Credit Union MAGAZINE

SUMMER 2022

INCLUSIVE LENDING

CEO SUCCESSION: PLAN NOW OR MERGE LATER

Fair lending and AI

Joumana Mcdad
One Detroit Credit Union

Credit Union National Association
CUNA

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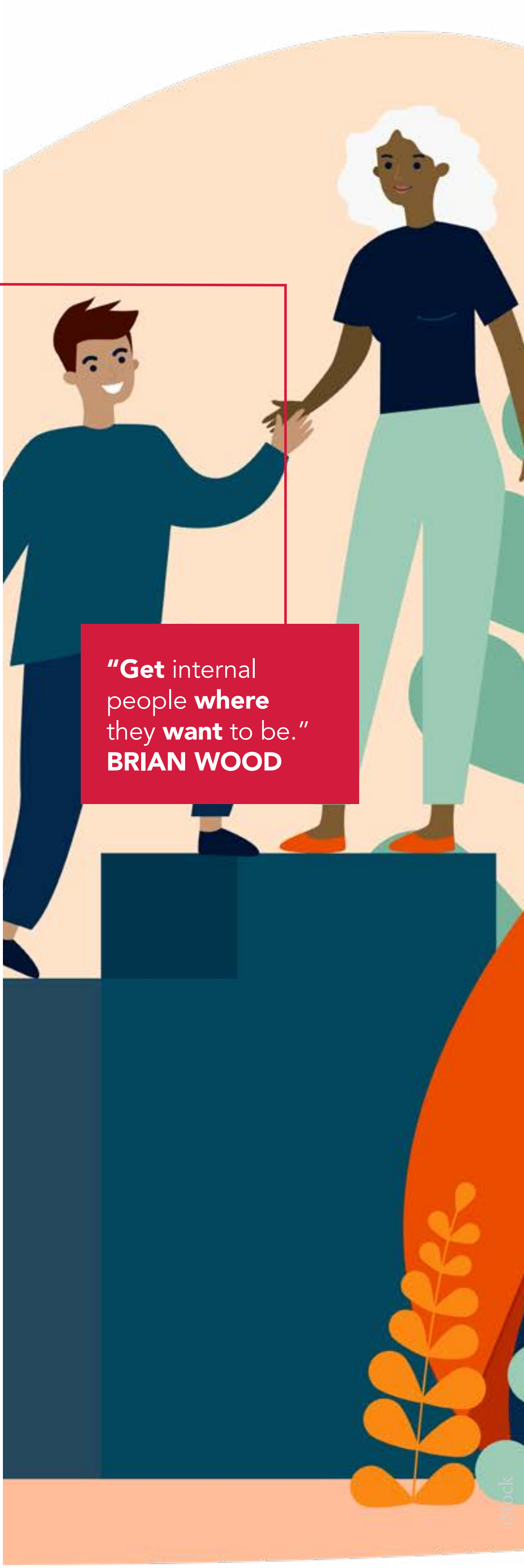
FEATURES



"Get internal people **where** they **want** to be."
BRIAN WOOD

Contents

Cover, page 23 photo credit:
One Detroit Credit Union

BUILDING A BETTER LENDING EXPERIENCE

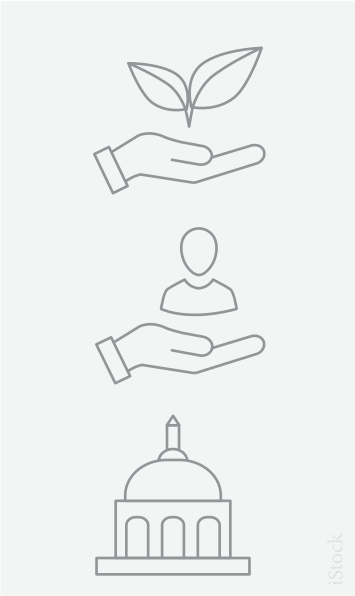
CUNA Mutual Group has invested more than $100M since 2017* to expand our lending program and digital capabilities. We are working to digitally enable our products and services across channels to help protect more members and create a cohesive, transparent experience. Talk with your account executive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

Learn more at **cunamutual.com/lending**

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

CUNA MUTUAL GROUP

MUST READS



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Credit Union National Association

Thank you to our Associate Business Members serving as business advocates for the credit union movement.

Together with CUNA Associate Business Members, we advocate for credit unions with one collective voice. Our collaboration leads to a stronger credit union movement through combined advocacy efforts and critical services provided to the credit union industry.

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Vizo Financial

Membership as of 4/13/22

cuna.org/associatemembership

Digital Features

VISIT CUNA.ORG/NEWS FOR THESE ONLINE EXCLUSIVES

2022 Credit Union Hero of the Year: The winner is....

Let's hear it for Mary Ann Pusateri, CEO at $362 million asset Partnership Financial Credit Union in Morton Grove, Ill.

The readers of *Credit Union Magazine* selected her as the 2022 Credit Union Hero of the Year in an online poll, embracing the powerful partnerships she's formed and her creative collaboration with peers.

Credit Union Heroes demonstrate leadership through community initiatives, movement advocacy, and exceptional member service. Also named as 2022 Credit Union Heroes, sponsored by Symitar, were Peach State Federal Credit Union President/CEO Marshall Boutwell, Affinity Plus Federal Credit Union Board Vice Chair Robyn Cousin, and Advia Credit Union President/CEO Cheryl DeBoer.

We celebrate all of their substantial accomplishments.

Learn more about these heroes at *news.cuna.org/cuhero*.

Mary Ann Pusateri

Celebrating Pride

LGBTQ Pride Month reminds us that all people deserve to be treated equally when they walk through the doors of a credit union regardless of sexual orientation, skin color, religion, or other characteristics. We share stories about LGBTQ-supportive credit unions and advocates within the industry.

CUNA News Podcast: To fee or not to fee?

Amplify Credit Union in Austin, Texas, switched to a fee-free model, eliminating all fees on deposit accounts. Chief Experience Officer Stacy Armijo explains how members have responded and how this approach fits into the $1.2 billion asset credit unions' efforts to improve members' financial well-being.

Listen and subscribe at *news.cuna.org/podcasts*

Check out our conference coverage

Visit *news.cuna.org* for highlights from the 2022 CUNA HR & Organizational Development Council Conference and the 2022 CUNA Finance Council Conference.

Attendees of the HR & Organizational Development Council Conference discuss talent trends, compensation issues, and legal concerns, and celebrate award-winning leaders. The Finance Council Conference follows a similar script, with attendees exploring current topics through keynote speeches, breakout sessions, and award presentations.

Have you eliminated or reduced overdraft/NSF fees?

27%

73%

Source: CUNA News poll. Visit news.cuna.org/polls to vote in our current poll and to view previous polls.

Credit Union National Association
CUNA

CUNA Environmental Scan is available in these formats:

- **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 author

Invaluable insights on trends that affect credit unions

CUNA
Environmental Scan

Get the insights you need to make informed strategic decisions with 2022-2023 CUNA Environmental Scan (E-Scan).

CUNA E-Scan offers background about the industry from the experts you can trust, compiled in easy-to-follow formats. The 10 trend-based chapters will enhance your strategic plans and help you stay alert and prepared for challenges down the road.

Access now with just a few short clicks.

cuna.org/escan

Strategic questions

Environmental Scan outlines top trends for 2022 and beyond.

Just as the U.S. seemed on course toward some version of normal, Russia's invasion of Ukraine threw new uncertainties into the mix, as well as heartbreaking human suffering.

Against this backdrop, the financial services industry faces challenges ranging from cybersecurity threats to pandemic-related legal hurdles.

One resource to help you make sense of it all: the 2022-2023 CUNA Environmental Scan (E-Scan).

Created with substantial input from members of the CUNA Councils, this annual strategic planning guide outlines competitive issues credit unions will contend with in the months and years ahead.

Some top trends to consider:

❯ **Cryptocurrency.** The strategic questions facing credit unions involve both when and how—or if—to participate in the cryptocurrency space. Even credit unions electing not to engage should be ready to educate members and prepare contingency plans for rapid response should crypto and related decentralized finance (DeFi) endeavors siphon off deposits and loan originations.

❯ **Actionable data.** Data on its own has little value. Data maturity comes from translating data into insights into action in the form of quick wins for the credit union, members, and employees.

❯ **Pandemic-related compliance issues.** After more than two years of living in a pandemic, employers and employees are navigating new terrain where it appears COVID-19 may be with us for some time. Credit union leaders must continue to navigate a fraught and uncertain employment law landscape.

❯ **Advocacy.** The CUNA-League advocacy team will focus on preserving credit unions' role as financial intermediaries, ensuring financial well-being for all, expanding underserved consumers' access to affordable financial services, and fighting unnecessary regulations.

Learn more at *cuna.org/escan*.

Another strategic resource: CUNA's policy analysis group.

Meet CUNA Senior Economist Ligia Vado ("Driven by data," p. 52), who shares insights into economic development and inequality.

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Fishing program hooks a whopper in boat loans

Anglers are taking the bait for Bass Cash at America's First Federal Credit Union (AmFirst) in Birmingham, Ala.

Bass Cash offers a $1,000 bonus prize to AmFirst members whose catch ranks in the top 40 in an Alabama Bass Trail Tournament if AmFirst has financed their boat. The bonus payout doubles if the member pulled the boat to the tournament using an AmFirst-financed vehicle.

"We paid out $49,000 in 2021 winnings," says Phil Boozer, senior vice president and chief sales officer at the $2 billion asset credit union. "But that $49,000 is a drop in the bucket compared to what we've saved members on loan rates."

AmFirst is involved in about 50 fishing-related events annually. The credit union also boosts cash prizes for members who rank in local tournaments, sponsors local tourneys, holds a boat show, and offers gift cards to reward winners at high school fishing club events.

Falling hook, line, and sinker for fishing events makes sense in a state where bass fishing tournaments are a huge sport, Boozer says. "It gives us a lot of exposure. Anglers may never have looked at us before but now realize they get a better deal on loans from AmFirst."

A marine dealer that offers AmFirst indirect loans suggested that the credit union sponsor fishing tournaments, which led to the launch of Bass Cash in 2018. Now, some buyers ask dealers for an AmFirst loan or even refinance their boats or trucks to qualify for participation.

AmFirst's tips for making your credit union a "keeper" by promoting indirect loans to anglers:

▶**Create** detailed rules for participation and payouts.

▶**Use** advance registration to track growth and share materials, like the free decals, caps, and shirts participating members are asked to wear or display. More than 110 members registered in 2021.

▶**Reinforce** tournament promotion by sharing information at branches and online.

▶**Reinvest** in the sport through sponsorships and promotion.

AmFirst has financed 2,192 new boat and truck loans in the past three years while strengthening indirect lending relationships with marine and auto dealers. While AmFirst does not track Bass Cash loans separately, Boozer says there's nothing fishy about the credit union's claims that it's making more boat and truck loans to anglers.

"I couldn't ask for a better value on what I spend than what I get in return," Boozer says. "It's just fun to do it."

Chris Thomas, regional development coordinator at America's First Federal Credit Union, is an avid angler.

Poll: Member-focused mission leads industry

Credit unions lead the financial industry in caring about their members' financial well-being, according to a new CUNA white paper, "Credit Unions Lead in Improving Financial Well-Being for All," which features results from the CUNA 2022 National Voter Poll.

The research found that 88% of credit union members say their credit union cares about their financial well-being.

As not-for-profit, member-owned institutions, credit unions' mission is to maximize member service. The difference in mission is apparent in CUNA's poll, with 42% of credit union members responding "very positively" to the idea that their financial institution cares about their financial well-being compared to 29% of other providers' customers.

Similarly, 88% of members say their financial institution "has improved my financial well-being."

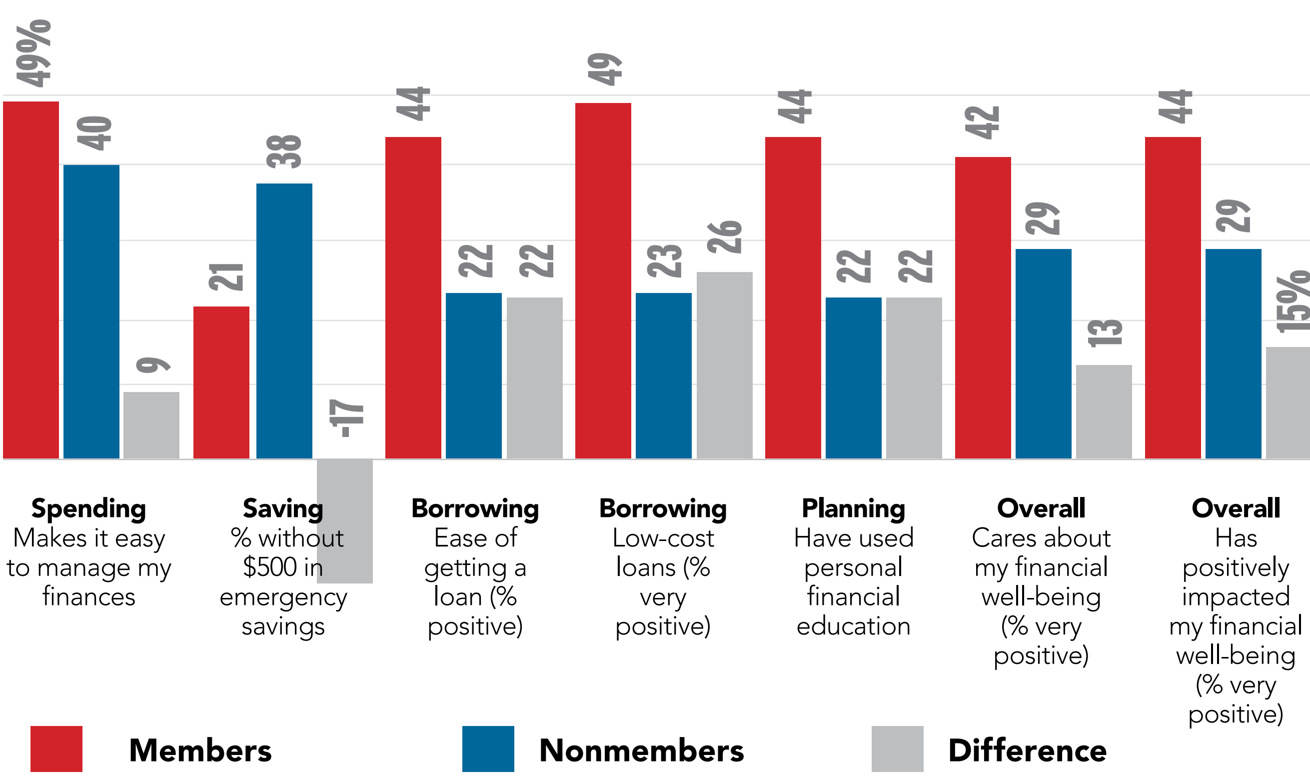
Moreover, 44% of credit union members are "very positive" that their financial institution has improved their financial well-being, compared to 29% of nonmembers.

Broken down demographically, 43% of members and 29% of nonmembers without college degrees say their financial institution has improved their well-being. The same holds true for women (43% of members vs. 29% of nonmembers), people of color (44% vs. 31%), and rural residents (55% vs. 27%).

The data fits with credit unions' mission of financial well-being for all, including educating individuals from traditionally financially vulnerable populations. According to the poll, 44% of members and 22% of nonmembers use a personal financial education and/or counseling service.

That includes people without a college degree (38% vs. 21%), women (36% vs. 19%), people of color (67% vs. 35%), and rural residents (28% vs. 16%).

Credit unions ensure financial well-being for all



Source: Credit Union National Association, 2022

Ideas & Inspiration

Cummins, Arnould honored for longtime leadership

Mark Cummins and Bob Arnould's longtime commitment to credit unions earned each the 2022 Eugene H. Farley League Leadership Award from the American Association of Credit Union Leagues. The award honors league employees who demonstrate visionary leadership at the state and national levels.

Cummins is president/CEO at the Minnesota Credit Union Network (MnCUN), and Arnould is senior vice president of advocacy at the California and Nevada Credit Union Leagues.


Mark Cummins

Cummins considers this a team award. "Our role is to create the environment for credit unions to be successful," he says.

Since Cummins joined MnCUN as president/CEO in 2007, the organization has established a credit union employee benefits plan, passed prize-linked savings legislation and developed a prize-linked savings program, created CU Forward Day, and assisted in the launch of a national campaign to increase consumers' consideration of credit unions.


Bob Arnould

Arnould started his career in politics, where he was a member of the Iowa State Assembly, becoming speaker of the Iowa House of Representatives in 1991. He transitioned seamlessly into credit union advocacy and has been with the California and Nevada Credit Union Leagues since 1995.

"He understands the dynamics of relationships with elected officials and those they represent," says Diana Dykstra, president/CEO of the California and Nevada Credit Union Leagues. "Bob is humble, a quiet leader, and is well respected by everyone."

"Bob cares about people," adds Jeremy Empol, vice president of federal government affairs for the California and Nevada Credit Union Leagues. "Bob's ethos embodies the credit union movement. Even the night of his award, his speech was not about him. It was about others, about the institutions, about the members. It's a powerful lesson for all."

Uncertainty remains over return to work

A survey by The Conference Board revealed that 71% of companies changed their return-to-work plans due to the 2021 surge of coronavirus cases that stemmed from the omicron variant.

Furthermore, 41% of companies rescheduled or canceled their previous return-to-office plans, while 30% reverted to remote/hybrid work after previously bringing employees back to the physical workplace.

Of the businesses with upended workplaces, 48% still hadn't communicated their plans for returning to the workplace as of the first quarter of 2022.

"Simply mandating a return date and highlighting the safety protocols that will be in place is not enough," says Rebecca Ray, executive vice president of human capital for The Conference Board. "Leaders need to articulate a compelling reason" to return to the office.

Nine percent of survey respondents were in the office full time, 46% were fully remote, and 45% were hybrid. Nearly half of respondents (43%) questioned returning to the office due to high productivity while working remotely.

Plus, 20% said they're not comfortable returning to the workplace, while 40% said they're moderately comfortable. The survey found CEOs to be much more comfortable returning to the workplace.

One in 10 respondents said they left or intended to leave their organization within six months. The primary reasons for leaving were better pay elsewhere (45%), career advancement (39%), workplace flexibility (28%), and workplace vaccine mandates (7%).

Employee engagement has decreased during the pandemic, with 15% of employees reporting decreased levels of engagement in May 2021, 19% in August 2021, and 24% in February 2022. Fifty-four percent of women reported their mental health declined during the pandemic, compared to 41% of men.

"Fighting the burnout battle will be a defining challenge," the survey reports. "Companies will need to prioritize building and sustaining a strong culture."

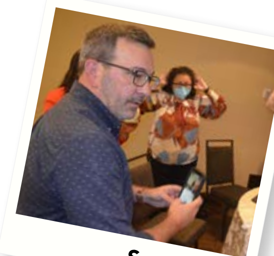
Ideas & Inspiration

OVERHEARD

Notable quotables from the 2022 CUNA Marketing & Business Development Council Conference.

On innovation

Google Key Account Executive Sam Maule believes another quantum leap forward in technological capabilities is coming, and "everything changes" when it does. How to move forward? **"Know your members to the nth degree,"** he says. "Build everything around them. The more you focus on your members, the better off you'll be."



Sam Maule

CU 2.0 Executive Vice President and Chief Revenue Officer Chris Otey describes **three types of fintechs:** "The ones that want to eat your lunch" by competing with credit unions, "the ones that want to sell you lunch" by charging for their services, and "the ones that want to eat lunch with you" by working together.

Ami Iceman

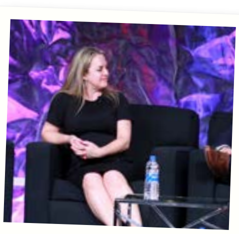
"Unsupported innovation becomes unused," says Ami Iceman, vice president of research and development at $6.2 billion asset Michigan State University Federal Credit Union in East Lansing, adding that the point of innovation is to enhance the member experience. "Innovation is great, fun, and wonderful—then somebody calls and says, 'How do I fix that app?' If nobody is there to help, the innovation has no value."

On leadership

The best leaders are humble, says Netflix Director of Consumer Insights Nikkia Reveillac. "Being an ego-less leader is about putting people at the center of one's desire to deliver results. Too much ego is detrimental to good leadership. **What makes a good manager also a good leader lies below the surface: the 'work around the work.'"** This entails learning about people and their diverse experiences and perspectives, listening more, and ensuring the quietest voices contribute.

Nikkia Reveillac

"When you work with passion and love, opportunities will come your way," says Tonita Webb, president/CEO at $733 million asset Verity Credit Union in Seattle. "Love whatever you're doing at the moment."



Kathryn Davis

"Everyone has a special talent," says Kathryn Davis, president/CEO at $834 million asset Valley First Credit Union in Modesto, Calif. **"Find a place that's receptive to your talents.** If you're rejected, find a place where you're a fit."

On sharing your story

Don't make sales the focus of social media, advises Katie Rammer, marketing coordinator at $567 million asset Kohler Credit Union in Sheboygan, Wis. **"Build your social media presence around storytelling—**of your credit union, your members, and your community. Your followers will find content that's relevant to them and that shares their values."

You'll make mistakes when incorporating diversity, equity, and inclusion in your marketing—and that's OK, says Khalilah Elliott, founder/chief disruptor at Gafford Communications. "You'll have to be vulnerable. Once you open yourself up to understanding other people's experiences and spending time with them, it expands your worldview and your ability to communicate with different audiences. **Widen the picture, so people see themselves, literally and figuratively, in your work."**

Ukraine invasion hits home


Vitaliy Kutnyy

The war in Ukraine hits home for many Selfreliance Federal Credit Union employees and members.

The Ukrainian founders of the $800 million asset credit union in Chicago were displaced by World War II. Now, the credit union is supporting Ukrainians displaced by Russia's invasion of Ukraine.

"Most of our employees have family in Ukraine, so what is happening there is very close to them," says Selfreliance Federal President/CEO Vitaliy Kutnyy, who immigrated to the U.S. in 2002. "It is tough. Our cities are being destroyed, innocent people are being killed, many people are displaced, and kids lost parents. Because our staff are under huge stress, we put many credit union projects and business initiatives on hold."

To support Ukraine, the Selfreliance Foundation set up the Ukraine Relief Fund, which has received more than $400,000 in donations. The funds will provide medical supplies and care, shelter, and food for displaced people. "We will do whatever we can to help," Kutnyy says.

Selfreliance Federal also eliminated wire transfer fees to Ukraine and Poland, and facilitates transfers to the Bank of Ukraine's fund in support of Ukraine's military.

"We are seeing an influx of displaced individuals arriving in Chicago and other areas our credit union serves," Kutnyy says. "These new immigrants will be welcomed into the credit union family. Our staff is bilingual, and new members will be able to take care of their finances in their native language."

Visit *selfreliance.com/supportukraine* for more information.

Lending evolved

Data is key to finding and serving those who don't receive the financial services they need.

Lending is an area where the credit union mission is relatively simple: provide affordable capital to people and businesses to help them realize their dreams. This might mean a home, college education, or the ability to hire a new employee.

Our commitment to Financial Well-being for All™ means credit unions must find better ways to get capital to our members. The ability to safely access credit is a one of four key components of financial health, according to the Financial Health Network. Consumers using higher-cost credit sources will likely experience lower financial well-being.

The data shows credit unions step up when things look bad while banks pull back during crises. We lend more when people are in need because that's why we're here. Credit union lending increased 4.7% during the first year of the pandemic while bank loans fell 1.3%. Credit union loan growth has been 4.6% on average during the previous three U.S. recessions.

Credit unions work with members on personalized solutions to keep their money available while they're dealing with a crisis. But financial well-being for all means creating the avenues to reach new communities.

The old way of doing business has left too many people behind. There are too many financial deserts and underserved areas when the economy is booming, not to mention during a recession.

Data is a key component to finding and serving those who don't receive the financial services they need, and it's key to creating something new and different.

Look at $8.7 billion asset Patelco Credit Union in Dublin, Calif., which had to decline 11,825 loans in 2020 for members who didn't qualify. Patelco decided that wouldn't cut it, especially during a pandemic.

So they looked at data on members and loans they had to reject and created the ScoreUp Credit Builder Loan.

> **"CREATING BETTER OUTCOMES FOR MEMBERS IS AN UNDENIABLE PART OF THE CREDIT UNION DIFFERENCE."**

Not only has ScoreUp provided loans to more than 1,200 members, 38% of those loans are going to new members and 72% are going to members under age 45. Patelco now partners with 21 local United Way centers to promote the loan.

Carolina Foothills Federal Credit Union in Spartanburg, S.C., launched a similar product for mortgages. The Financial Inclusion Mortgage for First Time Homebuyers has a 97% loan-to-value maximum, low closing costs, and no private mortgage insurance requirement.

The $162 million asset credit union partnered with local nonprofits to help borrowers obtain down-payment assistance, and it uses relaxed underwriting standards to make the loan more accessible. The average loan amount is $160,593, with one-third of borrowers receiving an average of $5,819 in down-payment assistance grants. Seventy-four percent of these loans go to low-income borrowers.

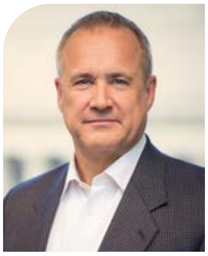
These products are great examples of credit unions taking direct aim at unmet needs in their communities, leveraging their experience, and partnering with other organizations to expand their reach. They began as an idea, and through collaboration and execution became something real that improved members' financial health.

Until this point, these members had a difficult path to improve their financial health. But their credit unions came up with solutions to improve their financial well-being by looking beyond the way it's always been done before.

Credit builder loans or mortgages averaging $160,000 might not make a big splash on an end-of-year balance sheet. But they're building up thousands of community members who are now on a path to financial health that didn't exist before.

This path might not exist if not for their credit union.

Creating better outcomes for members is an undeniable part of the credit union difference. Our challenge is to never accept anything less than financial well-being for all.



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'Good communities make for good business'

We can collectively have substantial impact on our communities' quality of life and resources.

Author Bob Buford makes the case in his book "Halftime" that we have two types of capital to spend.

Economic capital positions us to leverage money and time for activities we enjoy. The focus is on traditional metrics, perhaps set by a regulator or determined internally, and the focus is on "us" or "me."

By contrast, social capital enables us to reinvest time, money, and knowledge in the community that makes our success possible. To a large degree, the focus is outward and on others.

Buford says the payoff of social capital is blessedness, contentment, and significance.

A CEO's role includes owning, energizing, and communicating a vision; growing a supportive culture; making good decisions; and delivering performance.

The latter two responsibilities are familiar, so they get more attention. But vision, culture, and values are often key differentiators in a commoditized financial services business environment.

Changes in my role as a leader include making a concerted effort to narrow our credit union's focus on a niche, reflective of our roots, while redefining and enlarging our vision of how a not-for-profit financial cooperative can add value to the community beyond traditional financial solutions and metrics.

With all due respect to the work elected officials perform, it's marketplace leaders—you and me—who most influence communities.

It's our efforts that produce jobs that provide for the livelihood of the people in our cities. We can collectively have substantial impact on quality of life and the resources—financial, intellectual, and otherwise—to address myriad community challenges. In Austin, Texas, these include traffic congestion, quality of K-12 education, workforce training programs, housing affordability, and a host of other issues.

There exists a virtuous circle into which we must inject ourselves. Good communities make for good business!

The founders of most credit unions in the 1930s were, in a sense, radicals. Today we would call them "disruptors" to financial services, focused inordinately more on building social capital than on the metrics we too often focus in the 21st century.

That's not to say we should discard these traditional metrics, but it's time to remedy the severe imbalance that has risen in the ensuing years.

> "VISION, CULTURE, AND VALUES ARE OFTEN KEY DIFFERENTIATORS."

Ask any CEO about their credit union and you'll immediately hear of an asset level, member count, number of branches, and return on assets.

What about how we're impacting a community: generating lift in quality of education, health care, affordability, traffic, or other measures of quality of life?

Does our value proposition consist solely of commodities, low loan rates, high deposit rates, low fees, and convenience? Are we truly relevant to our communities?

I have had the pleasure of working alongside many credit union leaders from the generation prior to mine on whom I would enthusiastically bestow the title "disruptor." I have often reflected on how such individuals grew professionally into such roles of great influence, both within and outside the credit union marketplace.

Much of it has to do with their absolute refusal to allow contemporary business challenges and practices to prompt them to set aside the culture and values of their respective organizations as envisioned by their founders.

They refused to compete by aiming solely to serve as a low-cost provider, instead using the not-for-profit credit union platform as a vehicle through which they could effect social change.

Going forward, do we leave it to chance that community leaders will naturally rise up within the credit union movement? Or will those of us in key leadership roles take responsibility for ensuring that happens?

I sense many are coming to the realization we should give this matter attention and are stepping up to make a difference. Are you one of them?

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Credit Union National Association
CUNA

> “By establishing and deepening relationships with our members, we will help them along and give them confidence in not just their current financial situation, but their knowledge and their ability to set up more financially responsible services in the future.”

Lloyd Cockerham,
President & CEO,
Ascension CU

Become the expert members turn to for financial guidance

CUNA
Financial Counseling Certification
PROGRAM (FiCEP)

Help members get the answers to their financial questions, navigate debt and plan for more promising financial futures. Grow your credit union with the knowledge and skills obtained through CUNA FiCEP.

You’ll learn how to:

- Help members manage their finances
- Build deeper relationships with members
- Increase product and service revenue
- Attract new members
- Reduce bad debt

cuna.org/ficep

Every member has a story

RON JOOSS

Look beyond the credit score when lending to underserved populations.

Lending to underserved populations is a nuanced proposition. Many underserved loan applicants fall into categories known as B, C, and D paper—lower or even subprime credit tiers. As such, many financial institutions either won't take on the perceived risk or will charge a pretty penny to do so.

But credit unions that serve these members look beyond the credit score in determining creditworthiness. In fact, these lenders use remarkably similar language in describing how they approve applicants who don't "check all the boxes." They say it's about each person's story.

"We don't have a computer telling us 'yes' or 'no,'"

Addressing members' pain points
Affordable auto loans address lack of mobility, a key member pain point, says One Detroit Credit Union Executive Vice President Joumana Mcdad.

iStock

says Jason Kaufman, vice president of central lending at $1 billion asset Marine Credit Union in La Crosse, Wis. "We listen to each person's story and find out what brought them here. We use this process with all our members. We don't lend with a matrix or by checking boxes. Every member has their own story."

Bob Remillard explains Workers Credit Union's risk-based approach to lending similarly.

"We've been doing this type of lending for years, and you do have to manage it," says Remillard, vice president of consumer and mortgage originations at the $2.1 billion asset credit union in Littleton, Mass. "I can

Focus

- **Lending to the underserved** requires looking beyond the credit score to determine creditworthiness.
- **Community partnerships** are invaluable when creating nontraditional lending programs.
- **Board focus:** With proper due diligence, subprime loans perform virtually as well as traditional loan portfolios.

look at credit scores all day, but you have to ask yourself, 'What happened?' Someone might have lost a job. I had a member who was taking care of her parents and fell behind on her loan payments, and now she's caught up. As often as not, there's a story there."

At the same time, subprime lending sometimes demands a level of anonymity, especially when providing alternatives to payday lending ("Faith Fund breaks payday loan cycle," p. 26).

> "WE PARTNER WITH NONPROFITS TO UNDERSTAND THE NEEDS OF THE UNDERSERVED."
>
> JOUMANA MCDAD

'It's our mission'

MyPay Today, One Detroit Credit Union's payday loan alternative, is designed to move members through the lending process seamlessly and as anonymously as possible with an eye on a stronger future relationship with the $55 million asset credit union.

MyPay Today is a $500 personal loan prospective borrowers can apply for in-person or via mobile phone. The credit union runs applicants' credit scores to check for open bankruptcies but doesn't consider information beyond that, says Joumana Mcdad, executive vice president and chief strategy and innovation officer.

"We don't look at debt-to-income ratio as we typically would for a small-dollar loan," she says. "We don't care what their credit score is. We're not even looking at credit scores. And they have two months to pay the loan back."

Once they make payments, borrowers can also draw on the loan for a full year.

Because the credit union added e-signatures last year, borrowers aren't required to come into a physical branch.

"We've tried to make it as seamless as possible, and it's worked for us," Mcdad says.

One Detroit has extended its credit initiatives beyond payday loan alternatives. Located in the inner city, the credit union has made lending to underserved populations a strategic priority.

"It's our mission," Mcdad says. "We don't try to be fancy with our products.

"We're out in the community and we listen to the people who live there," she continues. "We partner with nonprofits to understand the needs of the underserved. I can create all these products, but I don't know the actual need unless I talk to the people who live in the communities we serve."

One result of that community outreach is a first-time auto loan program developed in partnership with a United Way initiative called the Center for Working Families. The program works with community members who are unbanked and underserved, and helps them with job placement.

"One pain point is a lack of mobility," Mcdad says. "People can't get financing to buy cars or they're going to B lots where the interest rates can run over 20%."

One Detroit's auto loan program has an interest-rate cap of 7.99% regardless of the applicant's credit score. "We don't require a co-signer," Mcdad says. "Seventy percent of these loans have credit scores under 580."

The loan also includes an anti-theft app that shows the car's location in the event it's stolen. "That mitigates our risk," Mcdad says.

At the same time, many community members are already harnessed to bad loans. For that reason, One Detroit developed Refi My Ride, an auto loan refinance program that saves members money.

"Again, we'll look at the credit score, but the interest rate is not determined by the credit score," Mcdad says. "If someone comes in with an interest rate of 18%, we're going to cut that in half."

She reports that 33% of these loans were made to borrowers with credit scores of 500 or lower. Since its introduction in 2015, the credit union has made 1,400 loans through the program totaling $26 million.

Mcdad estimates the program has saved members $4.7 million in interest.

"That's $4.7 million going back to the community," she says. "If you have a little more money in your pocket, not only can you make that loan payment, you might shop and go out to eat a little more. That's good for the community."

Serving subprime borrowers

Workers Credit Union offers an Opportunity Loan to subprime borrowers but collects nontraditional information that may indicate a borrower's ability and willingness to make regular payments.

One element of credit reporting that often weighs applicants down is education loans. "We'll see that at one time they were three or four months behind but are current now," Remillard says.

Partnerships are also critical to Workers' lending program, particularly relationships with car dealers. Dealers don't receive the entire share of the loan at closing with the Opportunity Loan program. The credit union retains 5% of that share.

The dealers must understand they're also taking somewhat more of a chance with these borrowers, because if they don't repay the loan, the dealers don't get the 5% on hold, Remillard explains.

"If a borrower has paid on time for one year, we give the funds to the dealer even though the loan is not paid off," he says.

He explains further that when dealers typically work with subprime lenders, they face more restrictions and fees than when they partner with Workers. Those extra fees are almost always rolled into the loan.

Borrower expectations can also come into play, Remillard says.

"If you have a 615 credit score we can't lend you $55,000 for a used Porsche. You'd be surprised by some of the requests we get," Remillard says.

> "WE DON'T HAVE A COMPUTER TELLING US 'YES' OR 'NO.'"
>
> JASON KAUFMAN

At the same time, the credit union wants to put members in reliable vehicles. "They'll have to pay for repairs if the vehicle starts breaking down," he says. "We don't want a vehicle to be more than eight years old."

ITIN lending

Marine Credit Union has developed a specialty in individual tax identification number (ITIN) lending, approving loan applicants, primarily Hispanic, who do not meet the residency requirements needed for a Social Security number through their individual ITIN.

Because nonresidents without Social Security numbers don't have established credit histories through the three major credit reporting bureaus, Marine and other financial institutions offering ITIN loans accept alternate forms of credit history such as utility bills and credit references such as rental history.

Marine offers not only consumer and auto loans through its ITIN program but also mortgages.

Robertta Masoud, Marine's senior mortgage officer,

"WE'RE HELPING PEOPLE IN THE COMMUNITY ADVANCE THEIR LIVES BECAUSE THEY CAME HERE FOR THE AMERICAN DREAM."

JACKIE BLANCO-RINCON

FAITH FUND BREAKS PAYDAY LOAN CYCLE

In 2018, New Orleans Firemen's Federal Credit Union in Metairie, La., partnered with three community organizations to form the Faith Fund.

"The people who formed the Faith Fund believe individuals can better manage their money and escape predatory lending while achieving financial stability," says James Hunter, chief diversity and inclusion officer at the $225 million asset credit union and executive director of the Faith Fund. "But it has to be done by pairing them with the right coaching and the right financial products because that empowers them to achieve financial success."

The area is inundated with payday lenders. Hunter describes the people taking out payday loans as the "working poor," those who have jobs but can't make ends meet.
"The idea is to meet them where they are; to give them a hand up, not a handout.
"We want to get them out of this whirlwind of debt that is weighing them down. When they work with our counselors, consolidate these loans, and tighten their budgets, they move on to more financial opportunities."

The program has grown to include not only payday loan alternatives but emergency loans during the pandemic and Hurricane Ida. Plus, Ride Smart auto loans provide reliable transportation at a reasonable cost, and affordable housing loans help members transition from renting to homeownership with little to no cash down.

The program provides credit tools that help members face day-to-day challenges while building financial equity. Hunter points to an element of the auto lending program that puts money aside for maintenance expenses.

JAMES HUNTER

says education is a key part of the ITIN mortgage program.

"These members are so conditioned to save, save, save," she says. "They have to learn there are other ways to build wealth, not just with mortgages but through CDs and investments."

At the same time, this financial discipline means the ITIN loan portfolio performs well, Masoud says. "This segment of the population is hardworking and dependable. They've just been overlooked. Their entire families are invested in these loans."

She adds that, as the program has grown, most of her business is based on referrals.

"Once we helped a few families, people were knocking on our door," Masoud says. "Word of mouth is the best kind of marketing."

For its efforts in working with the Hispanic community, Marine earned the Juntos Avanzamos ("Together We Advance") designation Inclusiv provides for credit unions committed to serving and empowering Hispanic consumers.

One nuance of ITIN lending and similar credit programs is the difference it makes in how employees approach their jobs, says Jackie Blanco-Rincon, senior consumer loan officer.

"One of the reasons I came to Marine Credit Union is our ITIN lending program," she says. "We're helping people in the community advance their lives because they came here for the American dream.

"Whether it's their first car or owning their home, we are here to help them."

Resources

❯CUNA:

1. Financial Counseling Certification Program: *cuna.org/ficep*
2. Financial Well-being for All™: *cuna.org/advocacy*
3. Lending Council: *cunacouncils.org*

❯Inclusiv: *inclusiv.org*

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Credit Union MAGAZINE

Digital Transformation is Calling... Are Credit Unions Answering?

Sam Boggs, GM, Conduent Business Operations Solutions

Banking has always been the foundation of our economy. Today, it's at the heart of the Fourth Industrial Revolution, blurring the boundaries between the physical and digital worlds.

During COVID, we've seen things change like never before. The pandemic has intensified the demands for digital transformation and sparked it to happen at record speed — revolutionizing ways to engage, personalization of engagement and the ability to conduct business from anywhere, faster than ever.

Increasingly, banking is embedded in everything we do, shifting the way we think about payments, transactions and interactions. In turn, consumers are making decisions about who to bank with based on how easy their experience will be. They want things simple, seamless, understandable, fast and secure.

An end to "ops normal"

Digital convenience and ease are not just the new norm, they're the dominant expectation from members in day-to-day business. If you can't deliver this convenience, your credit union is automatically at a competitive disadvantage.

Never have consumers been more aware of what's possible and what's required to have a seamless digital experience. They expect credit unions to rise to the occasion. As a result, credit unions are being prompted to rethink their business processes, technologies, and business plans to determine how best to deliver experiences at the level today's members expect.

According to **Brett King**, author of Bank 4.0: "It's all about experience. Either financial institutions remove friction or someone else will."

Personalizing experiences and driving speed

We've all seen how companies like Netflix and Amazon have raised the bar on personalization and the immediacy of the customer experience. They've taken data analytics to new heights to better understand their customers and create experiences tailored to the individual.

For credit unions, the challenge goes beyond data analytics. To truly satisfy member's needs, credit unions must have the supporting processes to create a personalized, responsive experience. Working with an expert partner who has made these investments and can provide a depth and breadth of capabilities at scale, can pay big dividends, and assure your credit union is relevant to your members' financial lives.

Breaking free from the legacy mindset

Credit unions that prioritize future-readiness with smart technology integrations will move ahead, make unprecedented advances across their operations, and deliver new levels of digital convenience for their members. The common tendency though has been to focus on accelerating and/ or automating what's already there (a.k.a., legacy systems), as opposed to completely rethinking what's needed and what really needs to change to meet members where they are today and will be tomorrow. Many financial institutions have discovered first-hand how automating a sub-optimal process can make what's bad, worse.

The pandemic has taught us that many things we previously thought couldn't be achieved overnight — in fact, can. The traditional "three- to five-year" timeframe that credit unions often quote for completing major transformation has officially been turned on its head. Businesses across industries have proven to themselves, especially over these past couple of years, that big changes can happen in a short time frame with the right focus and effort.

Creating a better future with innovative thinking

Financial institutions can move to the leading edge supporting their members by embracing change and disrupting the legacy mindset. Cultivating innovative thinking within their organizations and encouraging people to think outside the traditional box, will deliver faster results for forward-looking organizations.

Outside-the-box thinking is paving the way for a metamorphosis in back-office processes. Next-generation systems are enabling credit unions to make huge gains in economies of scale, handling large volumes of incoming data and documents with automatic identification and extraction of appropriate member information, improving insights and enhancing member responsiveness.

Personnel working across different areas can efficiently collaborate, pull the exact data they need from a common secure source and be guided by the system to ensure ongoing alignment and compliance with specific requirements. In the process, manual requirements and costs go down, and turnaround times and efficiency go up.

Becoming the go-to source for financial health solutions

Consumers are more inclined to build a relationship with a financial institution that can provide not just the core banking services, but also be a central resource for a host of integrated financial solutions that will help them improve their financial health.

The question for financial institutions is: will you strategically position yourself to be at the center of your members' financial services lives? Or you will allow competitors to strip away valuable parts of your member relationships?

It's clear: digital transformation in banking is more critical than ever. But it doesn't happen on its own. It takes the right expertise, capabilities and technology to enable it — and often, a strategic partner to ensure you get to the finish line.

Learn how Conduent partners with Credit Unions to digitally transform business to improve member experience
conduent.com/insights/cuna_gac22

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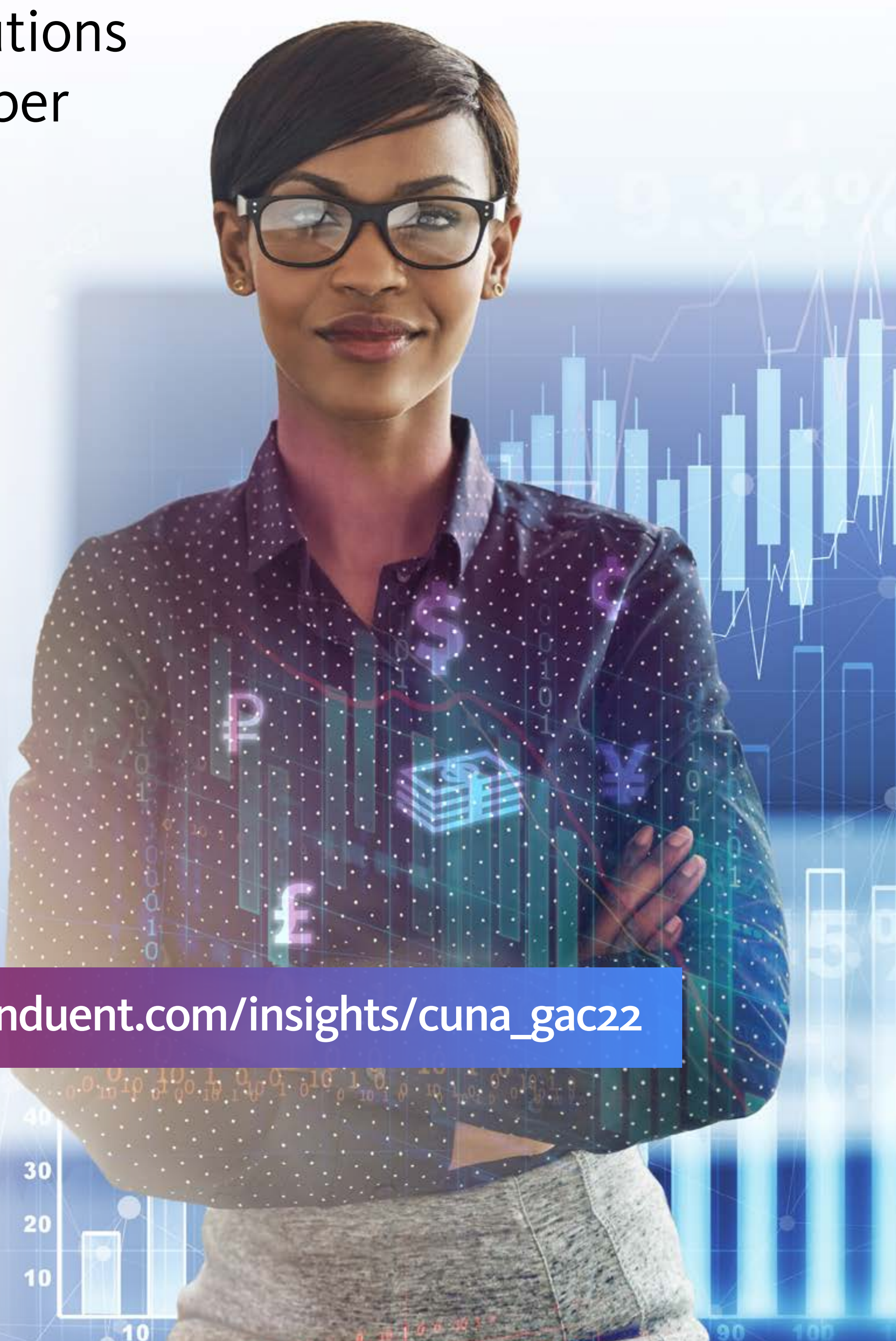
End-to-end solutions for better member experience



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A 6-Part Strategy for Winning the Competitive Loan Battleground

Loans of all types are high on the list of people's priorities over the next year as they look to make large lifestyle purchases. Many are beginning home improvements, planning vacations, buying new homes and autos, or financing their children's educations.,

And while Vericast's 2022 Financial Service TrendWatch report shows that 86 percent of people are generally happy with their primary financial institution and get what they need from the relationship, the one critical product where they're are open to working with a different financial institution is loans.

59.7% of people would consider another lender for a mortgage loan, auto loan or credit card.[1]

When you also factor in rising inflation, tight supply chains, expected rate hikes, and the increased popularity of neobanks,[2] particularly with millennials, the competition for loans will be fierce.

For these reasons, it's more important than ever for credit unions to be ready with relevant, personalized loan offers at the time people are shopping.

6 Ways to Stay Competitive In an Open Lending Market

1. Market your rates in your messaging. Interest rates are expected to creep up this year. Make sure people are aware of your competitive rates by highlighting them in your marketing.

2. Target "in-market" members and prospects. If you intend to be competitive in this tight loan acquisition market, the key lies in striking while the iron is hot. You must reach prospects with your best offer precisely when they're in the market for a loan, and anticipate the needs of your current members, keeping your preapproved offers top of mind so they know you stand ready to serve them.

3. Offer multi-loan preapprovals to existing members. People lack confidence in their ability to be approved for a loan — take the concern away with pre-approvals so when they are in the market, they think of you first. And with multichannel multi-loan preapprovals, members can access, review and accept multiple prescreened loan offers at every touchpoint, driving loyalty and revenue.

4. Adopt an always-on, omnichannel approach. Discover the importance of implementing an effective 24/7/365 strategy that puts loan offers at shoppers' fingertips to accept anytime, anywhere. Communicating with consumers through multiple channels, including email, digital, mobile, direct mail and connected TV is a proven method of increasing loan acquisition and driving revenue.

5. Set up an alerts program. Receive notifications from multiple credit bureaus whenever a credit inquiry is submitted for your members. Using all three credit bureaus is best, as it will provide 75% more coverage.[3] Monitoring these inquiries and then countering with a quick, preapproved offer via the channel to which shoppers are most likely to respond will help you stay one step ahead of the competition and win market share.

60% of all loan shoppers will commit to a loan within a week of a credit bureau inquiry.[4]

6. Make loan shopping easy. Think like Amazon® and keep it simple and easy. If it involves too many steps, requests too much information or takes too long, consumers will abandon the process. Take a cue from fintechs, who have gained favor by making the loan application process easy for applicants.

"Consumers are much more rate and payment aware and discerning of the loan terms they receive than we've seen during the recent down-rate environment, so they're more likely to shop around for the most favorable loan package," says Stephenie Williams, Vericast's vice president, financial institution product & strategy. "You must make your loan marketing proactive and clear, and your offers easily actionable."

In a perfect world, your members would never even think to inquire about a loan from a competing institution and you'd have the resources to get in front of every prospect. But times have changed with multiple channels and myriad borrowing options now available.

You can effectively compete for your share of loans with a six-part strategy that puts the member at the center of your marketing efforts.

Download our 2022 Financial Service TrendWatch report for the five key marketing trends impacting our industry, plus actionable insight for improving loyalty, increasing acquisition and growing relationships.

Contact Vericast to more about how strategic, data-driven marketing improves program optimization, achieves explosive loan growth, and gives your credit union a much-needed competitive advantage.

1-800-351-3843
contact **HC@harlandclarke.com**
vericast.com/Acquisition

[1]Vericast 2020 Financial Services TrendWatch
[2]Lake, Rebecca, "Surprising Millennial Banking Trends," The Balance, February 27, 2022
[3]Vericast client data
[4]Ibid.

GO DIGITAL WITH YOUR LOAN MARKETING

Nearly 60% of people would consider another lender for a mortgage loan, auto loan or credit card. [1]

Deepen relationships with members and stay top of mind with always-on, multichannel loan offers at their fingertips. Be in front of your members consistently by providing:

> Single-loan preapprovals
> Multi-loan preapprovals
> Trigger-based offers

Combining proprietary consumer data and timely alerts from multiple credit bureaus offers the best opportunity for acquiring new loans.

60% of loan shoppers will commit to a loan within a week of a credit bureau inquiry.[2]

[1] Vericast 2022 Financial Services TrendWatch
[2] Vericast client data

For additional lending insight, download the 2022 Financial Services TrendWatch report.
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Learn how we can help you expand for your lending portfolio at **vericast.com/Acquisition**

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VERICAST

Mortage Loan Subservicing: What is it and how can it work for my Institution?

It's done! The residential mortgage loan is successfully originated. And the financial institution (FI) is now contemplating whether to portfolio or perhaps sell into the secondary market, **service released** or **service retained.**

With the **service-released** option, an FI receives an "all-in" payment, both for the loan and mortgage servicing rights (MSR).

If the loan is sold **servicing retained,** a Government Sponsored Enterprise (GSE) pays the FI at least .25 bps per loan (other investors may differ) to complete all servicing functions.

Now, the FI must navigate the arduous task of completing all servicing responsibilities for the life of the loan.

Or, gain tremendous benefits from outsourcing those tasks.

Mortgage Loan Servicing Is Not Just Collecting The Monthly Payment.

A comprehensive Mortgage Loan Servicing Division is responsible for **administrative, compliance and fiscal core functions including:**

- **Loan Administration –** Customer service/call center, website, escrow, payment/payoff and more
- **Default Administration –** Collections, loss mitigation, foreclosures, electronic default reporting (EDR), etc.
- **Business Administration –** Quality control and quality assurance
- **Compliance –** Federal, state, local and investor regulations

Plus client relations, investor remittance/reporting, risk mitigation . . . the list goes on.

Why Choose Subservicing?

The benefits of subservicing are many (see sidebar). The assurance of regulatory compliance itself is worth the move to outsourcing.

Often, misconceptions cloud the decision: "Too expensive… We know our borrowers best… Board won't approve… We'll lose control."

These are all questionable assumptions. Read on.

What Does a Subservicer Do?

A subservicer is a qualified outsourcing partner that performs all administrative, compliance and financial servicing activities related to a mortgage loan for a monthly FIXED per-loan fee. This includes all core functions mentioned above plus: standard and customized month-end reports; reconciliation and remittance to mortgage holders and investors; private labeling capabilities and more.

The Cost Difference

Managing all costs and risk associated with servicing is critical. **Unfortunately, calculating cost to service (CTS) is seldom performed and least understood.**

To compare costs to service mortgage loans in house versus outsourcing, FIs must consider:

- **"Cost to service per loan" –** The per-loan/per-year in-house cost, calculated by dividing total costs by number of loans serviced
- **"Opportunity per loan" –** What is most likely paid to outsource servicing, per loan per year
- **"Estimated savings" –** Amount saved by engaging a subservicer
- **"Economies of scale" –** Per-loan savings subservicer realizes from the sheer volume of loans they manage

A subservicer has a much lower CTS per loan due to economies of scale. The only way an FI can match that cost is by servicing an equally large volume. Plus, a subservicer's only focus is managing intricacies and complexities of mortgage loans. Co-mingling asset types, as FIs do, creates many more servicing problems than efficiencies.

In our whitepaper, we compare seven scenarios of servicing varying levels of mortgage loans in house. The estimated savings from subservicing are dramatic and convincing. Download whitepaper here.

5 REASONS TO CONSIDER SUBSERVICING

1. **New** servicing products, services and technology with no up-front investment
2. **Assured** regulatory compliance (federal, state and investor)
3. **Better** management of the loan portfolio's ebb and flow
4. **No worries** about fluctuating resources and/or expertise needs
5. **Reduction** or elimination of in-house servicing expenses

Final Thoughts

Owning the servicing rights to a residential mortgage loan should ensure the FI a solid ROI. The right qualified subservicing partner can help FIs maximize the value of their MSR while enhancing service to borrowers.

Author: Peter T. Sorce, CMB, President and CEO, Midwest Loan Services

ADVERTISEMENT

Capture Your Share of the Purchase Market

By Tom Secor, VP, National Business Development Director, QRL Financial Services

Now that refi income has reduced dramatically, credit unions must quickly shift gears to accelerate and grow purchase originations. How? For starters, create and nurture strong ties with realtors and other housing industry pros. At the same time, be sure to partner with a lending services provider who's committed to closing your loans on time. And who offers mortgage products and experiences that thrill you and your borrowers.

Add more mortgage income in a highly competitive market!

Grab a Bigger Slice of Today's Purchase Opportunity

Purchase origination volume is expected to grow this year as refis drop sharply. Can your credit union make the most of this situation? Here are a few ways to be sure.

- ☐ **Form new and closer relationships** with realtors
- ☐ **Deliver *exactly* what realtors want:** (1) on-time closings (2) excellent communications
- ☐ **Offer and promote a full suite of products in all 50 states,** including government loans
- ☐ **Use modern technology** and different ways to make communicating easy for borrowers
- ☐ **Provide pre-approvals,** not just pre-qualifications, to outperform the market

See more recommendations in the full article at ***go.qrlfinancial.com.***

Optimize Operational Efficiency

Balance digital transformation with critical essentials. . .

- **Compliance oversight** and sure adherence to regulatory requirements
- **Staff scalability** up and down, as market and lending priorities shift
- **Technology platforms** giving everyone involved the convenient experiences they expect

Choose The Best Mortgage Partner

The right provider will excel in these areas, tailor options to your needs, and deliver . . .

- **Servicing retention** providing cross sale protection
- **Excellent "loan-level"** support by an assigned, dedicated team
- Free use of a modern, efficient **Loan Origination System**
- **Accurate underwriting** at impressive speeds
- **Fulfillment services/support** (underwriting, processing, closings) for secondary market and portfolio mortgages

It's time to make changes!

Contact QRL Financial Services today and prepare your credit union to get more of the purchase market this year.

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With QRL Financial Services, the sky's the limit.

Welcome to the future of mortgage lending. Grab your share of the purchase market and beyond to scale nimbly and support your members.

QRL Financial Services is a 50-state lender that specializes in partnering with credit unions nationwide. We offer a full suite of mortgage products, including conventional and government loans.

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No matter what market changes are ahead, our mortgage solutions give you scalability, modern technology and critical compliance oversight—**without the need to add staff or overhead.**

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Credit unions collectively provided $13.3 billion in member financial benefits in 2021

cuna.org/economics

THE SUCCESSION LIFELINE

DARLA DERNOVSEK

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Successful plans include a strong development program at every level of the organization to prepare future leaders.

A strong succession plan can be a lifeline that allows your credit union to survive the waves of change when the CEO or other leaders retire or resign.

Yet the succession plan alone may be inadequate to provide the ongoing leadership that determines whether a small or mid-size credit union can stay afloat on its own or must resort to a merger.

To be effective, credit union leaders say the succession plan must be backed by an internal development program that ensures the organization has the talent available to thrive whether the new CEO is promoted through the ranks or recruited from outside.

Plan now or merge later

Without a succession plan, credit unions with assets of $250 million or less are often forced to merge when they learn the CEO or other senior executives plan to retire or resign, says Scott Butterfield, founder and principal at Your Credit Union Partner. The firm provides strategic planning services to about 35 credit unions each year, which Butterfield says also means providing succession planning advice because the two issues are so closely linked.

"I always tell the board, 'You have one employee and that employee is the CEO,'" he says. "Their job is to make sure they have a succession plan for that position."

Butterfield is regularly contacted by anxious credit unions after their CEO or other senior leaders unexpectedly retire or resign, or after NCUA examiners crit-

Focus

- **Create** a succession plan to ensure your credit union can withstand a change in leadership.
- **Include** employee development programs to prepare staff for future opportunities.
- **Board focus:** Begin succession planning and development efforts early, and make sure the board has come to a consensus about the type of leader it wants for the future.

icize the credit union's lack of preparedness for that event. He's dismayed when well-established credit unions with aging executives choose to merge rather than planning now to recruit the next generation of leaders.

NCUA recognizes the problem in its proposed rule on succession planning, which requires federal credit unions to establish a succession planning process for management officials and key board positions.

The proposed rule states that NCUA's analysis shows "poor management succession planning was either a primary or secondary reason for almost a third (32%) of credit union consolidations."

"It's a huge issue," Butterfield says.

> "UNTIL YOU ACTUALLY IMPLEMENT A SUCCESSION PLAN, YOU'RE NEVER GOING **TO SEE THE PITFALLS.**"
>
> MARK PAGE

Domino vacancy

Even credit unions that have a CEO succession plan may learn the CEO failed to create succession plans for other senior executives, creating a domino effect in vacant leadership positions.

"This is where I see a breakdown," Butterfield says. "This isn't about a one-time event. It goes deeper than that."

Succession planning is essential as baby boomers—those born from roughly 1946 to 1964—continue to retire in large numbers. For example, a credit union may have four boomer-era senior executives with more than 20 years of experience, which could mean they all retire at roughly the same time.

If such credit unions don't have anyone prepared to step into these executive positions, they may lose their entire management team, Butterfield says.

He recommends a strong development program at every level of the organization to prepare future leaders.

Health and longevity

Both succession and development are priorities at Simplicity Credit Union in Marshfield, Wis. Board Chair Mark Page has been a director since 1987 and watched as the credit union's assets grew from $45 million in the 1990s to $429 million today.

Page has witnessed CEO transitions that both fueled and slowed growth. He's also seen succession plans that worked in real-world conditions—and plans that faltered when reality intruded.

"Until you actually implement a succession plan, you're never going to see the pitfalls," he notes.

Simplicity faced a big leadership challenge when former CEO Patricia Wesenberg took a leave of absence before resigning in late 2020 due to health issues.

The board hired a consultant and conducted an internal search that led to Chief Financial Officer Nicholas Faber being promoted to CEO in March 2021.

Faber says Simplicity's succession plan created a smooth transition at a time when employees were grieving for Wesenberg, who died in February 2021. She had served as CEO for 26 years.

"The health and longevity of the organization is the No. 1 reason to have a succession plan," Faber says. "If there is a succession plan in place, it has been communicated, and there is a clear goal and strategy from top to bottom, we will be able to keep moving along the path to accomplishing what we set out to."

Internal focus

Page says hiring an outside consultant provided an objective evaluation of internal applicant skill sets and competencies, giving the board confidence in its decision to promote Faber to CEO. Choosing an internal candidate allowed Simplicity to skip the tricky process of matching a candidate to the culture.

"Our biggest win wasn't having to spend an excessive amount of time trying to explain to the leader what our member-focused culture is," Page says. "We wanted to make sure our next CEO would continue that culture."

Simplicity is maintaining its culture with a development program for its 110 employees, including a leadership course developed and led internally. Thirteen employees graduated from the first Leadership 1.0 course in January 2022 and can apply for the Leadership 2.0 course. Meanwhile, another six employees will start Leadership 1.0 training.

"It speaks volumes to the desire of our staff who want to improve and continue to grow to do what we need to do to best serve our members," Faber says. Offering "360-degree feedback" to all employees is a key step because it allows employees to identify weaknesses they can address with training.

The development program has two goals:

1. Make sure employees who step into new roles have the skills to tackle their new positions.

2. Make Simplicity an employer of choice in a tight labor market.

"It's about taking advantage of opportunities," Faber says.

THE SUCCESSION PLANNING MINDSET

A broader perspective can help your board successfully replace a CEO and/or create a CEO succession plan, according to consultant Scott Butterfield. Start with these four steps:

1) **Recognize** the opportunity for change. Reframe CEO succession by thinking about where you want the credit union to go and then seeking the strengths required to get there.

2) **Decide** whether a CEO search will focus on internal candidates, external candidates, or both. Knowing your position in advance makes it possible to act quickly. While hiring internally can ease the transition, outsiders can bring new energy and fresh approaches, Butterfield says.

3) **Seek soft skills.** Soft skills such as collaboration can be as important as financial expertise in today's marketplace. Backgrounds in technology, lending, marketing, communication, and community engagement are also desirable.

4) **Embrace internal development.** Offer a development plan that mentors and coaches promising candidates at every level in both technical and leadership skills. While development takes time and other resources, the alternative is relying on unprepared employees when vacancies occur.


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Two-week notice

Aurora (Colo.) Federal Credit Union had a "verbal succession plan" based on annual and routine board conversations but lacked a finely detailed written document when the CEO gave two-week notice of earlier-than-expected retirement in June 2021. By coincidence, the executive vice president resigned to accept a new position a few days later.

"There was a little bit of angst on the board," Board Chair Mark Stephenson recalls. The $128 million asset credit union has 19 employees and two vice presidents, so the leadership gap was an immediate issue. "It certainly illustrates the need for a board to be ready."

Plus, the leadership change occurred during the pandemic. "There was quite a bit of exposure because we were so thin in leadership," Stephenson says.

Fortunately, the remaining, experienced vice president had risen through the ranks and was willing and prepared to serve as interim CEO.

The board quickly authorized the interim leader to promote staff internally and bring in new tellers. Decisions made in earlier board discussions about a CEO search—searching both internally and externally and using an outside consultant—accelerated the process.

"It helped tremendously that we all knew what direction we were going to take when the CEO did retire," Stephenson says. "Having an engaged board with a common vision of the future made it much easier when the time came to begin a CEO search, and made it easier to pick the final candidate."

Accelerating the process

Stephenson tapped trusted relationships to compile a short list of recommended recruiting firms, which allowed the board to quickly pick a consultant to help Aurora Federal develop a balanced short list of CEO candidates. He hosted a board dinner at his home so the consultant could get acquainted with the directors and explain the process, which created trust.

"We accelerated everything," Stephenson says. For example, Zoom interviews made it possible to conduct initial interviews in a shortened time frame.

"You use the same process; you just do it in weeks or a few months instead of stretching it out over a year," he says. "We made prudent decisions; we just made them more quickly."

Yet the seven-member board was also prepared to work hard and to set aside time for important face-to-face meetings. Five board members met with the interim leader so he understood the process and the board's priorities.

Board representatives also met with all employees in an honest and transparent conversation, which paid off as the credit union retained all employees throughout the transition.

Conversations with candidates focused on financial skills and core values, as well as Aurora Federal's desire for planned growth, which includes a potential charter change and increased marketing.

> "IF YOU HAVE AN OLD-SCHOOL BOARD, YOU HAVE TO BREAK OUT OF WHAT YOU FELT WAS THE NORM AND LOOK AT WHAT IS HAPPENING IN **YOUR ENVIRONMENT."**
>
> MARK STEPHENSON

The credit union hosted another board dinner for the final candidate and his spouse, allowing everyone to get acquainted and ask frank questions. Inviting a candidate's spouse or partner isn't traditional, Stephenson says, but it recognizes changing times as well as the need to quickly build trust.

"If you have an old-school board, you have to break out of what you felt was the norm and look at what is happening in your environment," Stephenson says.

Aurora Federal selected new CEO Charlie Watts in November 2021 but delayed his arrival until after the holidays so he could provide year-end financials for his previous credit union. Watts attended board meetings in November and December 2021 and became CEO on Jan. 1, 2022.

Planning years ahead

Succession planning and strategic planning are intertwined at $40 million asset Members Credit Union in Cos Cob, Conn., which is planning now for its CEO to retire in the coming years.

Strategic planning helped Members become a community development financial institution and the only financial institution that addresses the needs of

> “START THE CONVERSATION, EVEN IF YOU DON’T KNOW WHERE IT’S GOING TO GO AND WHERE IT’S **GOING TO END.**”
>
> BRIAN WOOD

low-income, Hispanic immigrants in Fairfield County. In 2017, Members received the Juntos Avanzamos (“Together We Advance”) designation for Hispanic outreach.

Succession planning will ensure that mission is carried forward after CEO Kathy Chartier’s retirement, which is tentatively set for 2025. Chartier joined Members in 1987 when it had $7 million in assets.

Chartier and Board Chair Brian Wood say Members’ roughly 6-year-old succession plan emphasizes development, which brings in fresh ideas and keeps skills up to date among its 10 long-term employees.

That makes it possible to maintain a high loan-to-share ratio, engage community organizations, and create programs that meet the needs of its growing Hispanic membership.

“What we’re all most excited about is the opportunity to network with organizations that we had been chasing for years that are now reaching out to us,” Wood says.

Succession planning also led the board to recruit younger, more diverse directors to better connect with the Hispanic community.

“We made a big turnover in the board through deliberate planning, which is why they are so aligned with what we’re doing,” Chartier says.

The credit union also gains fresh insights by recruiting high school students as part-time summer interns.

Vanessa Molla Kudeuk, Members’ vice president of lending and Hispanic outreach, learned about the credit union as an intern, joined the full-time staff three years later, and is now approaching 20 years of service.

Acting for the future

Wood says he was once hesitant to develop a succession plan because it meant acknowledging that

AD INDEX

Chartier would someday retire. Watching other small credit unions lose their identity through mergers changed his mind.

"The lesson learned was, start the conversation even if you don't know where it's going to go and where it's going to end," Wood says. "Then you can have discussions about career development and opportunities for employees to advance. It's important for us to get our internal people up to where they want to be and make them viable choices for leadership."

The current plan states that an internal candidate will be the preferred successor to Chartier when she retires. The plan identifies two staff members with complementary skill sets to provide interim leadership if needed.

Both Wood and Chartier say focusing on employee development will help them avoid a merger when the CEO transition occurs while providing continuity to the underserved members who rely on Members for financial services.

"We understand the need and purpose of small credit unions and how they can more closely touch their members," Chartier says. "Our ultimate goal is to remain independent."

Resources

❯CUNA:
1. Board and committee solutions: *cuna.org/board*
2. Credit Union Directors Newsletter: *cuna.org/directors*
3. Leadership training: *cuna.org/learn*

❯Your Credit Union Partner: *yourcupartner.org*

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Poor management succession planning was a primary or secondary reason for **32%** of credit union consolidations

Source: NCUA

Credit Union National Association
CUNA

For your **credit union.** For the **movement.** For the **better.**

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- Improve products and services
- Prepare for the future
- Advocate for the credit union movement

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cuna.org/board

the ESG effect

SAMIRA SALEM

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Environmental, social, and governance factors can be a competitive differentiator and a means to advance the communities we serve.

Environmental, social, and governance (ESG) is more than a buzzword. ESG has gained increasing traction globally as a way to gauge an organization's profitability, environmental sustainability, and social impact.

Major institutional investors now expect companies to commit to ESG criteria, and regulators are putting rules in place to hold publicly traded companies accountable for the effect their activities have on the climate. At the same time, policymakers in more states are trying to discourage companies from using ESG metrics.

While its origins are in sustainable investing, ESG is becoming increasingly important in financial services because:

› **Regulators and policymakers** are paying attention to it.

›Consumers, especially young adults, and employees increasingly demand more equitable, ethical, and sustainable organizations.

›The discipline represents a set of risks and opportunities that are becoming more salient for financial institutions.

Credit unions can use ESG as a competitive differentiator and as a means to deepen Financial Well-Being for All™ and advance the communities we serve.

From a macro perspective, ESG represents an approach toward a more holistic and balanced approach where businesses strive to be ethical, socially and environmentally responsible, and able to serve communities beyond their shareholders and management teams.

It is also a more holistic approach that recognizes the connections between good governance, environmental sustainability, and social responsibility.

ESG factors were previously considered outside the purview of traditional corporate responsibilities. But a transformation has occurred over the past couple of decades. Outside of government mandates, many companies have begun to work with stakeholders to address issues of mutual concern.

The pandemic, social unrest, and environmental and climate-related events have added to the pace of change. According to Korn Ferry, 86% of employees and consumers want to see a more equitable and sustainable world post-pandemic, and 43% of employees are reconsidering their current jobs because their employers aren't doing enough to address social justice issues.

Mounting evidence suggests a high commitment to ESG is correlated with stronger financial performance by attracting top talent and customers and reducing costs (e.g., lower energy consumption) and regulatory and legal burdens, McKinsey & Co. reports.

In this context, it's not surprising that ESG and sustainability considerations are increasingly incorporated into organizations' strategies, risk calculations, performance metrics, and public reporting. According to KPMG, 90% of North American companies report on their sustainability efforts.

ESG risks and opportunities

An ESG approach means credit unions explicitly consider both environmental risk mitigation and ways to maximize environment/climate-related opportunities in their strategies, planning, and metrics.

Credit unions know the environmental and climate risks well. When natural disasters and weather events hit, they are often among the first responders for their members, staff, and communities.

Credit unions have been taking these issues into account since our formation as we continue to make loans to farmers and ranchers, as well as small businesses, across the nation.

Nevertheless, we can do more by, for example, proactively managing these risks and doing more to take advantage of opportunities to expand our portfolio of green lending products.

The benefit of proactively managing these and other climate-related risks is that these losses and the impact on credit union balance sheets are mitigated and stress and injury to employees, members, and the community is reduced.

Environmental events can result in economic disruption, infrastructure damage, loss of assets, and health impacts for members, which affect how they engage with their financial institution. Often the impact hits the most vulnerable populations hardest.

This means credit unions must be prepared for delayed payments, loan defaults, and the need to provide emergency financing to rebuild homes or provide access to shelter and other basic requirements.

In addition to addressing environmental risks, credit unions can support affordable and sustainable green and clean solutions to environmental and climate challenges. This includes working with industry leaders to help reduce their carbon emissions, providing financing for less carbon-intensive energy sources for homes and businesses, and connecting individuals who desire socially responsible investment opportunities to green projects located in low-income areas.

Other opportunities include financing projects that support access to affordable housing, clean water, and affordable and healthy food.

A fundamental consideration

While environmental factors often get the most

Focus

›Environmental, social, and governance (ESG) factors are growing in importance due to increased regulatory scrutiny and consumer demand.

›Mounting evidence suggests a high commitment to ESG correlates with stronger financial performance.

›Board focus: Sound governance is fundamental to a credit union's ability to fulfill its mission of serving its member-owners.

WHAT IS ESG?

Environmental, social, and governance (ESG) metrics are interconnected. An organization can't move the needle on the environment without impacting people and communities, and it takes good governance to advance change in these areas:

Environmental factors consider how well an organization safeguards and is impacted by the environment (e.g., an organization's energy use, waste discharge, and recycling; and its impact on the environment, climate change, greenhouse gas emissions, water scarcity, and deforestation).

Social factors consider relationships organizations have with people and communities, as well as organizational practices that have a social impact on both (e.g., diversity, equity, and inclusion; working conditions; workplace health and safety; supplier diversity; well-being; and impact on vulnerable and marginalized communities).

Governance factors consider an organization's internal system of practices, controls, and procedures for governance, decision-making, compliance, and meeting stakeholder needs (e.g., leadership and leadership diversity, executive compensation, board diversity and structure, ethics, and risk management).

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attention, ESG is also about concern for people and communities. Diversity, equity, and inclusion (DEI) is a fundamental ESG consideration and part of the metrics used to measure an organization's social score.

DEI considerations include workforce diversity; fair and equitable treatment of all employees in terms of pay, professional development, and career advancement; and an inclusive workplace culture that seeks diverse perspectives so employees feel they belong and can fully contribute to the organization's mission.

Also vital are connections to the community through partnerships and support for diverse suppliers.

Research points to significant benefits of a diverse, equitable, and inclusive workplace boosting its competitive advantage. These include attracting and retaining top talent, improved financial performance, better customer orientation, increased employee engagement, fewer sick days, and more innovative and collaborative teams.

Sound governance is fundamental to a credit union's ability to fulfill its mission of serving its member-owners. Sound governance is also vital to our growth and continued relevance in the marketplace.

Governance is embedded in our cooperative principle No. 2, member democratic control.

This includes meeting relevant standards of transparency, compliance, and accountability, and considering the broad set of stakeholders' interests.

This may mean considering the composition of the board and executives: Are they a diverse and inclusive group that reflects the credit union's membership?

> "THERE IS A CLEAR OPPORTUNITY FOR CREDIT UNIONS TO USE ESG AS A COMPETITIVE DIFFERENTIATOR AND A MEANS TO ADVANCE FINANCIAL WELL-BEING FOR ALL."

If not, the credit union risks not having the needed perspectives and insights to operate in a way that ensures long-term relevance and sustainability.

A competitive differentiator

Since their inception, cooperatives have represented an alternative to the traditional corporate approach that focuses exclusively on serving shareholder interests. As cooperatives, credit unions are guided by eight cooperative principles which codify our sense of accountability and responsibility to a broad set of stakeholders—members, community, society, underserved and historically marginalized groups—and prioritizing people over profit and communities' sustainable development.

There is a clear opportunity for individual credit unions to use ESG as a competitive differentiator and a means to advance financial well-being for all. At the same time, there is a window of opportunity to get in front of policymakers and regulators to avoid regulations that limit credit union self-determination and to respond to growing consumer and employee demand.

If we seize on this moment, it will yield positive impacts on credit unions' bottom line, as well as for members, employees, and communities.

Some credit unions are already prioritizing ESG. Last summer, the Pacific Northwest experienced an unusually hot summer where temperatures hit dangerous levels. The heatwave killed 200 people in Oregon and Washington.

Access to quick and affordable credit took on a life-and-death urgency for these areas. Low-income and historically marginalized groups were among the most vulnerable, unable to afford air conditioning or heat relief of any kind.

Verity Credit Union in Seattle, which has a robust DEI and green-lending program, recognized this gap. The $733 million asset credit union responded by working with partners to ensure it offered products that served the most vulnerable consumers, not just high-net-worth individuals.

Verity's experience bears out what an abundance of research shows: namely that women, Black, Indigenous, Latino, low-income, and other vulnerable groups disproportionately suffer the consequences of environmental hazards and climate change.

This demonstrates the power of ESG, which calls on institutions to use a holistic lens that considers environmental, social, and governance considerations.

The good news is that credit unions don't have to pivot to integrate ESG into their approach. It is baked into our cooperative principles and is a natural fit.

Increasingly, we see credit unions explicitly committed to environmental sustainability, and connecting the dots between E, S, and G. We can no longer afford to see financial services as disconnected from the health and well-being of our members and communities.

Continuing to be our members' best financial partner means making those connections and serving the needs of everyone in our communities.

SAMIRA SALEM *is vice president of diversity, equity, and inclusion for Credit Union National Association. Contact her at* ssalem@cuna.coop.

Resources

› CUNA:
1. Advancing Communities: *advancingcommunity.com*
2. Financial Well-being for All™: *cuna.org/advocacy*

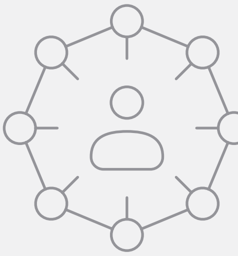
STAKEHOLDER VS. SHAREHOLDER FOCUS

Traditionally, corporations have focused solely on serving their shareholders.

The Business Roundtable, a group of nearly 200 CEOs from America's largest companies, defined a new statement on the purpose of a corporation, which calls for a radical rethinking of this narrow focus. It challenged companies to "deliver long-term value to all of their stakeholders—customers, employees, partners, communities, the planet, and society"—not simply shareholders.

In the statement, the CEOs committed to:

› **Deliver** value to customers.
› **Invest** in employees.
› **Deal** fairly and ethically with suppliers.
› **Support** the communities in which they work.
› **Generate** long-term value for shareholders.



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driven BY DATA

CUNA Senior Economist Ligia Vado sheds light on economic development and inequality to formulate real-life solutions.

Ligia Vado, Ph.D., brings more than 20 years of economic and financial policy research to her role as senior economist at Credit Union National Association.

As the newest member of CUNA's research and policy analysis team, Vado uses data to support CUNA's advocacy efforts.

Vado recently spoke with Credit Union Magazine about her career path, her new role, and the state of the economy.

Credit Union Magazine: Tell us about your background.

Ligia Vado: My educational background is mostly in economics and finance, and my first job out of college was as a financial auditor at Pricewaterhouse Coopers. While studying for a master's degree in agricultural and applied economics in Texas, I started working on U.S. Department of Agriculture-funded policy research projects.

As a Ph.D. student, I continued working on research on U.S. economics and agriculture. At the same time, I consulted for the World Bank Group, providing tech-

nical and policy assistance on multiple initiatives in risk financing and insurance on a global scale.

The common denominator throughout my career has been an interest in understanding longstanding and puzzling questions related to economic development and economic inequality, and in shedding light on these issues to formulate effective policy solutions.

> I BELIEVE THE **SPIRIT** OF COOPERATION FOUNDED IN **LOVE** AND EQUIPPED WITH THE **POWER** OF KNOWLEDGE CAN PROVIDE A **SOLUTION** TO **ASSIST** THE UNDERSERVED AND BREAK **INEQUALITY** AND **POVERTY** CYCLES.
>
> LIGIA **VADO**

Q: What led to you becoming a CUNA senior economist? And what's your primary role?

A: Credit unions' and CUNA's mission of "people helping people" is in complete alignment with my mission to bridge the gaps that market forces can't address by themselves. I believe the spirit of cooperation founded in love and equipped with the power of knowledge can provide a solution to assist the underserved and break inequality and poverty cycles.

One of my primary roles is to inform credit union leaders about national and international economic trends that might directly or indirectly affect the credit union landscape in the U.S. Another function is to support analytics projects conducing to a more data-driven advocacy strategy to enhance and elevate credit union advocacy.

The goal is to support the continued growth and success of the credit union movement by reaching wider sectors of the population and providing financial access and well-being for all.

Q: What are the biggest global economic questions right now?

A: The major global economic questions revolve around the extent to which countries will recover pre-pandemic economic growth and employment levels amid persistent risks of COVID-19 flare-ups, economic shocks emanating from the Russian invasion of Ukraine, and persistent worldwide inflationary pressures.

The International Monetary Fund in 2022 projected the global economy would slow from a projected real gross domestic product growth rate of 6.1% in 2021 to 3.6% in 2022 and 2023. It projected adverse effects would be larger in developing countries and emerging economies than in advanced economies, reflecting more limited policy support and lower vaccination rates.

It is worth noting that the spectrum of downside risks associated with this global economic forecast is wide and ranges from the worsening of the war to the possibility that a more virulent strain of the coronavirus emerges and triggers a new wave of generalized lockdowns.

On the other hand, the global inflation forecast for 2022 is 5.7% for advanced economies and 8.7% for emerging markets and developing economies. Although most of the pandemic-induced inflationary factors have eased, much uncertainty surrounds inflation projections stemming from war-induced supply and demand imbalances and increased commodity prices.

The extent to which war shocks will transmit to local economies will depend on trade and financial linkages with Russia and Ukraine, exposure to commodity price increases, and the magnitude of the prewar inflation surge.

Q: What are the biggest economic questions in the U.S. right now?

A: The biggest economic concerns for the U.S. right now are centered around the convergence of the lingering effects of the COVID-19 pandemic and the impacts of Russia's invasion of Ukraine on the U.S. economy.

A 40-year-high inflation rate is of particular concern not only due to its erosive effect on consumers' real disposable income, but also due to rising inflation expectations and the triggering of price-wage dynamics, which can further fuel price increases.

Even though most of the primary drivers of last year's inflation—such as pandemic-induced surging demand and supply destruction, supply chain bottlenecks, reduced labor supply, and expansive fiscal and monetary policy—have abated or reversed, the war in Ukraine is adding extra inflationary pressure by increasing energy and food prices, and creating new supply chain disruptions.

In this context, the Federal Reserve is tightening monetary policy more aggressively to tame inflation by more determinedly raising its federal funds target rate and shrinking its balance sheet. The biggest economic question in the U.S. is whether the Fed will be able to skillfully "soft land" its contracting monetary policy.

In other words, will the Fed be able to cool inflation without causing a recession?

Q: What makes you optimistic about the U.S. economy?

A: The U.S. is a resilient country. I am optimistic that the economy will rise even stronger and more even than ever.

My hope is that the pandemic will teach us lessons that will stay ingrained in our culture in terms of work-life balance, flexibility, and a better integration of wellness in the way we do business.

Also, the pandemic has made evident that some segments of the population are significantly more vulnerable to economic shocks, namely women and minority groups.

My hope is that, as the progressive country we are, we move toward the creation and strengthening of a safety network for women and minorities to support their efforts for self-realization and financial stability.

Q: What do you enjoy doing outside of work?

A: Reading and listening to podcasts. I also love taking care of my plants. During the pandemic I became an amateur gardener.

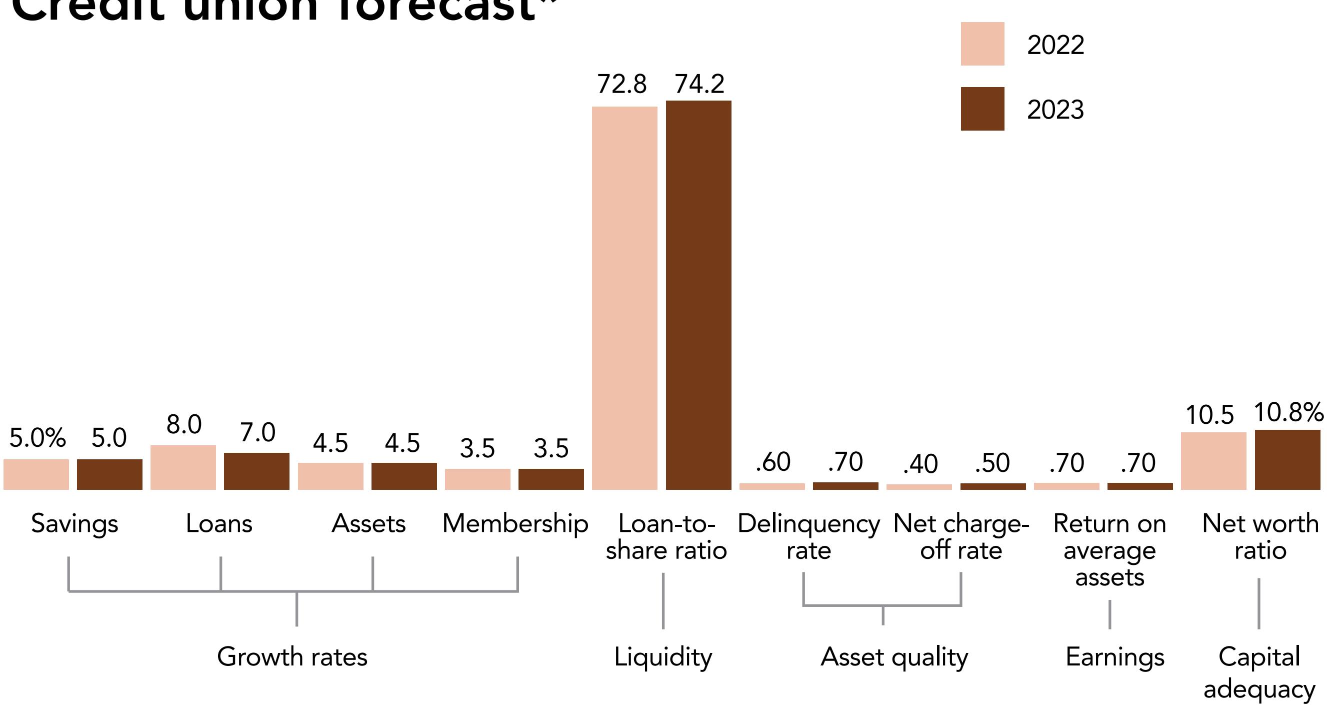
I also love reading about spirituality and metaphysics.

Q: What's the favorite place you've lived?

A: I love living in Madison, Wis. I have lived in six states, but in all the previous states I was always a student or in transition. Madison gave me the ability to grow roots and a sense of belonging.

I enjoy getting away during winter to warmer places, like visiting beaches in Latin America.

Credit union forecast*



*Forecast as of April 18, 2022

Source: Credit Union National Association

Fair lending & AI

THEODORE FLO

Evaluating consumers and making credit decisions holistically requires getting your arms around much more data.

We in the credit union industry recognize there is strength in diversity. We've learned to see that diverse viewpoints and life experiences bring wisdom to our organizations and lasting benefits to credit union members.

We've also recognized the importance of bringing greater diversity to those we serve and who have historically been at best disadvantaged and at worst discriminated against by legacy models. But for many financial institutions, cost and technology barriers

have rendered it difficult to upgrade to more accurate and equitable approaches.

On March 11, 2022, Bloomberg Businessweek reported that one of the largest banks in the U.S. approved less than half of Black people who applied for mortgage refinancings in 2020. The bank's response according to Bloomberg: "[We] treat all potential borrowers the same, [are] more selective than other lenders, and an internal review of the bank's 2020 refinancing decisions confirmed that 'additional, legitimate, credit-related factors' were responsible for the differences."

Of course, that's the traditional response to alleged fair lending problems. But continuing to rely on this is getting riskier by the day. Setting the legal issues aside for a moment, we have a moral obligation to do better.

What's more, consumers demand it. A Harris Poll conducted in 2020, found that seven out of 10 Americans would be willing to change financial institutions to one they thought was fairer to women and people of color. Indeed, the Bloomberg article discusses numerous Black borrowers who won't do business with the bank because of perceived bias.

Consumers are ready for what credit unions offer: a lender that wants to make the relationship work. They are tired of lenders that act like clipboard-wielding bureaucrats looking for ways to turn them down.

That kind of lender will find itself losing business to financial institutions that get to know their customers and make good decisions based on all of the relevant facts—and rightfully so. Enter artificial intelligence (AI) and machine learning (ML).

Evaluating consumers and making credit decisions holistically requires getting your arms around a lot more data. Old methods like FICO judge consumers on a couple dozen factors. AI- and ML-powered methods, in contrast, allow financial institutions to instantly consider thousands of data points to get the most accurate picture of each borrower.

Financial institutions that invest in AI and ML will be able to approve more loans more quickly and accurately, all while reducing risk and improving member satisfaction.

The AI solution

The traditional response to potential fair lending issues is also becoming less legally defensible. The disparate impact test for fair lending violations has always had three parts.

Stated simply: look at whether there is disparate impact to protected groups, evaluate whether the disparate impact is business-justified, and make sure there is no less discriminatory way of achieving the same business objective.

Until recently, the traditional response has focused on the second part of the test, namely identifying a business justification for the disparate lending outcomes. In part, that's because banks, regulators, and lawyers lacked a feasible way to implement the

Focus

- **Responsible and transparent** artificial intelligence (AI) technologies permit more fair, accurate, and compliant lending.
- **Leveraging AI** to increase lending can transform the lives of those shut out of the credit economy.
- **Board focus:** Expanding lending to underserved groups demonstrates a commitment to promoting and empowering diversity.

third part of the test by robustly searching for less discriminatory alternative (LDA) underwriting models.

It's true that responsible lenders tried to use older methods to search for LDAs in the past. They often used a method called "drop one," which involves recomputing the disparate impact caused by a model multiple times after popping each variable out of the model one at a time.

But that method rarely uncovered LDAs because it is so clunky and inefficient. Continuing to rely on it, therefore, poses significant legal risks and doesn't serve members well.

It's a risky practice because various AI/ML-powered technologies have emerged over the past few years that allow lenders to robustly search for LDAs.

Regulators are aware of these technologies. Civil rights leaders are aware of these technologies. And, increasingly, responsible lending institutions—including the likes of Freddie Mac—are starting to use them.

> **THE TRADITIONAL RESPONSE TO POTENTIAL FAIR LENDING ISSUES IS BECOMING LESS LEGALLY DEFENSIBLE.**

Studies conducted by Zest AI often indicate instances where LDA models approve Black applicants at 90% the rate of white folks (versus 50% at large lenders), while still being more accurate at assessing default risk than the credit union's benchmark.

A large credit union in the South increased the approval rate for women by 22% using an LDA. And a small credit union in the Midwest saw approval rates increase for Blacks, Hispanics, and women borrowers more than they increased for whites and men.

What that means is that the legacy score provider hadn't been doing enough to look at these groups fairly.

From a purely legal perspective, using the benchmark model when LDAs exist puts lenders squarely in violation of part three of the disparate impact test. Regulators are unlikely to bring an enforcement action under that theory tomorrow because they want to avoid disrupting financial markets by forcing immediate changes.

But how long will they wait? And is prolonging legacy discrimination what's best for credit union members?

LDAs and AI

Right about now you are probably thinking, "Hold on. Wait a minute. What about all the news about biased AI? What about all the warnings coming from Consumer Financial Protection Bureau Director Rohit Chopra?"

You're right to ask those questions. But there are answers.

Before we get to them, a bit of context: AI/ML-based technologies are a substantial threat to incumbent credit scoring providers, which rely on old, outdated methods to compute risk scores. This has led to the emergence of bad—even desperate—arguments against the use of AI and ML.

Among them are the myths that AI/ML models are "black boxes" we can't explain and that only "interpretable" models are safe to use in practice. Both of these arguments have been debunked.

It's true that some of the earliest players to market AI-powered underwriting products used questionable data sources and substandard methods explaining their models, and didn't invest in a robust LDA search process. That led to high-profile situations in which AI and ML were blamed for problems caused by humans who didn't think things through.

But throwing the baby out with the bathwater would be a mistake when AI/ML, done right, can be such a powerful force for good. AI/ML models are not "black boxes" when Shapley-based explainability techniques are applied.

Those methods allow models to be explained with mathematical certainty, often providing more insight into how the models behave than do traditional systems based on simple math.

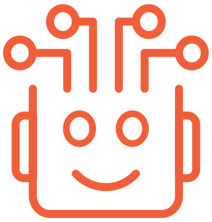
Similarly, when models are adequately documented, financial institutions know what to expect from the

REMOVING BIAS IN LENDING: 3 TAKEAWAYS

A Zest AI survey of financial services professionals about bias in the credit scoring system revealed three key insights:

The financial services industry needs—and wants—to do more to address bias. Seventy percent of respondents believe racism is built into the existing credit scoring system. More promisingly, 65% say they would be willing to switch jobs to work at a company that is doing more to advance racial equity.

Artificial intelligence (AI) could fix some flaws in this system. Eighty-three percent of respondents say the use of AI would lead to better and fairer credit scoring, and 90% also say regulators should allow greater use of AI to enable fairer practices.



We need to be aware of our blind spots. While 77% of respondents say the financial services industry treats consumers differently based on race and gender, only 15% say their company does so, demonstrating an emerging blind spot in the industry.

iStock

models and how to react if things aren't going as planned.

Model due diligence

The bottom line from this forward-leaning analysis of the current and future state of consumer finance is that responsible, transparent AI/ML technologies permit more fair, accurate, and compliant lending activity.

Ensuring the technology is, in fact, responsible and transparent requires three due diligence items that are nonnegotiable:

1. Demand transparency through proper documentation. Every model should come with both risk and fair lending documentation that explains exactly how it works, what data was used, and how fair lending issues have been addressed. If the model doesn't have that, it's junk and can't be trusted.

2. Make sure you can trust the data used to train and run your model. Stick with tried-and-true data sources for the time being. Alternative data is great, but if it hasn't been vetted for compliance it can present risks.

3. Demand fairness. Demand models that have been tested to ensure they are as fair as possible to achieve their business objectives and that they have been subject to proper LDA testing. If not, they might violate fair lending laws and harm your members.

Taking these proactive steps will allow your credit union to leverage AI/ML in a way that can transform the lives of countless Americans who have been unfairly shut out of the credit economy by legacy systems.

It can demonstrate both to your members and your employees a firm commitment to promoting and empowering diversity.

AI/ML presents a rare win-win for both consumers and credit unions: an opportunity to do well and do good at the same time.

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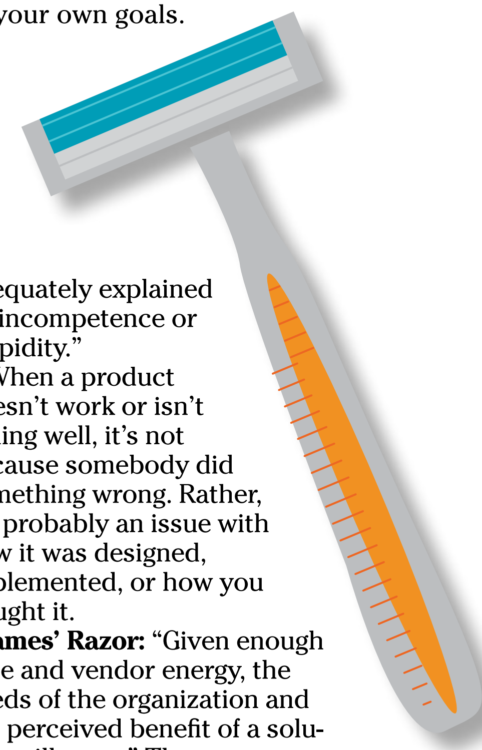
Resources

- CUNA Technology Council: *cunacouncils.org*
- Zest AI, a CUNA Strategic Services alliance provider: *zest.ai*

Lending on the razor's edge

When considering new lending avenues, think through both the product and your own goals.



For some reason, my 2022 bingo card didn't include "tsunami," "war in Europe," or "Russell Wilson traded to Denver for three draft picks and an omelet."

So much for my chance of winning.

At the start of the year, however, I did have some idea that rates were increasing faster than Elon Musk's ego. In fact, Goldman Sachs predicts seven interest rate hikes in 2022—one for each of Snow White's dwarves.

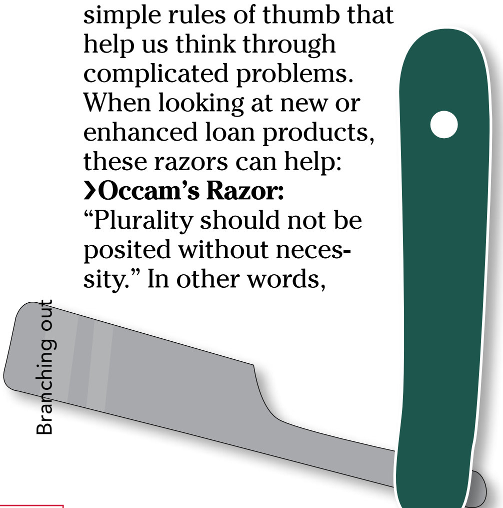
Rising rates are generally a good predictor of slower loan growth ahead. Nobody as of yet has determined a good way to consistently sell the same product for more money—not even Netflix.

In any event, if loan demand falls and the industry remains flush with COVID cash, things may get worse rather than better. This means we'll all begin looking for that pot of gold, that buried treasure, that winning lotto ticket.

Or, as we call it, "a new product from a vendor you've never dealt with who bears a striking resemblance to someone on an FBI most wanted poster."

Some of these ideas/products will be helpful or even instrumental in serving members. But many will be unproven or even unprovable. How can we tell them apart?

By using a philosophical razor: simple rules of thumb that help us think through complicated problems. When looking at new or enhanced loan products, these razors can help:



›Occam's Razor: "Plurality should not be posited without necessity." In other words, when confronted with Product A and Product B, both of which promise untold riches, the simplest product (the one with the fewest assumptions) is likely the best.

A good example of this is in marketing when we drill down "a level too far."

While you may have identified that someone age 36-38 with direct deposit living in their own house at least five years who has a goldendoodle named Sammie is the perfect candidate for a home equity line of credit, perhaps you should limit your query to just people who own homes.

›Sagan's Razor: "Extraordinary claims require extraordinary evidence." Named after astronomer Carl Sagan, this idea examines big claims and challenges observers to ensure big evidence supports these claims.

Is the forecast for a 20% lift in lending? Has someone had this lift and can attribute it solely to the product or idea you're looking at?

›Hitchen's Razor: "What can be asserted without evidence can also be dismissed without evidence." This is the classic line, "we all know X leads to Y." But if you think about it, are X and Y even related?

This is sometimes called the correlation or causation game. One assumption we believe, for example, is that a draft or checking account leads to more accounts. But does it create more accounts or does it simply come after the member has, say, an auto loan with you?

›Hanlon's Razor: "Never attribute to malice that which can be adequately explained by incompetence or stupidity."

When a product doesn't work or isn't selling well, it's not because somebody did something wrong. Rather, it's probably an issue with how it was designed, implemented, or how you bought it.

›James' Razor: "Given enough time and vendor energy, the needs of the organization and the perceived benefit of a solution will meet." The more you want something, the higher the chance you will bend your needs to match an offering and the more that offering will twist to meet your needs—regardless of whether it actually works.

Lending in this environment will take skill and thought to ensure you make good decisions.

Niche lending, targeted offers, and product add-ons are especially beneficial as they avoid the battle to be the "lowest price out there" and the longer-term damage that can bring.

As you look for new avenues, think them through and ask questions not only about the product or idea but also about your own goals.

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Q&A with Helen Mickel

Tongass Federal Credit Union, Ketchikan, Alaska

There are no roads connecting the small towns and villages of Southeast Alaska. Tongass Federal Credit Union in Ketchikan, Alaska, tackled this challenge by expanding into several remote communities with five branches, four community microsites, and 19 ATMs. Helen Mickel, president/CEO at the $133 million asset credit union, explains Tongass Federal's unique circumstances and how it serves members in traditional banking deserts.

Credit Union Magazine: Tell us about your role at Tongass Federal.

Helen Mickel: I've been at the credit union for almost 19 years, and I've been the CEO since 2015. I started in commercial banking and a job came open at just the right time to be the loan manager. I love caring about our communities in meaningful ways.

Ketchikan is located on an island with 14,000 people and seven financial institutions. When I came to work at the credit union, that's the only place we were located.

Q: How did you expand?

A: When Wells Fargo left Metlakatla, the Native leaders asked us to open a branch. We went there periodically over the summer, opened accounts, and realized it would work. We ran out of the Wells Fargo building for a few years and then built a branch.

A year later, Thorne Bay, a logging town with about 500 people, wanted a branch. One of the business owners said, "I have a sporting goods store in the basement of my house. You could open there." So, we opened in the sporting goods store. We kept our cash in the gun safe and started doing transactions for a community that never had financial services before. We've since moved out of the sporting goods store and share an office in the city building.

Q: When did you start looking for more sites?

A: I thought, just because people haven't asked doesn't mean they don't need a branch. We only look at locations where there are no credit union services.

I started thinking about these tiny communities where accessing financial services requires a round-trip seaplane. So we looked into community microsites.

I went to each community and said, "We want to serve your community, but we need free space to offer services." I was overwhelmed by the support, primarily from local Native organizations.

In September 2019, we opened in an office at the school in Hydaburg with an ATM and one employee. In December 2019, the Kake Tribal Corporation provided an office, so now we have a microsite on Kupreanof Island.

The executive director of the Hoonah Indian Association showed me their canoe shed and asked, "Do you want to move in here?" They did all the remodeling, and in June 2020 we began offering services out of the canoe shed.

We serve coastal and Indigenous communities that don't have financial services. It's been a great ride.

Q: How do you attract and retain staff for your smaller sites?

A: I don't have any magic sauce for that. We've been fortunate to find people. If I could figure out how to make them full-time, it would be even better.

I would like to operate as Contract Postal Units in these communities. We'd provide credit union services that lift people up, while also providing postal services.

Q: What unique loans do you offer?

A: Because Metlakatla is a Native Indian reserve, people are not required to file taxes on their fishing income. So, we will accept fish tickets as proof of income to qualify members for loans on commercial fishing vessels.

Every credit union should have a credit-builder loan. We lend members $500 and put it in a savings account as collateral. Members make payments for six months and build up their credit score. We release the $500 after the loan is paid.

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