industry research
- Tips to grow your leadership skills
- Strategic insights and takeaways to grow your credit union

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*Credit Union Directors Newsletter* provides you with enough information to keep you informed on trends and developments in the credit union world.

**Benita Neely**

Director, Bridge CU

# Ideas & Inspiration

## A branch on the go

When Stepping Stones Community Federal Credit Union in Wilmington, Del., explored new ways to increase membership, it took to the streets in a converted van that became a branch on wheels.

“While people can’t travel because of the pandemic or because they don’t have the income to do so, we go into the community and provide the service they need,” says Blanche Jackson, CEO of the \$4.5 million asset credit union.

Stepping Stones Community Federal began exploring the “Bank on Wheels” van in 2017 to spread its message. After completing a core conversion, Jackson realized the credit union could also open accounts and print ATM cards in the vehicle because of its new core platform.

The vehicle—a retrofitted Dodge Ram cargo van wrapped in credit union branding—debuted in 2018. The credit union has nearly tripled its membership since, Jackson says, growing from 414 members and \$1.7 million in assets in 2018 to 1,068 members and \$4.5 million in assets today.

When COVID-19 struck, Jackson says Stepping Stones Community Federal found another use for the

van. With its one location in a converted row house, the credit union needed to continue serving members while ensuring safety and social distancing.

The solution was to park the van in a church parking lot across the street from the credit union where staff could conduct transactions, open accounts, and print ATM cards using a wireless connection, firewall, and a router in the van.

Those who needed additional assistance could make an appointment at the physical branch, Jackson says.

“Our members, especially during the pandemic, appreciated that they were safe,” Jackson says. “They were outside and no one had to compromise anyone’s safety.”

The credit union continues to use the van at community events and to travel to various housing authority units or apartment complexes and open accounts for people who lack mobility.

“We’re in the community, for the community, and by the community,” Jackson says. “We have to maximize our time as best as possible. With the van, we can go to apartment complexes, meet the tenants, and make sure they get service.”



Stepping Stones Community Federal Credit Union can open accounts and print ATM cards in its “Bank on Wheels,” a refurbished cargo van.



## Fintech eases points of friction

Jason Peach says “changing the conversation” around financial technology (fintech) companies led to his credit union’s strategic decision to partner with fintech firms.

“It was about considering them less as a threat to us and more as potential partners to help us solve problems our traditional partners could either not solve or not solve fast enough,” says Peach, president/CEO of \$354 million asset West Community Credit Union, O’Fallon, Mo. “Even before the pandemic, our priorities had been looking for ways—especially through digital or online interactions—to improve the member experience.”

West Community developed a relationship with a local fintech venture fund called SixThirty, which specializes in accelerating the growth of early-stage enterprise technology companies. Through SixThirty, the credit union partnered with firms such as Capacity, whose artificial intelligence-based chatbot improved website visitors’ success rate from 63% to 94%.

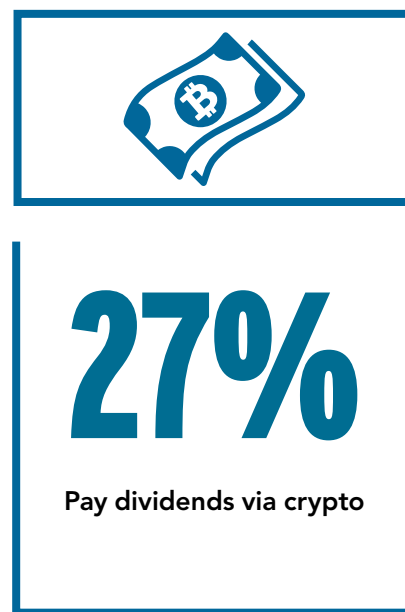
West Community also added a live chat feature to its website.

“If visitors are successful on the website, it’s good for our brand and future growth,” Peach says. “It also creates efficiencies for our call center. These are all points of friction that are eased through these new relationships.”



## Cryptocurrency in banking

Cryptocurrency is changing how consumers exchange value with each other, and demand is growing, according to Raddon. The top cryptocurrency opportunities for financial institutions include:



Source: Raddon

# Ideas & Inspiration

## Snapshot: global credit union movement



## The journey to CLO

The path toward becoming a chief lending officer (CLO)—no matter where you start—begins with realizing and vocalizing your intentions.

“If you’re looking to make the climb, you need to communicate and be honest with your supervisor,” says Jessica McNear, digital solutions lending manager at \$413 million asset Wanigas Credit



Jessica McNear

Union in Saginaw, Mich. “Tell them about your aspirations. If you’re honest and willing to work with them, you will find opportunities.”

McNear, who earned a bachelor’s degree in 2020 and graduated from CUNA Management School in 2021, is in the process of her climb. She addressed the CUNA Lending Council’s People, Process and Technology Virtual Series with Jeremy Pinard, CLO at \$2.4 billion asset Vantage West Credit Union in Tucson, Ariz., and Gail Enda, CEO at \$8.9 billion asset American Airlines Federal Credit Union in Fort Worth, Texas.

Pinard and Enda believe getting involved in a variety of areas played a big role in their advancement.

“There’s nothing wrong with sometimes taking sideways steps in an organization to broaden yourself,” Enda says. “I did not start my career in a credit union, but it’s the best place to be. I wish I found it earlier in life.

“As you move up in the organization, it’s important to evolve from being an expert in one area to being a big-picture thinker,” she continues. “Work on project teams—you learn so much. You make connections and find mentors.”

Your career path likely won’t be a straight line, says Pinard, stressing it’s essential for job candidates to find the right credit union to ensure the best culture fit.

“Understand that a ‘no’ right now may not be a ‘no’ forever,” McNear adds. “Continue to ready yourself and you will find your way there.”

# Finding financial well-being for all

Fostering financial well-being for all is a key component of credit unions' mission and is crucial to the industry's survival, says Mike Schenk, CUNA chief economist and deputy chief advocacy officer.

"Financial well-being is part of the fabric of our members' lives," says Schenk, who addressed the CUNA Marketing and Business Development Certification School. He defines financial well-being as "how one feels about their money and the choices they can make with it."

The goal is to determine what financial well-being means to members and help them reach their personal goals. Many people are falling short of their financial well-being goals: Roughly two-thirds of Americans are financially unwell (i.e., "struggling" or "just getting by") and 73% rank finances as their No. 1 stressor, according to the Financial Health Network.

Sixty credit unions and credit union system partners recently attended a virtual meeting to brainstorm how the system can better coordinate and collaborate around this effort. The group identified three themes: collecting best practices, normalizing the conversation around financial well-being, and developing an inclusion strategy.

Focusing on financial well-being will also attract a younger consumer base, Schenk says. The average age of a credit union member has increased from 44.1 years in 2001 to 51.2 years today.

Katie Gallagher, vice president of customer success at Zogo, a CUNA Strategic Services alliance provider, offers three ways to reach Generation Z (those between ages 9 and 23):

- 1. Meet them where they are.** Optimize your online presence and mobile viewing experience while projecting transparency.
- 2. Empower Gen Z to champion financial well-being.** Hire brand ambassadors who advocate for credit unions.
- 3. Offer less lecture and more open dialogue.** Create conversations with consumers by asking what they want to learn and tying it back to you.



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# Ideas & Inspiration

## Acting with love and equality

Diversity, equity, and inclusion are about hearing, acknowledging, and celebrating all voices in our communities. In that spirit, LAFCU in Lansing, Mich., invited members of the community to create artworks that represent the words “love” and “equality” for a new initiative that seeks to foster unity during polarizing times.

The LAFCU Act with Love & Equality Art Initiative incorporates that positive message into its community’s conversations by showcasing 10 winning designs on billboards and through digital channels, including LAFCU’s website and social media platforms.

“Acting with love and equality is important, especially now,” says Kelli Ellsworth Etchison, chief marketing officer and chief diversity officer for the \$938 million asset credit union. “As a credit union serving the financial needs of nearly 70,000 members, LAFCU has a responsibility to use its platform for good.

“We’re stronger when we’re united,” she adds. “Love and equality will help pave the way for our unity and

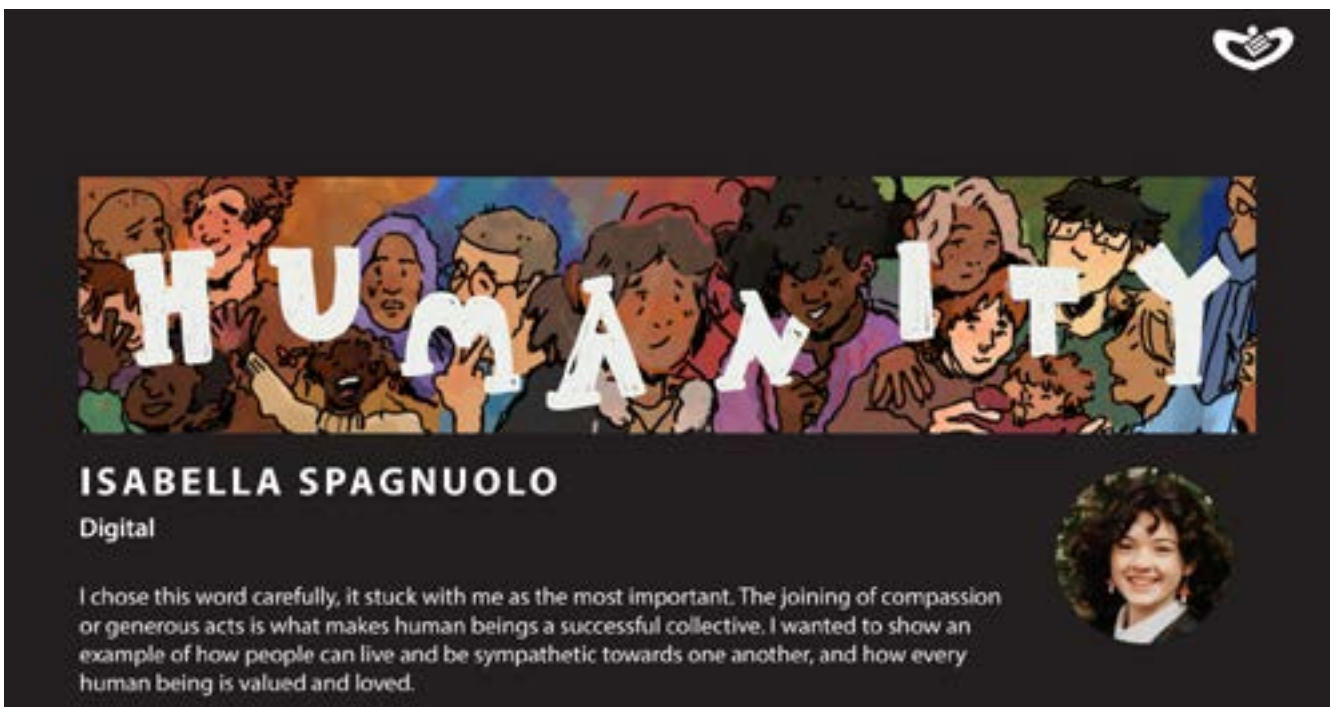
allow us to heal, find peace, have empathy for others, hope, and embrace others not just despite our differences but because of our differences.”

The words chosen for the initiative are change, empathy, heal, hope, humanity, kind, love, one, peace, and unity.

The idea for the project came from a dream experienced by LAFCU Creative Director Kellie Swiger after watching another evening of news filled with polarizing images. She imagined people of different colors and ethnicities filled with empathy and adorned with beautiful imagery.

Swiger hopes LAFCU’s initiative can inspire other credit unions to curate similar projects in their communities. She even developed a playbook for organizations to follow.

“We started in Michigan, but the bigger vision is to involve every credit union,” Swiger says. “Every community has different artists, and art can be a voice with a powerful purpose. If we can share that nationwide and have other credit unions take part, it connects us. It unifies.”



The LAFCU Act with Love & Equality Art Initiative illustrates 10 terms: change, empathy, heal, hope, humanity, kind, love, one, peace, and unity.

# 8 steps to faster loan decisions



Source: "Making intelligent decisions quickly," a CUNA Lending Council white paper. Learn more at [cunacouncils.org](http://cunacouncils.org).

## Providing capital where it's needed most

Lending is a key factor in promoting financial well-being for all.

Lending is where the rubber meets the road for credit unions. It's how we provide capital to our members, sustain our business, and help our communities thrive.

It's a key factor in promoting financial well-being for all.

Lending also is the perfect example of how credit unions are at their best when life is at its worst.

Looking back over the past several years, from the Great Recession to the pandemic, banks pulled back on lending when their customers needed them most.

Credit unions increased lending, stepping forward to meet the challenge at hand.

That's what happens when financial institutions put people over profit. Banks see a financial crisis and shy away from "riskier" activities because they answer to Wall Street shareholders.

Credit unions answer to the very members they go above and beyond to serve, and that's why we always strive to do right by them.

I've heard several examples over the past year of businesses that have worked for years or even decades with their banks who, when the chips were down and the world was closing its doors, couldn't get Paycheck Protection Program loans from their banks to keep their doors open.

But credit unions were willing and able to make those loans. The businesses that received those loans are now converts to the

credit union difference, and you can believe they won't be going back to their banks again.

I hear these stories every day. If they fill me with inspiration and gratitude for those credit union leaders, imagine how that member or business feels?

### Part of our advocacy

The need to get capital into the right places also shapes much of our advocacy work.

We strongly support several pieces of legislation that would allow credit unions to go beyond the current arbitrary statutory member business lending cap and provide capital where it's needed most.

This legislation has bipartisan support during a time when little else does. That's because of the credit union difference we've demonstrated time and time again.

The pandemic has shown us lending might look different in

the future, or at least move away from traditional auto lending, credit cards, and mortgages.

The marketplace is changing faster than ever, and it's important



“  
CREDIT UNIONS  
ANSWER TO THE  
VERY MEMBERS  
THEY GO ABOVE  
AND BEYOND  
TO SERVE.  
”

that we continue to meet our members' evolving needs.

A recent white paper on pandemic lending from the CUNA Lending Council shows how credit unions did everything from modifying rates on individual loans to adjusting the underwriting process to meet members where they were.

Two trends on the rise include funding alternative energy initiatives and meeting millennials' increasing loan demand. We should think about these trends now.

Credit unions have shown time and time again they can supply capital to members by being creative, nimble, and member-focused.

As we look forward to the future, the sky's the limit for America's credit unions.



**JIM NUSSLE**

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## Be creative and proactive with lending

Think outside the box—our members deserve it.

Our mission is to “provide access to credit for provident purposes.”

Credit unions live up to that mission every day in many ways. Whether it's providing a home, transportation, business, or credit card, or improving members' financial well-being, credit unions have loan programs to meet members' needs.

But how often do our members fail to benefit from what we have to offer? How can we become more proactive and creative within our lending programs? Doing so can be life-changing for our members.

Since the onset of the pandemic, Listerhill Credit Union has become more proactive and creative in meeting members' lending needs.

We did this because we recognized the precarious state of many members' financial condition in a world that was being suspended, postponed, and shut down in the throes of a debilitating pandemic.

Many members saw their financial viability threatened by interruptions to their employment as their employers suspended operations or closed their doors under the threat of the pandemic's spread.

We also saw major changes in members' purchasing decisions and behaviors. Many made purchases around changing lifestyles the pandemic brought. People migrated to outdoor activities and recreation centered around their

homes and families.

Farm equipment, boats, recreational vehicles, pools, and the like became more the norm as people adjusted their lives closer to home and family in response to the virus.

As a result, we developed loan campaigns in 2020 and 2021 to save members money or make purchases centered around their adjusted lifestyles.

In 2020, we incented our members to borrow from us for those timely purposes. We paid our members a cash rebate equal to 1.5% of the amount financed on all consumer loans.

Many took advantage and found that incentive to be the catalyst to bring loans from other providers and save money by lowering their rates in addition to the cash rebate. Others moved forward with purchases that allowed them to adjust their family's lifestyle

and activities to safer spaces outdoors and closer to home.

We experienced our best loan production in our almost 70-year history. In addition to saving members money, we paid them more than \$1.2 million in cash rebates.

In 2021, we continued a version of that campaign with a reduced rebate but refreshed with a “Great Giveback” contest that paid off up to \$25,000 of debt for our grand prize winner.

The winner was a veteran who had borrowed money to provide a

heating and cooling system for his church. We paid off his remaining balance and donated to the charity of his choice.

When we asked what he'd do now that he was debt free, he said he might borrow money to buy a fishing boat he'd always wanted.

While 2021 should be another record year for us in loan production, we helped many members save money by refinancing debt and putting cash in their pockets.

And hopefully our grand prize winner is on the water catching fish in the new boat he'd always admired.

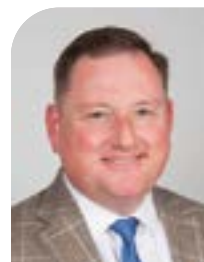
We can truly “provide access to credit for provident purposes” when we proactively and creatively seek to do so. Credit unions aren't just faceless financial institutions behind shiny buildings, ATMs, or smartphone apps.

We're our members' best financial partner, and that means proactively and creatively fulfilling their best interests.

We have flexibility, knowledge, and, most importantly, the accountability to find new and creative ways to meet our members' needs.

Proactively think of what your credit union can do. Get creative. Think outside the box. Our members deserve it.

“  
WE'RE OUR  
MEMBERS'  
BEST  
FINANCIAL  
PARTNER.”



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**Involve directors in their development**

Ask board members to identify their strengths and weaknesses when creating development plans, says Mina Worthington, president/CEO at Solarity Credit Union.



# BROADEN your board

DARLA DERNOVSEK

Intentional development plans keep board member training on track with director demands.

**When determining board members' development needs, Mina Worthington goes straight to the source, asking each director at Solarity Credit Union, Yakima, Wash., to identify their strengths and weaknesses.**

"We were wrestling with how individualized to make our development because we all come from different experience levels," says Worthington, president/CEO at the \$832 million asset credit union. "We now have a baseline of where each board member evaluates themselves in the different development areas we came up with in strategic planning."

The next step is to match required training with specific directors. In some cases, Solarity's internal training team may develop courses to address specific topics. Worthington sets aside time at each board meeting to "expand our thought or give feedback on

an area," she says.

Solarity brings in experts in areas such as diversity, equity, and inclusion (DEI) to address emerging topics. The credit union actively recruits people with

## Focus

- › **Customized development scorecards** offer "gentle accountability" to improve board members' ability to serve.
- › **Intentional development** and gap analyses allow credit unions to tailor training and development to directors.
- › **Board focus:** Effective board development must evolve with the changing world.

a growth mindset at every level of the credit union, including the board.

“Lifelong learners who are willing to learn and push themselves all the time are the only ones who fit on our board,” says Merrilou Harris, who joined Solarity’s board as an associate director in 2016, became a director in 2017, and now serves as board vice chair and governance committee chair.

The learning curve for credit union directors is getting steeper every year. Credit union executives and directors alike say there’s no cutting corners on board development to create a tighter timeline. Instead, they recommend setting clear expectations, offering varied resources, and tailoring development plans to individual needs.

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**“Lifelong learners who are willing to learn and push themselves are the only ones who fit on our board.”**

MERRILOU HARRIS

The goal is to have new directors make meaningful contributions as soon as possible while keeping experienced directors from settling for outmoded ideas, says Kevin Smith, consultant/publisher at TEAM Resources and co-author of “A Credit Union Guide to Strategic Governance.”

“We can’t expect new directors to sit on their hands and not have input while they learn over the course of years of service,” says Smith, who advises adopting a formal, written development plan.

An effective development plan abandons outdated ideas, such as assuming directors absorb all essential information at meetings or that training only occurs once a year at a conference. Instead, directors need ongoing access to information to understand the competitive environment and “just-in-time training” to

address current issues.

“It can’t be an ‘absorbed culture,’ ad hoc, or verbal,” Smith says. “It’s got to be codified to hold people accountable.”

He says the plan should, at a minimum, address the five categories CUNA’s Credit Union Board Certification Program uses: safety and soundness, strategic planning, governance, CEO oversight, and board operations and development.

### A development scorecard

An onboarding plan prepares Solarity’s nonvoting associate directors for election to the full board. The credit union assigns a “board buddy” to guide associate directors as they attend asset/liability committee (ALCO) meetings, board meetings, and social events.

Director and associate director scorecards keep track of training programs that are customized with each directors’ input. Education occurs during meetings, financial literacy courses, conferences, and CUNA’s Volunteer Achievement Program.

This approach worked well for Harris, an educator who appreciated having a year “just to learn” and ask “dumb questions” that sometimes revealed that more experienced directors also needed the answers.

Attending conferences side by side with other directors allowed her to discuss the coursework with them afterward. Taking part in social gatherings together eased those conversations.

“I was drinking from a fire hydrant the first year,” Harris said. “I’ve taken advantage of everything that I could.”

Solarity’s scorecard offered “gentle accountability” that reminded Harris she needed to attend more ALCO meetings, which are recorded to accommodate scheduling conflicts. Support from other directors and the executive team kept her focused on being ready to serve.

Attending the strategic retreat led by an outside facilitator prepared her to tackle tough issues.

“That boosted my own training and feeling of confidence,” Harris says.

### Intentional development

Changing patterns in volunteer experience and longevity impact board development. When a 50-year director resigned in 2020 at \$263 million asset First

Alliance Credit Union, Stewartville, Minn., the average tenure for its seven directors dropped from 12 years to five, says President/CEO Michael Rosek.

First Alliance hired a consultant to find the right equation for its board succession plan that now guides director recruitment and development. The consultant polled current directors to learn their expected board

tenure and the type of expertise they wanted new directors to have to enhance board performance.

“We asked, ‘What’s the ideal makeup of a board?’” Rosek says.

That input, combined with a commitment to diversity, shapes board recruitment. The goal, he says, is to be intentional at every step as First Alliance recruits

## 5-STEP FRAMEWORK GUIDES BOARD DEVELOPMENT PLANNING

Kevin Smith, consultant/publisher at TEAM Resources, offers this approach for creating board development plans:

- 1 | Start with Regulation 701.4.**  
NCUA regulations give new board members six months to understand the balance sheet and be able to ask substantive questions. Make sure your directors are ready on time.
- 2 | Counter outdated assumptions.**  
Long-term board members sometimes assume 20-year-old “rules of thumb” are still valid. Offer training that identifies outmoded ideas.
- 3 | Adjust for three levels of experience.**  
Rookies, long-term directors, and board members with “middle ground” experience need different levels of development.
- 4 | Calibrate understanding in core areas.**  
All directors need a shared understanding of their credit union’s approach to governance, strategic planning, and risk tolerance. Discussing these issues together will put directors on the same page.
- 5 | Stay nimble.**  
The pandemic showed directors they could quickly adopt new approaches to training and governance. Development plans can challenge directors to combine old and new approaches to capture the best of both.



“lifelong learners” and allows them to acquire the knowledge needed to be effective directors.

First Alliance added a nonvoting associate director position to the board to give the “next” director a head start through attending meetings and participating in advocacy and education. A written program guides ongoing board development, which relies on educational resources offered through the Minnesota Credit Union Network, CUNA, and other resources.

Rosek notes it’s important to further the professional development of the executive administrator who coordinates board meetings and supports directors’ development. Attending a CUNA conference for board liaisons and tapping other resources prepared the executive administrator to offer solutions when the pandemic limited face-to-face interaction.

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**“Connecting** with those who serve on the **front line** and hearing the **heartfelt** stories of how we help our members always ignites my **passion.**”

GREG MARCHANT

### Gap analysis

SchoolsFirst Federal Credit Union in Santa Ana, Calif., offers a multifaceted development program for directors. Shelly Berryman, vice president of board and committee relations at the \$26 billion asset credit union, says the program includes:

› **A robust orientation process** that matches new volunteers with an experienced mentor who can help them acclimate to the history, culture, and events that have shaped the credit union. The program is entwined with SchoolsFirst Federal’s Advisory Coun-

cils and President’s Forum, where new volunteers often begin their service.

› **An associate director role** that allows appointed members to gain exposure to meetings and discussions while learning about the time commitment and responsibilities for board members.

› **A quarterly training program** that addresses SchoolsFirst Federal’s internal and external training requirements. Berryman notes credit unions with assets of \$10 billion or more face added development requirements from the NCUA Office of National Examinations and Supervision and the Consumer Financial Protection Bureau.

› **A requirement that every director** attend at least one conference related to the credit union movement or complete online courses from an accredited resource.

› **An annual Saturday session** offered to all volunteers to address current and future projects, examine topics such as DEI, and foster small group interaction. The board also holds an annual strategic planning session.

Board Chair Greg Marchant is an educator, which strengthens his belief in the importance of tailoring training to meet the needs of specific directors. Marchant began serving on SchoolsFirst Federal’s President’s Forum in 1998 and joined other committees before becoming a director in 2005.

The credit union uses gap analysis to identify individual training needs and offer development options to fill knowledge gaps.

“All of us learn at different paces and from different styles,” Marchant says. “Having the flexibility to choose courses from accredited partners or selecting breakout sessions that fill my individual knowledge gaps is extremely helpful.”

He also appreciates interacting with SchoolsFirst Federal’s team.

“Connecting with those who serve on the front line and hearing the heartfelt stories of how we help our members always ignites my passion and reminds me that the work we do day in and day out is so important,” Marchant says.

Berryman subscribes to various publications that she scans daily for articles, materials, and training resources, which are shared with directors via an online learning management system that serves as the board’s development portal.

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# “We asked, ‘What’s the **ideal** makeup of a board?’”

MICHAEL ROSEK

Some topics require an added level of time and attention, she says. For example, directors can earn a cybersecurity certification through an online program.

When the pandemic hit, the board added a monthly update to each meeting to hear from every senior leader about COVID-19’s impact.

## Distilling vital information

Almost two-thirds of the population in Washington, Oregon, and Idaho expect credit unions to solve their financial needs in the most efficient way, says Troy Stang, president/CEO of the Northwest Credit Union Association (NWCUA).

State leagues such as NWCUA focus significant resources on helping directors keep their credit unions financially fit and focused on meeting those needs.

A decade ago, credit unions in the three Northwestern states served 30% of the area’s combined population, Stang notes. Today, more than 170 credit unions serve 8.1 million members representing 60% of the population.

“It’s a beautiful thing, but it’s come about much faster than I ever imagined,” he says.

That pace of change means directors must tap development resources to:

› **Understand** the external environment, including your credit union’s roots, its evolving field of membership, community needs, and the broader marketplace.

› **Stay current** with the internal demands of running an efficient cooperative, including assessing risk, practicing enterprise risk management, understanding cybersecurity, and ensuring the credit union has the right priorities.

“Directors must be able to dissect those complicated verticals of risk, competitiveness, financials,

and employment issues a CEO deals with,” Stang says. “How can we distill those issues down with the proper mechanism to develop those volunteers coming into the board room?”

NWCUA has developed a robust online board resource center that distills resources for directors in nine categories:

1. **Director** recruitment and onboarding.
2. **Strategic** planning.
3. **CEO** and board compensation.
4. **CEO** succession planning.
5. **Regulatory** framework and requirements.
6. **Current** topics.
7. **Industry** events for directors.
8. **Board** effectiveness.
9. **Supervisory** committee members.

Stang believes development will become even more essential as board tenures shift from multiple decades to a single decade or less.

Bringing new directors up to speed quickly will determine whether the board is equipped to focus on the right issues.

## Embrace volatility

Credit unions that seek to help directors keep up with members’ changing world will need to continually refine their approach. Smith notes the development and operational tactics that allow your credit union to thrive today won’t likely create success in the future.

That means directors should always expect the equivalent of “learn something new” to appear on their personalized development plan.

“It’s time to embrace volatility,” Smith says, “and make it work for you.”

## Resources

- › Credit Union Directors Newsletter: [cuna.org/directors](http://cuna.org/directors)
- › CUNA:
  1. Board resources: [cuna.org/board](http://cuna.org/board)
  2. Volunteer Achievement Program: [cuna.org/vap](http://cuna.org/vap).
- › TEAM Resources: [forteamresources.com](http://forteamresources.com)





# The state of AUTO LENDING

DAWIT KEBEDE





While supply chain struggles and online competitors stalled new- and used-auto lending in 2021, conditions are right for a rebound.

**Credit unions' auto loans outstanding grew a tepid 1.3% in 2020 following 2.5% growth in 2019 and six years of double-digit increases from 2013 to 2018, according to NCUA.**

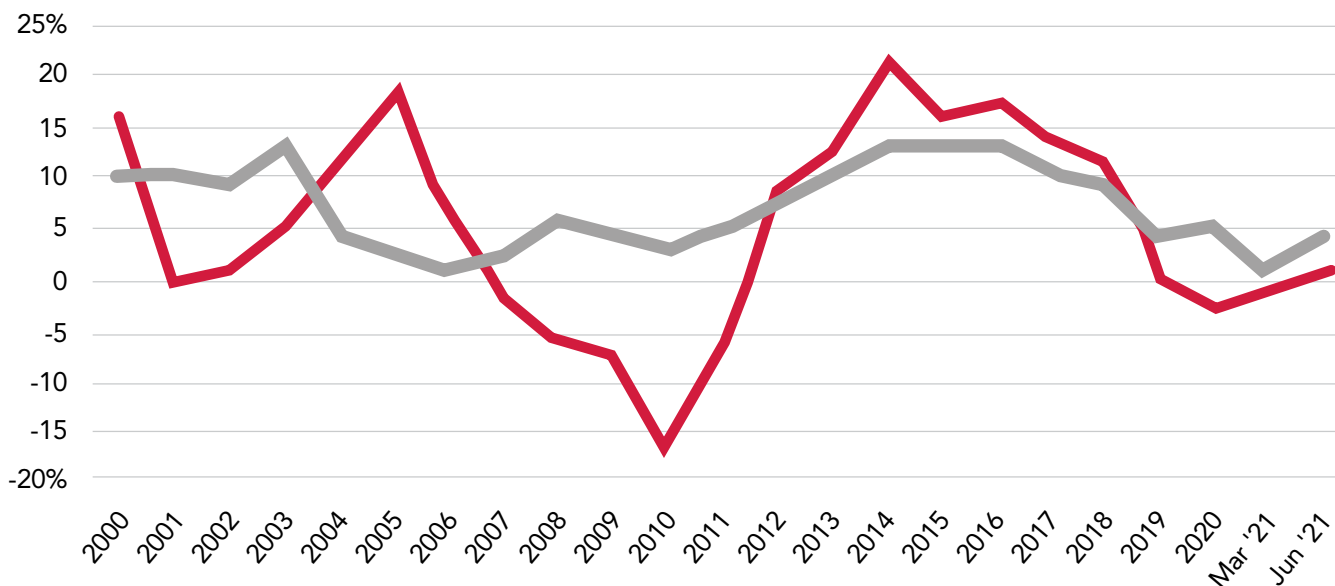
The COVID-19 pandemic has exacerbated the slowing trend the industry began to see at the end of the 2010s. The pandemic-induced economic activity shutdowns affected the auto-lending market in two ways:

- 1. Demand** for credit decreased when more than 20 million people lost their jobs, uncertainty about the economy increased, and overall consumer spending declined sharply.
- 2. The supply** of new vehicles to the market lagged

### Focus

- › **New-auto loans** declined 3.6% in 2020 due to the struggling economy.
- › **Demand** for new cars continues to grow as the economy recovers, but supply isn't catching up.
- › **Board focus:** Improving conditions for the economy and auto industry in 2022 will present better conditions for credit union auto lending.

## New- and used-auto loan growth\*



\*Credit union year-over-year auto-loan growth

Sources: CUNA and NCUA

— New-car loan growth rate      — Used-car loan growth rate

the increasing demand after the U.S. weathered concerns of an extended recession.

Plant closures and a shortage of semiconductor chips due to global supply chain bottlenecks exacerbated the problem.

The Federal Reserve lowered its target range for the federal fund rate to support the economy in March 2020. This brought down the cost of borrowing for various loan types.

Credit unions' average interest rate for new- and used-vehicle loans decreased a respective 70 basis points (bp) and 86 bp in 2020. New- and used-auto loan rates fell another 30 bp and 22 bp, respectively, during the second quarter of 2021.

In September, the Federal Reserve announced it will start to taper off its asset purchase program by year's end with a possible rate hike in 2022.

New-auto loans declined 3.6% in 2020—not surprising considering the economy was officially in a brief recession that year. Credit union historical data

shows this decline isn't uncommon during economic downturns ("New- and used auto-loan growth").

### Supply chain disruption

Increasing vaccination rates, reopening the economy, and improving consumer spending led to a strong economic recovery in 2021. By June, the annualized quarterly growth data showed the economy exceeded its pre-pandemic level of output.

During this same period, credit union new-vehicle loans grew 0.8%, reflecting increasing demand. Federal Reserve data also shows that demand for auto loans has exceeded pre-pandemic levels based on large domestic banks reporting consumers' auto loan applications.

However, while demand for new cars grows as the economy recovers, supply isn't catching up. The global shortage of semiconductor chips resulted in one of the lowest inventory levels ever for new vehicles at U.S. dealerships.

The ratio of auto inventory to sales—0.7 in July 2021—is at its lowest point since data on this metric became available in 1993. This implies that dealerships' ability to restock cars is slower than sales. As a result, current inventory is down 70% relative to pre-pandemic levels.

The rise of the delta variant in East Asian countries, which control about 90% of the semiconductor chip market, worsened the situation by leading to plant and port closures.

Auto companies such as Ford and General Motors have cut production and reported factory down-times due to the shortage, while several U.S. vehicle assembly plants have remained idle for weeks.

The National Automobile Dealers Association announced that sales for the rest of the year will likely be limited by continued inventory constraints.

As a result, the global auto industry is projected to lose \$210 billion in 2021, according to the global consulting firm AlixPartners.

IHS Markit predicts U.S. vehicle assemblies will fully recover from the ongoing computer chip shortage sometime in 2022 once supply catches up with demand.

This will dampen credit union auto-loan financing in 2021 due to lower vehicle supply.

“THE SUPPLY OF NEW VEHICLES LAGGED THE INCREASING DEMAND AFTER THE U.S. WEATHERED CONCERNS OF EXTENDED RECESSION.”

On the other hand, the shortage of new vehicles increased demand for used cars, which led to unprecedented price increases in 2021. The Manheim Used Car Value Index shows prices continually increased every month from January until May.

A comparison to previous year prices reveals the margins were as high as 50%. The increasing prices eventually started to come down, but used cars, on average, were still valued 25% higher than a year ago as of September.

## Online marketplace

In addition to the shortage of new vehicles from manufacturers, the emergence of digital used-car traders has contributed to used-car price increases. Online providers such as Carvana and Vroom expanded the geography of competition from local dealerships to nationwide.

Consumers can sell cars from the convenience of their homes or buy them from a wider selection and then wait for delivery. This convenience also proved to be useful when social distancing orders made it difficult to visit dealerships.

Used-auto loans are an important part of credit unions' loan portfolios. In 2020, they represented 63% of total outstanding auto loans, similar to the industry average of 62%.

During this period, used-car loans grew 4.5%, up 40 bp from 2019. Despite unusually high prices, used-auto loans grew 4.2% over the first half of 2021.

The auto lending outlook for the remainder of 2021 and 2022 is strongly linked to the likelihood of supply stabilization in the auto industry. IHS Markit predicts light vehicle production will approach its pre-pandemic level by 2022, with slight improvements expected by the end of 2021.

There is some evidence that demand for used vehicles is cooling down. Moody's Analytics reports the third round of direct stimulus payments led to many households purchasing vehicles in April 2021. This resulted in the biggest monthly used-vehicle price increase of 11.6%. Since that time, it started to decelerate and even reverse.

Another important trend in the last five years is the shift in consumers' taste in vehicles. An Experian report shows that Americans' preference for cross-over utility vehicles (CUVs) and sport utility vehicles (SUVs) increased 45% since 2016, while their preference for automobiles declined 39%.

This shift in preference increased loan balances and monthly payments. The average new loan amount for CUVs and SUVs increased 15% in 2020.

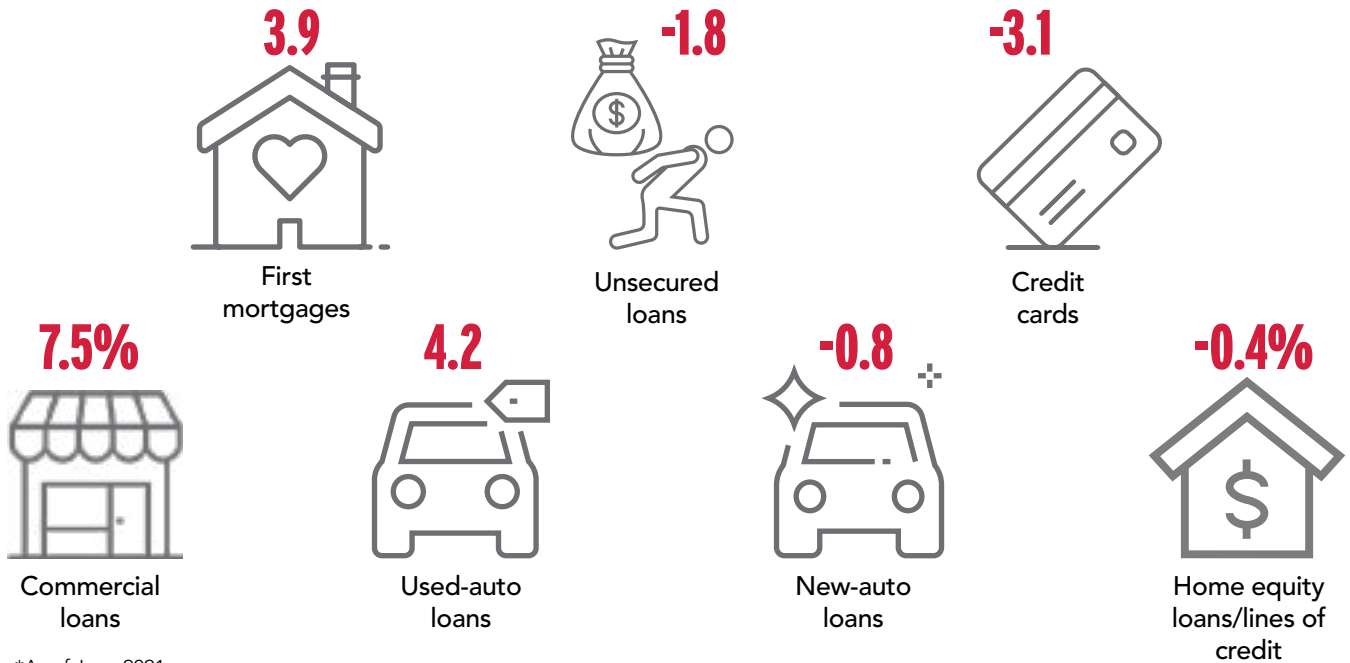
## Delinquencies

Credit union delinquency and net charge-offs were expected to increase due to the economic downturn as COVID-19 started to spread in early 2020. In response, credit unions increased their loan loss provisions in anticipation of higher nonperforming loans following massive layoffs in March and April of 2020.

However, strong fiscal and regulatory response by the federal government to prevent the economic fallout due to the pandemic also kept loan quality



## Credit union loan growth\*



\*As of June 2021

Sources: CUNA and NCUA

healthy, contrary to expectations. Around 85% of U.S. households received three rounds of direct stimulus payments from the government.

In addition, extended unemployment benefits and loan forbearance rules reduced the propensity of loan defaults.

The Census Bureau's Household Pulse Survey indicated 60% of adults used the second direct stimulus payment to pay down debt. Hence, these interventions reduced delinquency across all loan types.

Experian data on the state of automotive financing also showed that subprime financing is near record lows while prime lending is increasing. Sixty-five percent of auto loans in the first half of 2021 went to prime and superprime borrowers, compared to 60% in 2019.

Conversely, the share of loans going to subprime and deep subprime borrowers declined from 24% to 18% during the same period.

In 2020, credit unions' delinquency rate (more than 60 days) fell from a pre-pandemic rate of 78 bp to 59

bp, and from 44 bp to 36 bp for used- and new-auto loans, respectively.

Similarly, net charge-offs for new-auto loans decreased from 40 bp to 36 bp, and from 66 bp to 50 bp for used-auto loans.

CUNA economists expect delinquency and charge-off rates to rise slightly by the end of 2021 and in 2022 because government support that improved loan quality has ended. Nonetheless, these rates will still be close to long-run averages.

### Return on assets

Credit unions registered record high return on assets (ROA) in the first half of 2021. Reducing loss provisions set aside during the start of the pandemic, mortgage sales, and Paycheck Protection Program loans contributed to this performance.

CUNA expects ROA to decline as interest margins fall, mortgage originations decrease, and auto industry supply challenges continue.

As the second-largest loan type following mortgages,

auto loans represent about a third of credit unions' overall loan portfolio. Lost revenue for the auto industry due to supply chain disruptions also implies lost opportunity for credit unions to provide financing. This clearly has an impact on earnings.

### Market share

Credit unions' auto-loan market share during the second quarter of 2021 was 18% (24% for used-auto loans and 11% for new-auto loans), according to Experian. That's down from nearly 23% in 2018.

Captive finance companies have dominated new-vehicle financing. These companies, which are wholly owned by auto manufacturers, provided 55% of new-car loans during the first half of 2021.

Online marketplaces such as Carvana present a growing challenge for credit unions in the used-car sector. Establishing partnerships to make use of third-party financing options on these platforms will help address the challenge.

These digital spaces provide experiences that are attractive to younger consumers, who are becoming dominant buyers in the auto market.

A report from the New York Federal Reserve shows that 62% of auto loans originated during the second

quarter of 2021 went to consumers under age 49. Those under age 39 account for more than 60% of these loans.

The average age of a credit union member, however, has increased from 44 to 51 years over the last 20 years. Credit unions should address this demographic gap to increase their market share.

Improving conditions for the economy and the auto industry in 2022 will present better conditions for credit union auto lending. But credit unions need to address challenges in the marketplace to maintain and grow their auto-loan share.

**DAWIT KEBEDE** is senior economist for Credit Union National Association. Contact him at 608-231-5791 or at [dkebede@cuna.coop](mailto:dkebede@cuna.coop).

### Resources

- › CUNA data & statistics: [cuna.org/advocacy](https://cuna.org/advocacy)
- › CUNA Lending Council: [cunacouncils.org](https://cunacouncils.org)

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# lending & cannabis

DENNIS CHAPTMAN

While loan opportunities currently are limited, marijuana-related businesses hold considerable potential.

**Twenty-five years ago, marijuana was illegal in all 50 states. Today, 18 states, two territories, and the District of Columbia have legalized small amounts of marijuana for adult recreational use, and medical marijuana is legal in 37 states.**

The cannabis industry's rise as a multibillion-dollar operation offers credit unions a promising new market, but one fraught with pitfalls.

Credit unions in states where marijuana is legal find themselves in a tricky crossfire between state and federal law.

While marijuana may be legal in some states, it remains illegal at the federal level. Financial institutions providing services to marijuana-related businesses (MRBs) could be in technical violation of federal law by facilitating the operation of an illegal enterprise.

But because federal regulators have stayed on the

sidelines, some credit unions provide at least depository accounts to MRBs to get large amounts of cannabis cash off the streets.

"A business owner should not walk around with a duffle bag filled with cash," says Chris Call, CEO at \$93 million asset North Bay Credit Union in Santa Rosa, Calif.

His credit union has offered banking services—deposit accounts, debit cards, wire transfers, online bill payment, and automated clearinghouse payments—to MRBs for four years.

But North Bay, like other credit unions, has stayed away from lending to the industry because of the possibility of federal seizure of business assets, which would impair collateral.

Call, however, has a bright outlook for the future of credit unions providing not just depository services but lending as more states legalize marijuana.

"We think there will be more pressure on the federal



government to remove it as a Schedule 1 substance in the near future,” Call says. “We certainly don’t see any federal enforcement soon. So, the risk of collateral seizure is almost nonexistent at this point.”

Call recognizes a tremendous demand for capital in the cannabis industry. He says cannabis operators from across the country approach North Bay almost weekly, hoping it develops a lending program.

Currently, most MRB lending activity is tangential, with loans to MRB employees and related entities. But the industry holds considerable potential.

“Cannabis businesses are a lot more profitable than any other local business we might come across,” says Call. “In some cases, they’re much better run. They bring in people from Wall Street and Silicon Valley to run these operations. A lot of Harvard and Stanford grads are running cannabis operations.”

North Bay, the preferred banking partner for the California Cannabis Industry Association, recently created a credit union service organization (CUSO) called Higher Growth LLC to provide compliance services to financial institutions interested in serving cannabis operators.

As part of its offerings, the CUSO will work with independent investment funds and other financial institutions to create a pool of investable funds to lend to cannabis operators nationally.

### Lending opportunities

At O Bee Credit Union in Lacey, Wash., MRBs pay a \$500 application fee and about \$200 monthly to offset the costs of compliance, says James Collins, president/CEO at the \$445 million asset credit union, which gives preferred pricing for those using armored car services.

Like North Bay, O Bee also provides services to MRB employees on the same basis as other members. This includes loans—especially auto loans.

CONTINUED >

### Focus

- > **The cannabis industry’s rise** as a multibillion-dollar operation offers a promising new market, but one fraught with pitfalls.
- > **Lending opportunities** are scarce due to federal legality issues, but some credit unions lend to marijuana-related business (MRB) staff and related entities.
- > **Board focus:** Passage of the SAFE Banking Act would prohibit federal regulators from penalizing depository institutions for serving legitimate MRBs.



## 'NO' ISN'T ENOUGH

Bruce Pearson, an attorney with the law firm of Styskal, Wiese, and Melchione LLP, says credit unions in states that have legalized marijuana generally fall into three groups: the small minority that offer services to marijuana-related businesses (MRBs), those that refuse to do so, and institutions that have adopted a don't-ask, don't-tell stance regarding potentially disguised MRBs.

All three groups face risks at some level. Those providing banking services must meet strict compliance requirements.

But simply saying "no" to MRBs isn't enough.

"If you're going to be a 'no' shop, you need to have operational procedures that back that up," Pearson says. "Are you actively looking for MRBs that are disguised as car washes, window washers, and dry cleaners? And, if you're going to be a 'no' shop, are you driving off businesses that you can't get back someday?"

Credit unions that don't monitor loans that could be tied to disguised MRBs risk not only the seizure of collateral but could face prosecution under federal racketeering law.

"What that looks like in court is you literally have to prove a negative: I didn't know and I had no reason to know that the collateral was being used in a criminal enterprise," Pearson says. "If you're seeing the deck stacked against you, you're right."

Pearson's advice for the don't-ask, don't-tell crowd is simple: get into one of the other two categories.



"Usually if you say your employment is in marijuana, most financial institutions will turn you down," Collins says. "We take those members and they get the same rates as everybody else. But we don't do anything that's open-ended in case they want to divert the funds to their business."

North Bay approaches MRB employees as they would those of any other legal business, Call says. "They're pulling a paycheck and their income is sustainable and ongoing. We found them to be very good borrowers."

O Bee also offers loan services to cannabis-related entities that have a degree of separation. Two years ago, for example, the credit union started making loans to landlords who are not involved with the industry but may have tenants who are.

"Most of our businesses are producers or processors," Collins says. "So, if a landlord wants to build or renovate a warehouse and has a cannabis tenant, we'll finance that. Most people hate tying up their own capital for that."

### The 'Emerald Triangle'

Vocality Community Credit Union lies in the Emerald Triangle in Northern California, an area named for its prolific production of high-quality marijuana. It offers a full range of depository services and, like other area credit unions, has beefed up its compliance efforts, says Pat Neighbors, CEO at the \$160 million asset credit union in Garberville, Calif.

"We have a sophisticated, software-based fraud and anti-money-laundering system because we're required to provide the Financial Crimes Enforcement Network and the U.S. Department of the Treasury with suspicious activity reports and currency transaction reports," she says. "We who choose to bank cannabis recognize it's part of our daily activity."

Despite its small size, Vocality Community has eight full-time compliance staffers. "My compliance department is at least twice as big as it should be for a credit union our size, if not three times," Neighbors says.

Numerica Credit Union in Spokane Valley, Wash., uses six to seven full-time staffers in two departments to monitor compliance for its cannabis banking services. In addition to using anti-money-laundering software, it conducts site visits, is in regular contact with the state Liquor and Cannabis Board, and routinely compares deposits to sales at MRBs, says Lynn Ciani, chief risk officer at the \$3.2 billion asset credit union.

"You have to understand the industry top to bottom and take the time to know the cannabis regulators, as well as your state and federal regulators, so you can develop policies and procedures that protect your credit union and your cannabis business members," she says.

Numerica started slowly, initially serving just county-based businesses before expanding when it was satisfied its controls worked.

For credit unions considering whether to serve MRBs, Neighbors and other credit union leaders warn

“  
**YOU HAVE TO UNDERSTAND THE INDUSTRY TOP TO BOTTOM.**  
”

LYNN CIANI

the costs can be substantial.

“There are additional insurance expenses, alarm and camera systems, and dual custody every time a large amount of money comes in or goes out,” Neighbors says. “We have some of the fastest currency counters you can buy other than those at the Federal Reserve Board. It’s an expensive venture.”

Those cash counters require maintenance contracts because much of the cash that flows in is dirty, smelly, and sometimes moldy.

Vocality Community’s fee structure is designed to cover costs and generate a small profit without subsidy from other resources.

“We’re doing it for the benefit of our members, but it needs to add something to the bottom line,” Neighbors says.

### SAFE Banking Act

Many in the credit union movement hope for passage of the SAFE Banking Act, federal legislation that passed the House but has an unsure future in the Senate.

This legislation generally would prohibit federal banking regulators from penalizing a depository institution for providing banking services to a legitimate cannabis-related business.

“We are absolutely hopeful it will pass in some form that will allow lending with peace of mind,” says Neighbors, who takes every opportunity to lobby in the bill’s favor. “That’s where we expect to make some money because our biggest revenue driver is the loan portfolio.”

Numerica also supports the bill to clarify the current murkiness in this business. The U.S. has had five different confirmed attorneys general since 2009. As administrations change, so do local U.S. attorneys, each with their own prosecutorial discretion.

“Those changes create less certainty, and it’s hard to mitigate risk when you don’t know what the risk is,” Ciani says.

Even passage of the SAFE Banking Act won’t remove compliance concerns related to cannabis banking, according to Call.

“There will always be significant compliance issues around MRB banking that will be ongoing even if cannabis is fully legalized,” he says.

With the buzz around legalization, Call predicts there will be “more pressure on government officials to alleviate this dark cloud that has been hovering over the industry for decades.”

As for the risk of MRB lending, “just because it’s a cannabis business doesn’t make it more volatile than any other small farmer, manufacturer, or retailer once the legality issue is removed,” Neighbors says. “Any of these businesses could be a good credit risk or a bad one.”

O Bee caters predominantly to producers and processors, whose operations are capital-intensive, Collins says. He sees a huge upside in being able to lend to them in the future.

Often, the machines used to process marijuana cost upwards of \$250,000 each, he says.

MRBs can get financing from the manufacturer, but that may require giving up some equity in the business, Collins says. “MRB owners hate to give up equity. And when they do, there are additional parties in the business and it becomes a problem for us, too.”

Credit unions that serve MRBs circle back to member service and public safety in their drive to ease federal regulations and treat legal businesses fairly and safely.

Vocality Community, which serves a low-income area, is designated as a Community Development Financial Institution. That’s a driving force in its operations, Neighbors says.

“We have a lot of underserved folks who need our help. Our cannabis members are just one portion of this group who need credit union services,” she says.

Public safety is a prime concern, too, especially with people sometimes carrying hundreds of thousands of dollars around in cash.

“People are having safes put in their homes,” Neighbors says. “Or not. Is the cash buried in the backyard? Under the mattress? What if a home invasion occurs and it’s the wrong address?”

“Any dollar we get off the street and into the Federal Reserve system,” she says, “is another sigh of relief.”

### Resources

- › CUNA Cannabis & Hemp Financial Services eSchool: [cuna.org/events](http://cuna.org/events)
- › CUNA Compliance & Risk Council: [cunacouncils.org](http://cunacouncils.org)
- › Styskal, Wiese, and Melchione LLP: [swmlp.com](http://swmlp.com)



# MLA update

MIKE MCLAIN

Department of Defense issues interpretive rules to provide additional Military Lending Act guidance.

**The Military Lending Act (MLA) became effective in 2006 to protect active-duty servicemembers, their spouses, and dependents from payday lenders. Originally, the MLA applied only to three limited loan types: certain payday loans, vehicle title loans, and tax refund anticipation loans.**

After several years, the Department of Defense (DoD) learned payday lenders were changing loan terms and amounts to avoid compliance with the MLA.

To counter those changes, the DoD amended the act.

In July 2015, the DoD issued a final rule amending its regulation that implements the MLA. These amendments expanded the definition of “consumer credit” to provide protections to a broader range of closed- and open-end loans within the scope of the Truth in

Lending Act and Regulation Z rather than the limited types of credit that defined the original MLA rule.

Compliance took effect Oct. 3, 2016, for all open- and closed-end loans not exempt from the final rule except for credit card accounts, which had a compliance date of Oct. 3, 2017.

### What loans are covered?

The amended MLA rule applies to consumer credit, defined as credit offered or extended to a covered borrower primarily for personal, family, or household purposes. Such loans are subject to a finance charge or are payable by a written agreement in more than four installments.

Closed-end loans covered by the rule include installment loans, private student loans, land loans not secured by a dwelling, payday loans, vehicle title





loans, and tax refund anticipation loans.

Examples of open-end loans the rule covers are overdraft lines of credit, unsecured open-end lines of credit, and credit card accounts.

The MLA rule does not apply to:

› **Residential mortgages** secured by a dwelling, including loans to finance the purchase or initial construction of the dwelling, refinance transactions, home equity loans or lines of credit, or reverse mortgages.

› **Loans expressly intended** to finance the purchase of a motor vehicle when the loan is secured by the vehicle being purchased.

› **Loans expressly intended** to finance the purchase of personal property when the loan is secured by the property being purchased.

› **Loans exempt** from the requirements of Regulation Z.

› **Loans in which** the consumer is not a covered borrower at the time the loan is consummated.

### Covered borrowers

The MLA rule defines “covered borrower” as a member of the armed forces who is serving on active duty, someone under a call or order of more than 30 days, or a dependent of a covered borrower.

It also includes active Guard and Reserve duty, which means active duty

performed by a member of a reserve component of the Army, Navy, Air Force, or Marine Corps. Also covered: National Guard duty pursuant to an order requiring full-time duty for 180 consecutive or more days for organizing, administering, recruiting, instructing, or training the reserve components.

A servicemember who is no longer on active duty, however, would not be considered a covered borrower. The MLA rule doesn’t pertain to loans for members who are not covered borrowers.

One immediate benefit is that the creditor would not be required to calculate the military annual percentage rate for an open-end loan during each billing cycle.

### Servicemembers’ dependents

The MLA rule defines dependents as a servicemember’s spouse; a child under age 21; a child under age 23 if enrolled full-time in an institution of higher learning approved by the secretary of defense; or a child who’s incapable of self-support due to a mental or physical incapacity that occurs while a dependent of a servicemember.

A dependent also may be:

› **A servicemember’s parent** or parent-in-law residing

in the servicemember’s household who is (or was at the time of the servicemember’s death if applicable) dependent on the servicemember for more than 50% of his or her support.

› **An unmarried person** who is not a dependent of the servicemember under other conditions over whom the servicemember has custody pursuant to a court order for at least 12 consecutive months; is under age 21; is under age 23 and is enrolled full-time at an institution of higher learning approved by the secretary of defense; or someone who is incapable of self-support due to a mental or physical incapacity that occurred while he or she was considered a dependent of the servicemember and is dependent on the servicemember for more than 50% of his or her support.

### MLA interpretive rules

The DoD has issued three interpretive rules in connection with the MLA rule to clarify and provide additional guidance in certain areas. The interpretive rules were issued Aug. 26, 2016; Dec. 14, 2017; and Feb. 28, 2020.

Question No. 2 from the August 2016 interpretive rule has had a significant impact on MLA lending. It states that credit extended to a covered borrower for the express purpose of purchasing personal property which secures the credit is not entitled to the MLA exemption where the creditor simultaneously extends credit in an amount greater than the purchase price of the personal property and the additional financing is not related to the collateral.

Losing the MLA exemption means the creditor must comply with MLA requirements.

Question No. 2 failed to mention purchase-money vehicle loans, specific items that could be financed without losing the exemption because they are related to the collateral (personal property), or the specific items that would not be related to the collateral and could not be financed without causing a loss of exemption.

CUNA asked the DoD to provide additional clarification of the meaning of Question No. 2. The DoD responded by issuing the December 2017 interpretive rule.

CONTINUED ›

### Focus

› **The Military Lending Act** (MLA) became effective in 2006 to protect active-duty servicemembers and their dependents.

› **Amendments to the MLA** expanded the definition of “consumer credit” to provide protections to a broader range of closed- and open-end loans.

› **Board focus:** The amended MLA rule applies to credit extended to covered borrowers primarily for personal, family, or household purposes.



This rule states that any loan that finances a purchase-money vehicle or personal property loan that is secured by the vehicle or personal property, and also finances other costs or items expressly related to the collateral (i.e., optional leather seats, extended warranty, or a GPS unit), will continue to be exempt from the MLA rule. That is true because those items are directly related to the vehicle that is the security for the loan.

Further, if a covered borrower trades in a vehicle with negative equity as part of the purchase of another vehicle, and the loan to purchase the new vehicle includes financing to repay the credit on the trade-in vehicle, the entire loan transaction is eligible for the MLA exemption.

That's because the trade-in of the first vehicle is expressly related to the purchase of the second or new vehicle.

On the other hand, a loan that finances a credit-related product or service such as guaranteed auto protection (GAP) insurance or credit life or credit disability insurance does not qualify for the MLA exception, and the creditor must comply with the MLA requirements.

This situation caused major problems with credit unions' indirect lending programs.

An auto dealer that financed GAP or credit insurance would be required to comply with the MLA rule requirements. However, Section 232.8(f) prohibits certain creditors, including auto dealers, from taking a security interest in a vehicle's title.

The MLA rule provides an exception for federal- or state-chartered credit unions, banks, and savings associations which are permitted to obtain a security interest in the title of a vehicle as security for the covered loan.

In early 2018, CUNA and other trade associations asked the DoD to eliminate question No. 2 from the December 2017 and the August 2016 interpretive rules.

In February 2020, the DoD eliminated question No. 2 from the December 2017 interpretive rule but retained this question in the August 2016 interpretive rule.

By withdrawing question No. 2 from the December 2017 interpretive rule, DoD stated it was reverting to the original language in question No. 2 of the August 2016 interpretive rule.

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## Resources

### ›CUNA:

1. Compliance resources: [cuna.org/compliance](http://cuna.org/compliance)
2. Events & training: [cuna.org/training](http://cuna.org/training)

### ›CUNA Compliance & Risk Council: [cunacouncils.org](http://cunacouncils.org)

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Michelle Willits, publisher, 10/1/2021

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15A.Total printed (Net press run)	5,163	5,063
B1. Paid: outside-county	4,254	3,971
B2. Paid: in-county	0	0
B3. Sales through dealers, vendors and counter sales	0	0
B4. Other classes mailed	286	220
C. Total paid distribution	4,540	4,191
D1. Free: outside-county	0	0
D2. Free: in-county	0	0
D3. Other classes mailed	0	0
D4. Free: outside the mail	75	0
E. Total free distribution	75	0
F. Total distribution	4,615	4,191
G. Copies not distributed	548	872
H. TOTAL	5,163	5,063
I. Percent paid	98.37%	100%
16A.Paid Electronic	149	118
B. Total paid print copies +paid electronic copies	4,689	4,309
C. Total print distribution + paid electronic copies	4,764	4,309
D. Percent paid	98.4%	100%

## Lending eight ball reveals all

‘What does the future hold for lending?’ Reply hazy; try again.

The latest credit union finance trend report is out, and by all appearances it appears the lack of loan growth is a thing of the past and we can all find our happy place.

If so, this will be my shortest column yet.

The problem is that while loan growth surged to an eye-popping 5.9% during the second quarter, it’s still behind the normal 7% growth rate.

To make matters even more difficult, growth has been concentrated heavily in mortgages. If your credit union focuses primarily on those, your glass is quite full.

If your credit union does more auto lending, your glass is quite empty. And if your credit union still finances taxi medallions, your water may well be poisoned.

Current trends, as they say, don’t predict the future. In fact, only my trusty Magic Eight Ball Prognosticator can predict the future.

Let’s see what it says about these loan sectors:

➤**Indirect auto lending.** Ah, the bread and butter of the credit union lending landscape. Unfortunately, coronavirus and supply chain issues have made this fiscal culinary treat land with the butter side down in the mud. We’ll still eat it, of course, because we have to.

“Will used-auto lending volumes return soon?” *Outlook not good.*

“Is that because of supply chain issues, the concentration of used car dealers, or the move to electric cars?” *Yes.*

➤**Mortgage lending.** If this business line was an elementary school play, it would be the bright, shiny kid who hogs the limelight before accidentally flubbing a line and running off the stage, crying uncontrollably.

Low mortgage rates coupled with tight inventory and high building costs sent prices through the roof (pun intended).

“Will the mortgage boom continue?” *Reply hazy; try again.*

“Will there be more houses for sale?” *It is certain.*

“Will rates remain low?” *Don’t count on it.*

“So, this boom will eventually, like tulips in Denmark, go bust?” *Without a doubt.*

➤**Credit cards.** After a significant decline, credit card balances rose from the dead—not unlike Britney Spears’ career. That said, credit cards are still down significantly from their pre-pandemic highs, and consumer sentiment—especially among younger people—tends to avoid what they see as “crack in the shape of a plastic card.”

“Will consumers start to use credit cards again?” *Cannot predict now.*

“Will people travel again?” *Yes.*

“Will people eat out again?” *Yes.*

“Will people purchase 74-inch LCD-X TVs that can show a clogged pore on Tom Brady’s nose at the next Super Bowl?” *You may rely on it.*

“They just won’t use a credit card?” *My sources say no.*

➤**Business lending.** Along with new-car loans, business lending was one of two categories that declined through the second quarter. With office buildings half full due to remote work, restaurants doing much of their business through takeout or delivery, and other issues driven by the pandemic, business lending has been sporadic. Some credit unions are doing well while others drew back.

The problem is determining what changes have occurred which may be permanent versus those that will be temporary.



“Are remote workers a thing now?” *As I see it, yes.*

“Will commercial default rates increase?” *Better not tell you now.*

“What’s the forecast for multi-family and other forms of housing?” *Outlook good.*

➤**Embedded financing,** commonly known as “buy now pay later,” which large merchants are rolling out with backing from large banks in an unholy alliance.

Typically small-dollar loans, these programs require both simplicity and availability at the point of purchase. Hence the growth of companies like Affirm, which offers “pay \$500 now or make five payments of \$125 each!” for the math challenged. Most rates start at 18% or more.

“Really? We’re back to layaway?” *Signs point to yes.*

“So, we’ll need to educate members about the risks involved in this and offer consumer-friendly alternatives.” *Without a doubt.*



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## with Debbie Shephard

Northern Colorado Credit Union, Greeley, Colo.

Recent months have brought substantial lending challenges, including pandemic-related job losses, the lack of vehicle inventory, and growing competition, says Debbie Shephard, lending manager at \$75 million asset Northern Colorado Credit Union in Greeley, Colo., and a member of the CUNA Lending Council Executive Committee. Through it all, she's kept her focus on what's best for members with out-of-the box loan products and competitive rates and terms.

**Credit Union Magazine:** What lending lessons have you learned from the pandemic?

**Debbie Shephard:** Listen to your members. Be flexible. Remember who you work for. Because we develop relationships with our members it was easy for them to come to us for help. We made sure we didn't make anything more difficult for members during this time. We offered emergency loans and deferrals, and our members were so grateful.

Being flexible while everyone figured out this craziness was key. Thinking outside the box and asking ourselves how we can help worked for us and our members.

**Q:** What's your biggest lending challenge now?

**A:** Between COVID-19 job losses, lack of inventory for automobiles, rates, competition, and the refi boom, there's quite a list. As a smaller shop, getting borrowers' attention to give us a shot is our greatest challenge. We have some amazing products and rates, and despite staffing issues we have great turnaround times and service. With so many people in the last year or two

refinancing their mortgages and paying off debt at astounding rates while reducing future spending, replacing that volume has been a challenge.

**Q:** Tell us about your Credit Builder Auto Loan.

**A:** We were trying to think of what members need and different ways to give back to them. Young adults just starting out or even older folks who have never relied on credit often have a difficult time getting a loan without a co-signer when purchasing a vehicle for the first time.

We developed this product so it was affordable for members while mitigating risk to the credit union. Our goal was to provide reasonable down payments, make sure we didn't put people in unreliable vehicles, give them a break on the rate, and not require a co-signer.

**Q:** What special needs do your members have?

**A:** Our members look to us to keep up with the products, services, and conveniences that are out there. They want personal service and for us to know them, their families, and their stories. But they still want all the bells and whistles the big shops have.

We're lucky to have a board and a CEO who are supportive in developing areas around technology and service. We may not have everything, but we've kept up well while retaining that hometown service our members want.

**Q:** How can small credit unions compete with the big shops?



**A:** Marketing is our biggest challenge against the big shops. We've kept up with the products that make sense for our credit union and our members, and we have some of the best rates in our area. Marketing, however, is where we feel a little left behind. We simply do not have the resources. We're efficient with stretching our marketing budget, but we are limited.

**Q:** How does the CUNA Lending Council help you in your role?

**A:** I could not do my job without being a member of the CUNA Lending Council. When you have 16 employees total, you wear a lot of hats.

I can't count how many times I have needed help answering a compliance question, finding a new vendor, or developing a policy or procedure. Between the white papers, roundtables, library, and communities, I have all the help I need.



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