# RELEVANCY IN THE FINANCIAL INDUSTRY:

## HOW CURRENT GROWTH STRATEGIES USED IN THE CREDIT UNION INDUSTRY DO NOT DILUTE THE CREDIT UNION PHILOSOPHY

## Southeast CUNA Management School
## Athens, GA

Prepared by


**Brad Ballentine, SAFE Federal Credit Union, Sumpter SC, bballentine@safefed.org**
**Denise Chapman, Kimberly Clark Credit Union, Memphis TN, Denise@kimberlyclarkcu.org**
**Mike Gibson, Credit Union of Georgia, Kennesaw GA, Michael.Gibson@cuofga.org**
**Mindy Maghupoy, The Infirmary Federal Credit Union, Mobile AL, Mindy.Maghupoy@InfrirmaryHealth.org**
**Heather Shafer, Marine Federal Credit Union, Jacksonville NC, hshafer@marinefederal.org**

# Table of Contents


INTRODUCTION ........ 2
STATEMENT OF ISSUE ........ 2
RESEARCH ........ 3
CREDIT UNION SERVICE ORGANIZATIONS ........ 4
LOAN PURCHASES ........ 5
NON-MEMBER DEPOSITS ........ 7
MERGERS & ACQUISITIONS ........ 8
RECOMMENDATIONS/SOLUTIONS ........ 9
CURRENT STATE, GOALS, AND STRATEGIC PLANNING ........ 9
IMPLEMENTATION OF APPROPRIATE GROWTH STRATEGIES ........ 10
USING OR STARTING A CUSO AS A GROWTH STRATEGY ........ 10
PURCHASING LOANS AS A GROWTH STRATEGY ........ 11
PURCHASING NON-MEMBER DEPOSITS TO FUND LOAN OR ASSET GROWTH ........ 12
DECIDE TO MERGE OR ACQUIRE ANOTHER FINANCIAL INSTITUTION ........ 13
MEMBER-CENTRIC RESULTS ........ 13
SUMMARY AND CONCLUSION ........ 14
INSIGHTS ........ 15
Brad Ballentine, VP Controller, SAFE Federal Credit Union, $1.86B ........ 15
Denise Chapman: Executive Vice President, Kimberly Clark Credit Union, $130M ........ 16
Mike Gibson: Cherokee County Area Manager, Credit Union of Georgia, $600M ........ 16
Mindy Maghupoy: President/CEO, The Infirmary Federal Credit Union, $32M ........ 17
Heather Shafer: VP Business Operations, Marine Federal Credit Union $986M ........ 17
REFERENCES ........ 18

# INTRODUCTION

Everyone has heard the adage, "One bad apple can ruin the cart," and in the case of the credit union industry, many credit union professionals share this sentiment concerning the threat of removal of our tax exemption status. From the consumer perspective, products differ very little from credit union to bank; however, members know the mission is different. The credit union field of membership cultivates a sense of community and shared goals between members and credit union employees. Professionals within the credit union industry know the culture vastly differs from banks in that we help one another while helping our membership. The cooperative nature, structure, and service-oriented characteristics create differentiation that credit unions pride themselves in. Credit unions are "for the members" and socially this concept aligns with customer service expectations many consumers expect from a trusted financial institution.

Credit unions embody the eight cooperative principles, adopted by the International Cooperative Alliance in 1995 (The National Credit Union Foundation, 2024). The eight cooperative principles are voluntary & open membership, democratic member control, member economic participation, autonomy & independence, education, training & information, cooperation among cooperatives, concern for community, and diversity, equity, and inclusion (DEI) (The National Credit Union Foundation, 2024). Structurally, credit unions are member-owned, not-for-profit, share a common bond, a cooperative, and they pride themselves on community involvement (National Credit Union Administration, 2024).

While other types of financial institutions are driven by profit alone, credit unions exist to serve their members. Credit union income is passed to the membership in the form of reduced fees and loan rates, increased deposit rates, financial education, and community outreach efforts (National Credit Union Administration, 2024). In recent years, the financial industry in the United States has faced scrutiny over practices like overdraft fees, product stacking, and other service-related fees that the Consumer Financial Protection Bureau (CFPB) commonly refers to as "junk fees." The word 'bank' often has a negative connotation for many consumers which would make one think the obvious alternative would be to turn to credit unions; however, credit unions are often correlated to out-of-date practices and in turn present the issues of scale and resources.

## STATEMENT OF ISSUE

Relevancy in today's financial industry is a challenge for credit unions. Each year the number of credit unions in the United States decreases (National Credit Union Association, 2024). Credit unions are under scrutiny by bankers and lawmakers for the strategies used to promote growth which is threatening the future of the credit union tax exemption and the regulatory environment (American Bankers Association, 2023). The growth measures in place seem similar to banking strategies; however, the impact of credit union growth and revenue produced keeps the core value of 'people helping people' and principles in place today.

There have been accusations in the financial industry that credit unions are becoming more like banks and should have to be regulated as banks are. Bankers point out that some credit unions act like banks and argue that the expansion of the field of membership will create an opportunity for anyone to join any credit union (American Bankers Association, 2023). Aaron Klien (2018) argues that the expansion of the credit union field of membership leads to cannibalization of the smaller credit unions and community banks.

There are now credit unions so large they are referred to as mega-credit unions. One example of a mega credit union is Navy Federal Credit Union, which is under fire over likening to a bank when it purchased a Bank of America subsidiary called Community Bank. One issue from this purchase is that the bank's shares would not be insured by the NCUA under the Federal Credit Union Act (Baumann, 2023). Rebecca Romero Rainey, CEO of Independent Community Bankers of America stated, "While imitation is the sincerest form of flattery, Navy Federal appears to be trying to mask the fact that it is a global financial institution that does not pay taxes or meet the same level of regulatory standards as real community banks do. Community bankers don't buy it, and neither should policymakers (Baumann, 2023)." This behavior from a mega-credit union puts other credit unions at risk by lawmakers and it can be argued that Navy Federal is not meeting the cooperative principle of 'cooperation among cooperatives.'

Opening or blurring the field of membership is not the only growth strategy under fire by banks and lawmakers and not all credit unions are looking to do this. Many other practices credit unions are using to grow or scale draw the attention of credit union critics, such as the sheer amount of income earned through overdraft fees (Klein, 2023).

Our white paper will explore some widely used growth strategies by credit unions and will show that the practices not only help the members but keep the credit union movement top of mind in the financial industry.

# RESEARCH

When considering relevancy in a market one must bear in mind economies of scale. Credit unions requiring scale in the digital market require a focus on revenue sources to offset the large expense associated with advanced technology (Snyder, 2021). There is value in being able to demonstrate the security of safety and soundness in the current financial market. Credit unions with larger asset sizes and healthy financials are often better prepared to withstand the test of time, especially when struggling credit unions are being absorbed by larger credit unions (Streeter, 2021).

The regulatory environment can also play a role in the scalability of credit unions. Fee income remains heavily scrutinized and the lengths credit unions must go through to ensure compliance practices are in place and working effectively can be costly and confusing to navigate (Berman, 2021).

Let’s explore common ways in which credit unions grow and scale outside of the scope of organic member growth and engagement.

## CREDIT UNION SERVICE ORGANIZATIONS

Credit unions turn to credit union service organizations to help with scalability, whether that be in the form of a partnership or through the establishment of their own. Credit Union Service Organizations (CUSOs) are for-profit entities owned wholly or in part by a federally insured credit union and primarily serve credit unions and members (CU 2.0, 2021). According to the National Credit Union Administration's (2024) quarterly credit union data summary from the third quarter of 2023, there are 4,645 credit unions (National Credit Union Administration). The most recent CUSO statistics reflect there are 1,046 registered CUSOs and there are 333 with more than one credit union customer (National Credit Union Administration, 2022). Assuming a minimal amount of credit unions own more than one CUSO, nearly a quarter of credit unions own a CUSO solely to become its customer.

A very common way in which credit unions utilize CUSOs is through partnership and utilization of CUSO products or services. Often the appeal to partner with CUSOs is the cultural benefit of the principle, ‘cooperation of cooperatives.’ In his article, “The Effects of Credit Union Service Organization on Credit Union Performance,” Van Dalsem (2016) notes, that nonprofit or not-for-profit organizations must depend on other nonprofit firms for resources to survive when competition has external investors and additional protections (p. 3). Although CUSOs are not non-profit or not-for-profit organizations, the credit union owner is; therefore, keeping the credit union culture in mind, it just feels good to help another credit union’s bottom line.

Credit unions choose to partner with CUSOs which will reduce its organizational complexity, overhead, and the need for specialized employees, and as a result member engagement improves because the employees and credit union efforts can focus attention on the member (CU 2.0, 2021). Often the resources that CUSO partnerships offer are back-office functions like payments, accounting, operations such as marketing, legal, human resources, and finally information technology support. Some member-focused CUSOs specialize in lending, investment, insurance product offerings, or member services such as contact centers. Lending functions can be complex and subjective without centralization and intuitive lending software so it comes as no surprise that as of 2022, the leading CUSO service was lending-related with 656 CUSOs in operation (National Credit Union Administration, 2022).

CUSO partnerships make it very attractive to credit unions who are looking to scale because the financial industry has a strong focus on digital ease of use, promptness in service, and personalization of products and services. The appeal is to reduce barriers for members to take advantage of credit union products and services with technological advancements and specializations which can be costly to any financial institution especially smaller credit unions with limited resources and low risk appetite.

Another benefit to employing a CUSO is that credit unions experience better governance through conformity to best practices in the industry while also retaining income to improve organic growth (Van Dalsem, 2016, p. 5). The relationship can benefit both the credit union and CUSO by promoting both organizations to stay abreast of changes in the industry and work toward improvement of efficiencies and innovation. Credit unions can focus on what they do best or their niche while being able to rely on the support of the CUSO.

The other way credit unions are utilizing CUSOs is through establishment or ownership. Credit unions form CUSOs to create a new revenue source, explore innovative opportunities, expand member services, share or mitigate risk, achieve scale, and/or reduce credit union operational expenses (CU*Answers, 2018). The CUSO market reflects that credit unions create CUSOs based on a business line its credit union already does exceptionally well or to enter a space it may want to receive benefit from which is indicative of why 714 CUSOs have only one credit union customer (National Credit Union Administration, 2022). With FinTech taking over the digital financial market, the CUSO services may shift to a stronger focus in the digital space.

In her article, "The Next Generation CUSO: New CUSO Models for Growth and Innovation" author Melissa Wrapp (2021) concluded that CUSO participation correlates with improved credit union non-interest income and overall correlates to an increase in return on assets (p. 5). The financial health of a credit union is key to longevity in the industry and it can be difficult to rely on fees for non-interest income when there is such heavy scrutiny on fee income by the Consumer Financial Protection Bureau (CFPB). Bearing in mind the interest rate risk and rate environment, non-interest income remains critical for most credit unions.

The Filene Research Institute states that the philosophy of credit unions is "people helping people" and the philosophy of CUSOs is "credit unions helping credit unions (Wrapp, 2021, p. 9)." What rings true to those in the credit union movement is that the collaborative efforts between credit union professionals keep that sentiment alive today. In a time when credit unions are shrinking, it is more important than ever to join resources to keep the movement alive and CUSOs may be the key to accomplishing that goal.

## LOAN PURCHASES

While all credit unions share many similarities, they can also be wildly different in their operations and strategies. When credit unions have increased liquidity on their balance sheets, those funds are often either invested or lent out to members in the form of consumer and business loans. A third option is to use cash to purchase loans from other institutions in the form of full loan purchases or participation loan purchases. A full loan purchase is buying 100% of a loan portfolio from another institution. The NCUA defines loan participation as a loan where one or more eligible organizations share the risk associated with the loan by purchasing a portion of the loan from the originating or lead lender (National Credit Union Administration, 2019). A participation loan requires at least 10% retained interest by the originating federal credit union (ECFR, 2024).

There are many benefits to purchasing whole or participation loans. The NCUA states that loan participation programs can increase asset yields, improve earnings, generate additional loan growth, reduce risk by diversifying the loan portfolio, and assist with balance sheet management (National Credit Union Administration, 2019). Purchased loans will increase asset yield, as these loans should function much like originated loans from the purchasing institution. When the originating institution selects loans to sell, they must consider their reputational risk if they sell non-performing loans. If an institution routinely sells low-performing loans, then its reputation will diminish, and fewer brokers and credit unions will want to transact with them in the future. Therefore, many of the loans offered for sale are performing and seasoned loans (Lampl, 2019). These loans are added to the purchaser's existing loan portfolio in hopes of a yield increase.

Purchased loan pools often have "a yield much better than the Wall Street investment options permitted for credit unions (Messick, n.d.)". Although credit unions prefer to make organic loans to grow their portfolios, not every credit union can increase loan growth when additional liquidity is available. Loan purchases give these credit unions a chance to add to their loan portfolio and increase their loan-to-share ratios when organic growth is not an option.

Purchasing loans is also a great way for credit unions to diversify their portfolio. One type of diversification is the type of loan. If a credit union has a high concentration of auto and unsecured loans, they can purchase participations in another type such as real estate or recreational vehicles. Iam Lampl (2019) states that "part of the point of having a participation program is to diversify the purchasing credit union's risk profile and leverage the skills and talents of other credit unions." Portfolio diversification can also be locational. Loan purchases are not limited to the purchasing credit union's geographical area, so these purchases can be from different parts of the country which increases locational diversification. This can help to serve as a hedge on the market if a natural disaster or economic crisis affects a certain area (Packer, 2024).

Loan participation purchasing has existed for more than forty years, though the program entered the headlines in 2008 when the NCUA issued a supervisory letter. In this supervisory letter, the NCUA (2008) stated that outstanding loan participations more than doubled in the five years leading up to this letter. According to Jim DuPlessis (2022), participation sales jumped from $3 billion in Q4 2019 to $6.7 billion in Q4 2021. The NCUA recently approved a final rule "intended to make it easier for federally insured credit unions to take advantage of advanced technology offered by the fintech industry" (Baumann, 2023). This rule change allows credit unions to purchase loans more easily from fintechs to reap the benefits discussed above.

Although loan purchasing can be of huge benefit to a credit union, there are also risks involved. The NCUA (2008) states that a credit union involved in loan participations is exposed to a full range of risks including credit, interest rate, liquidity, transaction, compliance, strategic, and reputation risks.

The NCUA (2008) explains how credit unions should assess each risk, with the following as examples:

- Credit Risk – evaluate loan-to-value limits, cash flow analysis, portfolio concentrations, and credit scores.
- Interest Rate Risk – assess the effect purchased loans will have on a credit union's fair value of their balance sheet.
- Liquidity Risk – ensuring day-to-day operations can be funded after using liquidity to purchase loans.

Purchasing credit unions must also perform due diligence before purchasing. The NCUA (2008) states that due diligence should be tailored to the complexity of the third-party relationship and may consist of alternatives to mitigate risk. This due diligence includes examining the selling credit union – their financial position, expertise in the product being sold, historical data tied to those loans, and potential loss on the loans being purchased. Loan underwriting must also be reviewed, as it should identify all risks that could materially influence a buyer's decision to participate (National Credit Union Administration, 2008).

When used as a growth strategy, do loan purchases fit in with the credit union philosophy? They do, as loan participation purchases embody the "people helping people" and collaborative nature of the credit union philosophy. Packer Preston (2024) states that participation lending "creates a sense of community among credit unions and lenders." The purchasing credit union helps the originating credit union by providing liquidity and the ability to deleverage its balance sheet. The originating credit union services these loans in addition to sharing income and losses with the purchasing credit union. Purchasing loans as a strategic initiative will allow a credit union to better serve its members through diversification, increased interest income, and better balance sheet management (National Credit Union Administration, 2019). Loan purchasing programs will remain an option to help the credit union movement grow in the future.

## NON-MEMBER DEPOSITS

When a credit union is lacking member deposits to fund asset or loan growth, it can turn to a funding source of non-member deposits commonly known as brokered deposits. Brokered deposits are widely described as any deposit that is obtained from or through the mediation or assistance of a deposit broker (National Credit Union Adminstration, 2000).

Brokered deposits are a way for credit unions to raise funds through capital markets (Seward & Kissel LLP, 2024). McCarty and Dobbs (2023) show that credit unions are seeing a record decrease in member deposits. When a credit union partners with a broker, there is an opportunity to broaden its market to acquire deposits (FasterCapital, 2024).

According to Albin (1998), federally insured credit unions and credit unions with low-income designation are credit unions that are approved to purchase brokered deposits. Unlike federally insured credit unions, low-income designated credit unions can accept non-member deposits from any source (Albin, 1998).

As stated by FasterCapital (2024), the advantages brokered deposits offer to financial institutions include diversification of funding sources, access to a larger pool of deposits, competitive funding rates, and flexibility in deposit maturity. By leveraging these advantages effectively, financial institutions can enhance their liquidity, manage their balance sheets more efficiently, and ultimately strengthen their overall financial position.

According to the Federal Reserve (2001), brokered deposits also have specific drawbacks:

- These types of deposits have no member loyalty.
- They are only on the credit union's books for a predetermined time and will most likely be withdrawn when the term is over.
- They do not offer organic growth, only fast growth.

NCUA regulations limit the total amount of nonmember and public unit shares for federally insured credit unions to the greater of 50 percent of the net amount of paid-in and unimpaired capital and surplus less any public unit and nonmember share, as measured at the time of acceptance of each public unit or nonmember shares or $3 million (National Credit Union Administration, 2019, p. 1). Credit unions can weigh these factors and eligibility requirements when considering bringing in nonmember deposits to boost liquidity.

## MERGERS & ACQUISITIONS

Another strategy of growth for credit unions is to acquire or merge with another credit union. There are several reasons a credit union may choose this strategy, and the benefits will vary depending on the route that is taken. Taylor Nelms (2022) gives us four key benefits of mergers and acquisitions:

- Mergers – A way to restructure;
- Reasons to Merge – Expand Services, grow membership succession planning;
- Merging creates value for the members of the smaller credit unions;
- Larger credit unions can benefit by expanding membership and asset growth, increasing the number of branches, they can tap into a different group of members, and diversifying their market and balance sheet.

According to PYMTS (2024), deciding to merge or acquire is not just an option, it is necessary due to the shifts and changes impacting the payments landscaping. 2023 was not the same in terms of technology as it was twenty years ago. For credit unions to stay relevant, they must continue to invest in technology. With interchange regulation and digital solutions dominating consumers' wants and preferences, credit unions must keep pace with the latest and greatest (Snyder, 2021). For target credit unions, consolidation is the best option to give them the best opportunity for a competing edge. The other benefits to this are that it brings credit unions together, creates a larger pool of talented employees, creates key partnerships, and lasting client relationships.

According to CUTimes, the number of credit unions has decreased, while membership has increased (Pelletier & Ritter, 2023). Pelletier & Ritter (2023) also describe how the number of

smaller credit unions has decreased, while the number of larger credit unions has increased since 2013. This is the same in terms of the asset size. This data matches the same as what we have seen in research. NCUA (2024) also provides an annual merger activity and insurance report in which the quarterly approved mergers are posted. According to this report, there were 145 approved mergers in 2023, which was down from 181 mergers in 2022 (National Credit Union Administration, 2024).

# RECOMMENDATIONS/SOLUTIONS

With a holistic perspective, credit unions can generate a lasting impact on their community and membership. In turn, this impact drives the point that credit unions operate and exist in a very different way than other financial institutions do.

Authors Mai Thi Nguyen and Subriena Persaud (2022) beautifully stated in their report called *"Strategy Guide to Creating Social Impact,"* that "Credit unions can play an active role in addressing social challenges, ranging from affordable housing to climate change, in a way that both supports their mission and contributes to the financial sustainability as credit unions become key players in developing resilient communities (p. 2)." It is in this sentiment that credit unions can generate relevance and have longevity in the market through growth, scale, and mission.

## CURRENT STATE, GOALS, AND STRATEGIC PLANNING

Before any credit union ventures down the road to growth, it should evaluate its current state. It can be difficult and even uncomfortable to have an inward look at the financial state, the membership makeup, processes and efficiencies, and even the state of its workforce. It should take the approach of looking at where the credit union has been, where is it now, and where it wants to be in terms of relevancy in the existing and future banking environment.

Next, identify goals in the short and long run while keeping them broad and high-level. Often, leaders confuse strategies with goals so it is important to keep in mind that a goal should be primary and constant while strategies can pivot or be adjusted. Strategies are then easy to identify because they will support the broader goal. For example, a goal may be to grow membership and a strategy may be to make it easy to do business with the credit union. This example reflects a broad goal for membership growth and identifies a strategy to reduce barriers that potential and existing members may be currently experiencing which may result in membership run-off or lack of new memberships.

When considering goals, the credit union's philosophy, vision, mission, and/or core values should be reflected. A credit union's field of membership makes identifying a target market fairly easy in comparison to other businesses or even banks. The nature of the credit union field of membership also aids in identifying the community or social impact the credit union hopes to achieve as a result of meeting the growth goals.

After establishing goals, measurable strategies supporting the growth can be identified. Strategies should have a certain level of planning involved while being short-term enough that they can easily shift, change, or even be abandoned. In his article published by the Harvard Business Review titled *"The Big Lie of Strategic Planning,"* Roger Martin (2014) recommends keeping the strategy simple, recognizing that strategy is not about perfection, and making the logic explicit (p. 8). He also emphasized that energy should be focused on revenue generation and for decision makers to not fall into the trap of cost-based thinking (Martin, 2014, p. 4).

Arguably the most critical part of strategy is the measurement. Be specific enough with the strategy statement that it is clear and measurable. Many organizations use key performance indicators, or KPIs, to track the effectiveness of a strategy. Measuring and frequent monitoring are crucial to staying the course to achieving goals. When one strategy is not working, adjust the strategy and be agile enough to pivot as needed.

Finally, communicate the goals and strategies to the employees and leaders who will be implementing the strategies. Gaining buy-in and support from the credit union employees goes a long way toward team and leader cohesion and works to break down silos within the organization. A strong focus on the same vision or goal can strengthen a team and foster a positive work culture.

## IMPLEMENTATION OF APPROPRIATE GROWTH STRATEGIES

Sometimes half of the battle on the path of growth is identifying a goal and the strategies to go along with it. The implementation of any new strategy is likely to have some growing pains along the way but let's look at some recommendations a credit union can consider about the growth strategies outlined in our research.

### USING OR STARTING A CUSO AS A GROWTH STRATEGY

If one of the growth strategies a credit union identifies is to partner with a CUSO to accomplish economies of scale or to leverage the product or expertise of the CUSO, it is important to ensure your credit union initiatives currently and futuristically align with the CUSO. Keeping with the credit union philosophy of 'people helping people,' it is strongly urged to consider a partnership with a CUSO when going through the vendor selection process. When possible, credit unions should support other credit unions. Although a CUSO is a for-profit organization, the revenue does benefit the credit union(s) who own it. In turn, revenue generated by the CUSO ultimately benefits that owner credit union thus preserving the credit union industry.

As with any new vendor relationship, there are several things to consider before entering an agreement. For an effective relationship between CUSO and credit unions, the NCUA cautions credit unions to consider credit risk, strategic risk, and compliance risk (National Credit Union Administration, 2022). It is also recommended that both the CUSO and the credit union do considerable due diligence to include consideration of objectives, the implementation process, whether the legal structures align, financial obligation, reporting and monitoring, and finally the due diligence (Milkes, 2023).

Remember, a CUSO vendor is still a vendor and the ownership of the product or program by the credit union business line is essential in ensuring the resource is supporting what the credit union initially set out to accomplish. Quarterly check-ins and relationship-building with the account representative aid in the success of the program or initiative. Finally, an annual vendor review is essential to the evaluation of whether the controls initially agreed upon are still in place and whether the relationship and pricing remain effective. Asking, 'Do the credit union and CUSO both dedicate the time and resources to make the relationship work?' will prove to be useful during the vendor review process (Wrapp, 2021, p. 17).

On the other hand, if the strategic initiative is to create a CUSO it is recommended by many in the industry to seek guidance from an advisor who has experience starting and operating a CUSO already (Milkes, 2023). Many CUSOs begin because there is a niche that the credit union has exceptionally executed and an obvious market is present. Sometimes a credit union begins a CUSO simply to expand offerings to its membership and reap the benefit of the additional revenue stream. Additionally, credit unions may begin a CUSO to reduce their operational expenses. Regardless of the reason a credit union has decided to start a CUSO, the recommended steps would be to discover the purpose, consider risk, rules, and regulations, organize and operate, and finally monitor success indicators (CU*Answers, 2018).

## PURCHASING LOANS AS A GROWTH STRATEGY

Loan purchases are recommended for credit unions looking to grow their loan portfolio once organic growth has been exhausted. The first step in the process would be to make sure loan participations are allowed in the credit union's policy. The policy may need to be updated and brought to the board of directors for approval before the process goes any further.

After loan purchasing is confirmed as included in the policy, the credit union has several items to discuss. These items include, but are not limited to, the amount to purchase, type of loan to purchase, desired type of credit union to purchase from (location, size, etc.), desired WAL, anticipated yield, whether it will be a participation or whole loan purchase, and how the transaction will occur (which broker(s) to use). The credit union must also decide what the overall strategy is – one example of this could be to increase the loan-to-share ratio by a certain percentage. Once these variables are discussed and a decision is made, the credit union will bring that information to their broker to determine what offers are available. The broker should give several options for the credit union to start due diligence on.

This due diligence includes detailed research of the originating credit union, asset liability management modeling (if available) to show the effects of purchasing and formulation of any required asks in the eventual contract. Once due diligence is completed, then an agreement should be drafted between both credit unions. This agreement should then be reviewed by legal counsel before execution. After all items are reviewed, the contract is executed.

If all goes well, the purchased loans will perform to the desired outcome throughout their useful life. This includes a boost to the purchasing credit union loan portfolio while increasing

yield and interest income.  The portfolio may also be diversified to decrease concentration risk. There is also the possibility of the loans not performing as expected, which would lead to lower interest income and reputation loss.  The loss could also be reflected in an NCUA examination and could lead to a decrease in CAMELS rating.

To evaluate effectiveness, the purchasing credit union should keep detailed records of all income and expenses related to the purchase.  This includes any servicing expenses paid to the originating credit union, any interest income gained, any fees paid to a broker, and any charge-off amounts.  A report should be prepared quarterly to document the performance of the purchased loans – these amounts can then be compared to a comparable investment that was available at the time of loan purchase.  This will give the credit union a direct comparison between how the liquidity was used (loan purchases) and how it could have been used (investing).  This comparison will help the credit union gain insight into the entire strategy and also help the credit union decide whether to purchase loans again in the future.

## PURCHASING NON-MEMBER DEPOSITS TO FUND LOAN OR ASSET GROWTH

There are several variables a credit union should consider when determining whether or not to obtain non-member deposits, specifically in the form of brokered deposits.  First, it should have an established deposit strategy that correlates to the loan and asset growth strategy of the credit union.  The deposit strategy should include the consideration of organic member deposit growth and the strategy for when the organic deposits fall short.  In most cases, the member deposits are supplemented with broker deposits if the loan growth calls for it.

The cost of funds should always be taken into consideration when shopping for deposits on the brokered market.  Sometimes it is more cost-effective to obtain borrowings than brokered funds and this is driven by the rate environment.   Good practice is that the pricing of the non-member deposit be based on the loan or asset it will be funding to ensure an adequate spread.

Ultimately, brokered deposits are a great tool to add deposits to the balance sheet so the credit union has more money to lend and to aid their asset increase.  When choosing a broker to work with there are several considerations a credit union needs to examine including reputation risk, financial strength, disciplinary history, due diligence, and a background check (National Credit Union Administration, 1994).

Reputational risk should be mitigated by properly evaluating the broker or agent before use. Ask for a list of clients so that the credit can call for a reference.  Financial strength is another key item to evaluate.  Study the broker's financial statements; it might also be a good idea to ask for professional help in reading the statements to ensure the decision is informed.  The National Association of Securities Dealers (NSAD) published a report on brokers who have received disciplinary action from NSAD.  The NASD, Securities, and Exchange Commission (SEC) (202), and Credit Union State Regulators are great resources for obtaining background information on brokers (Commercial Investigations LLC, 03).

It is recommended to have relationships with several brokers which allows the credit union to choose the deposit vehicle that best fits the specific funding needs. It is a good practice to test the broker's product knowledge and see how competitive their quotes are by shopping between more than one broker. Once the decision on the deposit(s) has been made it is recommended to present the details of the rate, term (when applicable), and documentation to the designated person(s) for approval.

The credit union deposit or investment designee should keep track of the brokers and non-member deposits on record. This practice makes it easy to measure and provide a list when examiners or auditors request the information. Any uninsured deposits are also required to be reported on the call report. It is best practice to differentiate these brokered deposits from member deposits when reviewing the credit union's deposit strategy. Comparing the deposit types will help the credit union decide whether purchasing deposits was the best choice for growth and this information will be used to formulate future deposit strategies.

### DECIDE TO MERGE OR ACQUIRE ANOTHER FINANCIAL INSTITUTION

Whether the route is taken to merge or acquire to grow, there are a few things that both the acquiring and target institution must take into consideration to ensure that the decision they are making is the best for both parties involved. The purpose of the merger or acquisition would be the first step in the process. Although growth is most times the main purpose, it is not always the case. The implications of the process must be taken into consideration.

Because many credit unions are smaller and are not able to offer as many services, merging with another credit union is the best option to give members access to better products and services that are more competitive with the larger banks. Credit unions are also known for higher satisfaction survey scores than banks, so continuing to serve the members efficiently is the best option in many cases. For some credit unions, the only way to do that is to merge. At the end of the day, it is taking the best option for both parties and providing the best solution for the most optimal result.

## MEMBER-CENTRIC RESULTS

As shown above, credit unions have a plethora of growth strategies to employ as needed to sustain long-term growth. The growth shown from these strategies is only one part of the story, as credit unions must also convert that growth into member-centric results. Growing credit unions must continue differentiating themselves from banks by increasing their value proposition and competitive advantage. According to a Trustage survey, top-performing credit unions rely on organizational culture, strong community presence, and ease of doing business as their strongest sources of competitive advantage (Heusuk, 2021).

Although the direct and immediate impact of the growth strategies above is to increase asset size, they must also increase earnings to support the credit union's future. Participation in loan purchases can increase interest income which leads to funding the credit union's operations to support its members. Purchasing deposits can increase liquidity to deploy loan products to

members that may be underserved or ignored by banks, which also leads to increased interest income.  Creating a CUSO increases non-interest income, which also supports the credit union's operational costs.  Mergers/acquisitions for growth will also increase several types of income and may even have "surprise" member-centric upgrades such as new products, services, or technological advances from the acquired/smaller credit union.

Net income gained from these growth strategies can be used to solidify the credit union’s adherence to the Cooperative Principles they were built upon.  This net income can be reinvested into the credit union’s members by offering lower loan rates and higher deposit rates.  This member reinvestment can also be extended to education and training for members.  Gained income can also be applied to strengthen community impact through service initiatives and by offering products to the underserved.

McIntosh and Vanlian (2013) put it clearly: Credit unions must act now to develop and implement profitable growth strategies, both to provide members with access to current products and services to generate sufficient cash flows to invest in their operations, their communities, and – ultimately – their impact (p. 2).

# SUMMARY AND CONCLUSION

The exploration of various growth strategies employed by credit unions in response to today's financial landscape sheds light on the challenges we face in maintaining relevance amidst industry scrutiny and evolving consumer preferences.  Despite facing criticisms from bankers and lawmakers about the blurring lines between credit unions and banks, growth strategies resonate well with the core principles of our credit union movement.

Credit Union Service Organizations (CUSOs) emerge as critical facilitators, allowing us to leverage collaborative efforts, technological advancements, and resource-sharing to remain competitive.  Through CUSOs, we can generate revenue, mitigate risks, and enhance operational efficiency, all while staying true to the cooperative spirit that defines us.  It is essential for credit unions to carefully select CUSO partnerships aligned with their mission and values, conducting thorough due diligence to ensure mutual benefits and sustained success.  Regular communication, monitoring, and evaluation of CUSO relationships are vital to maximizing their impact and ensuring alignment with credit union goals.

Additionally, the practice of loan purchases offers valuable opportunities for asset yield enhancement, earnings improvement, and portfolio diversification.  Despite the inherent risks, loan participation purchases reflect our commitment to the philosophy of "people helping people," a core tenet of credit unions.  Robust due diligence processes, including detailed research, asset liability management modeling, and legal review, are essential to mitigating risks associated with loan purchases.  Continuous monitoring and evaluation of purchased

loans' performance enable credit unions to make informed decisions and optimize their investment strategies.

Brokered deposits, while presenting challenges such as concerns about member loyalty and regulatory limitations, provide avenues for bolstering liquidity and funding loan growth. By carefully navigating these challenges and evaluating cost-effective funding sources, credit unions can seize opportunities for diversification and balance sheet management. Establishing relationships with reputable brokers, conducting thorough due diligence, and implementing robust risk management practices are crucial steps in effectively leveraging brokered deposits to support growth initiatives.

Lastly, mergers and acquisitions serve as strategic tools for adapting to technological advancements, regulatory changes, and shifts in consumer preferences. Consolidation offers benefits such as operational efficiency gains, expanded membership, and access to new markets, positioning us for continued growth and relevance. However, credit unions need to prioritize member-centric outcomes and preserve their cooperative identity throughout the merger or acquisition process. Transparent communication, stakeholder engagement, and comprehensive integration strategies are key to ensuring successful outcomes and maintaining trust among members and communities.

In essence, by embracing strategic growth initiatives like CUSOs, loan purchases, brokered deposits, and mergers/acquisitions, credit unions can uphold the cooperative principles that define us while ensuring our long-term sustainability and relevance in the industry. With a holistic approach to growth and a commitment to serving members and communities, credit unions can navigate the complexities of today's financial landscape and continue to thrive.

## INSIGHTS

The authors of this white paper have diverse backgrounds within the credit union industry. We all work at different credit unions which range in size and some of us have experience in banking while others have worked in more than one credit union. Some of us work at federally chartered credit unions and others at state-chartered credit unions. We each have differing levels of experience utilizing growth strategies outside of traditional or organic member growth.

In reflection of this research and work, it was motivating for each of us in unique ways and we all share a sense of renewed appreciation of the credit union movement and the fight to stay relevant. The collaborative nature of this project has enabled us to communicate about the challenges and successes we face professionally, within our credit unions, and challenge what we think about our industry.

### Brad Ballentine, VP Controller, SAFE Federal Credit Union, $1.86B

This project was extremely insightful for me, and it was a great bookend to the SRCUS experience before our final year in Athens. While the first-year project was great in learning how our respective credit unions functioned, this white paper really showed what SRCUS is all about – current and future credit union professionals working together to achieve success. As

stated above, our team varies greatly in our roles, and experiences in the credit union movement. This made this project even more meaningful and impactful as we were able to compare our histories while all learning together.

My recent history is unique in the group – I started this project at a $120M credit union (Caro FCU) and ended it at a $1.86B one (SAFE FCU). The growth strategies we researched apply to both credit unions, but in completely different ways. While Caro would greatly benefit from joining CUSO's to increase economies of scale, SAFE is better suited to create their own to help credit unions like Caro. Caro benefitted heavily from loan purchases, as their organic lending could not keep up with deposit growth. SAFE is in the complete opposite situation, as loans have been sold to other institutions to keep liquidity high enough to support loan growth. Our group's conversations and meetings prove that both small and large credit union professionals can effectively discuss and strategize together on how to best serve their members.

### Denise Chapman: Executive Vice President, Kimberly Clark Credit Union, $130M

This project has brought to light ways that credit unions can grow at a faster pace. In my 34-year career, I have had little to no exposure to most of the services covered in this paper. After working with the others on this paper I feel like I have a better grasp of options that are out there for credit union growth in general.

The most interesting part was about loan purchases and brokered deposits. In the credit unions I have worked for, growth comes by going to the locations your membership base is at and having a membership drive. I now understand why the larger credit unions will buy deposits to increase their liquidity and capital.

Overall, the project has been eye-opening and interesting. It has shown some of the different types of services that a credit union can use to grow its capital and as an offset allow them to grow in loans. CUSOs, brokered deposits, purchasing loans, mergers & acquisitions empower credit unions to grow services far beyond their solo means giving them the ability to remain open and prosper.

### Mike Gibson: Cherokee County Area Manager, Credit Union of Georgia, $600M

As a young Credit Union professional, I found this paper enlightening, particularly concerning the resolution of issues that my mid-level credit union is currently facing. In examining our saturated market area and the rural regions surrounding us, which are served by smaller credit unions, the section on mergers and acquisitions caught my attention. This segment underscored the significance of exploring strategic mergers and acquisitions to navigate the competitive landscape while staying true to the vision of the credit union movement.

The discussion on mergers highlighted not only the appropriate approaches to seeking partnerships with smaller credit unions but also emphasized their necessity in an industry experiencing ongoing consolidation. Understanding the nuances and potential benefits of such collaborations is crucial for our credit union's sustainability and growth in an increasingly consolidated market.

Beyond mergers, this project illuminated numerous alternative paths to growth that I had not previously considered. Expanding my perspective on growth strategies beyond traditional avenues has provided valuable insights into potential opportunities for our credit union to thrive and serve our members more effectively.

### Mindy Maghupoy: President/CEO, The Infirmary Federal Credit Union, $32M

I found this project to be very informational and a very enlightening experience for me, especially considering my background in the banking industry. My credit union is smaller, and I can relate to many of the challenges credit unions face that move them towards merging with other credit unions. The difficulties we face staying up to date with systems and technology due to the cost alone can be trying at times.

As a long-time "banker," and an outsider looking in, I can see where many can have a misconception of credit unions becoming too much like banks. However, in my personal and professional opinion, credit unions will always operate differently from banks because our mission is different. That is what sets us apart from banks. Yes, there will be similarities, just as in any other organization, but in theory, we still must function and serve our members. All the solutions and options we presented still support the credit unions' philosophies, and nothing will change my opinion of that.

### Heather Shafer: VP Business Operations, Marine Federal Credit Union $986M

Marine Federal Credit Union utilizes nearly all of the growth strategies mentioned in this paper and my exposure to them has been fairly in-depth. The crux of the issue of whether or not our growth strategies support the credit union philosophy is 'What did MFCU do with the revenue from our growth strategies?' Well, we gave it back to our membership and our community through sponsorships, financial literacy, charitable work, and funding. We invested in technology, improved member service by adding video banking, expanded Interactive Teller Machines (ITMs), expanded digital services, improved operational efficiencies thus improving member experience, and got laser-focused on member engagement strategies. Finally, we maintained our financial health. Certainly, our growth efforts did not dilute the credit union philosophy or our promise to our members which is to work together to secure and protect our members' financial success.

Although I have had exposure to many growth strategies, this project challenged me to consider the 'why' concerning my credit union's growth strategies and whether or not they embody the principles of the credit union movement. While I wish it were easier to acquire members, deposits, and loans solely organically, it is unrealistic for us in this climate to scale our technology to be able to effectively compete with banks, FinTechs, and even a mega-credit union. I see the importance of rallying behind the credit union movement and staying true to its principles because I truly believe in the positive impact credit unions have on the lives of members, and communities, and in keeping consumer/member interests at the heart of the financial industry.

# REFERENCES


Albin, S. (1998, 03). *Brokered Deposits.* Retrieved from National Credit Union Association: https://ncua.gov/regulation-supervision/legal-opinions/1998/brokered-shares

American Bankers Association. (2023, January). *reformcreditunions.com/abandoned-mission*. Retrieved from reformcreditunions.com: https://www.reformcreditunions.com/

Baumann, D. (2023, October 13). *CUCollaborate/Blogs*. Retrieved from CUCollaborate: https://www.cucollaborate.com/blogs/navy-federal-gets-overseas-bank-contract-but-ncua-cant-insure-deposits

Baumann, D. (2023, 09 22). *NCUA Approves Final Rule to Ease CU Efforts to Work With Fintechs.* Retrieved from CUCollaborate: https://www.cucollaborate.com/blogs/ncua-approves-final-rule-to-ease-cu-efforts-to-work-with-fintechs

Berman, M. (2021, 05 11). *The Cost of Compliance in 2021.* Retrieved from Vizo Financial: https://blog.vfccu.org/the-cost-of-compliance-in-2021/

Commercial Investigations LLC. (03, 01 2024). *National Association of Securities Dealers Disciplinary Action*. Retrieved from Commercial Investigations LLC: https://www.commercialinvestigationsllc.com/securities-dealers-disciplinary-actions

CU 2.0. (2021, August 30). *Credit Union Service Organization*. Retrieved from cu-2.com: https://cu-2.com/credit-union-service-organization/

CU*Answers. (2018, February). *CU Answers*. Retrieved from NACUSO.org: https://www.nacuso.org/wp-content/uploads/2018/02/CUAnswers_forming_a_cuso.pdf

DuPlessis, J. (2022, 03 25). *Credit Unions Find Appetite for Loan Participations*. Retrieved from Credit Union Times: https://www.cutimes.com/2022/03/25/credit-unions-find-appetite-for-loan-participations/

ECFR. (2024, 3 1). *12 CFR 701.22 Loan Participations*. Retrieved from National Archives Code of Federal Regulations: A point in time eCFR sytem: https://www.ecfr.gov/current/title-12/chapter-VII/subchapter-A/part-701/section-701.22

FasterCapital. (2024, 02 09). *Mastering Deposit Placement: The Art of Brokered Deposits.* Retrieved from Faster Capital: https://fastercapital.com/content/Mastering-Deposit-Placement--The-Art-of-Brokered-Deposits.html

Federal Reserve. (2001, 05 11). *Joint Agency Advisory on Brokered and Rate-Sensitive Deposits.* Retrieved from Federal Reserve: https://www.federalreserve.gov/boarddocs/press/general/2001/20010511/attachment.pdf

Heusuk, S. (2021, 8 1). *TruStage: What Strategic Choices are Credit Unions Making to Drive Growth?* Retrieved from TruStage.com: https://www.trustage.com/business/insights/financial-trends/what-strategic-choices-are-credit-unions-making-to-drive-growth

Klein, A. (2023, 10 05). *Credit Unions Are Making Money Off People Living Paycheck to Paycheck.* Retrieved from Politico: https://www.politico.com/news/magazine/2023/10/05/credit-unions-overdraft-fees-00119904

Klien, A. (2018, June 28). *Brookings.edu*. Retrieved from Brookings.edu/articles: https://www.brookings.edu/articles/bank-like-credit-unions-should-follow-bank-rules/

Lampl, I. (2019, 09 24). *The Truth (and Myths) About Buying Loan Participations*. Retrieved from Loan-Street: https://loan-street.com/resources/the-truth-and-myths-about-buying-loan-participations/

Martin, J. L. (2014). *The Big Lie of Strategic Planning.* Brighton: Harvard Business Review.

McCarthy, K. &. (2023, 07 14). *Credit unions report a record-setting plunge in savings balances.* Retrieved from American Banker: https://www.americanbanker.com/creditunions/news/credit-unions-report-a-record-setting-plunge-in-savings-balances

McIntosh, L., & Vanlian, H. (2013, 11). *Deloitte. The Growth Imperative.* Retrieved from Deloitte.: https://link.edgepilot.com/s/a89f590a/eyKFd-8toEy24F1mMppI0Q?u=https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Financial-Services/gx-fsi-ca-thegrowthimperative-2013-11.pdf

Messick, G. (n.d.). *Loan Participations: The Industry Perspective.* Retrieved from Messick Lauer & Smith P.C.: https://www.cusolaw.com/loan-participations-the-industry-perspective/

Milkes, D. (2023, June 28). *Viewpoints: 5 Key Items to Consider When Leverageing CUSOs to Drive Growth.* Retrieved from Doeren Mayhew: https://doeren.com/viewpoint/5-key-items-to-consider-when-leveraging-cusos-to-drive-growth

National Credit Union Administration. (1994, 09). *Selection and Use of Brokers*. Retrieved from NCUA.gov: https://ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/selection-and-use-brokers-hym

National Credit Union Administration. (2008). *Evaluating Loan Participation Programs.* Retrieved from National Credit Union Administration: https://ncua.gov/files/supervisory-letters/LCU2008-26Enc-2.pdf

National Credit Union Administration. (2019, May 30). *Public Unit and Nonmember Shares.* Retrieved from NCUA.gov: https://ncua.gov/files/agenda-items/AG20191024Item1b.pdf

National Credit Union Administration. (2019, 05 13). *The ABC's of Loan Participation Due Diligence*. Retrieved from National Credit Union Administration: https://ncua.gov/newsroom/ncua-report/2016/abcs-loan-participation-due-diligence

National Credit Union Administration. (2022, December 31). *CUSO's at a Glance*. Retrieved from NCUA CUSO Registry: https://cusoregistry.ncua.gov/Search/Search

National Credit Union Administration. (2022, April 14). *Research Low-Income Designation (LID) Requirements*. Retrieved from NCUA.gov/regulation-supervision: https://ncua.gov/regulation-supervision/manuals-guides/federal-credit-union-charter- application-guide/phase-1/research-lid-requirements

National Credit Union Administration. (2024, 01 31). *Merger Activity and Insurance Report*. Retrieved from National Credit Union Administration: Chartering and Mergers: https://ncua.gov/analysis/chartering-mergers/merger-activity-insurance-report

National Credit Union Administration. (2024, January). *mycreditunion.gov*. Retrieved from About Credit Unions: https://mycreditunion.gov/about-credit-unions/credit-union-different-than-a-bank

National Credit Union Administration. (2024). *NCUA Quarterly Data Summary Reports*. Retrieved from National Credit Union Administration: https://ncua.gov/analysis/credit-union-corporate-call-report-data/quarterly-data-summary-reports

National Credit Union Adminstration. (2000, 09). *Investments in Brokered Certificates of Deposits*. Retrieved from NCUA.gov: https://ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/investments-brokered-certificates-deposits

National Credit Union Association. (2024). *Quarterly Credit Union Data Summary 2023 Q4.* Retrieved from NCUA.gov: https://ncua.gov/files/publications/analysis/quarterly-data-summary-2023-Q4.pdf

Nelms, T. C. (2022, March 4). *Filene.org/blog*. Retrieved from Filene.org: https://link.edgepilot.com/s/bc444df1/eX7CFVZ0xk6tB1eh9I5ZVg?u=http://www.filene.org/blog/mergers-a-restructuring-of-the-credit-union-system

Nguyen, M. T., & Persaud, S. (2022). *Strategy Guide to Creating Social Impact: Report 566.* Madison: Filene Research Institute: Center of Excellence for Community Social Impact.

Packer, P. (2024, 3 1). *Participation Lending for Credit Unions: Is Now the time?* Retrieved from FlexCUTech: https://blog.flexcutech.com/blog/participation-lending-for-credit-unions-is-now-the-time

Pelletier, B., & Ritter, D. (2023, November 20). *CUTimes/ExpertOpinion*. Retrieved from CUTimes.com: https://www.cutimes.com/2023/11/20/mergers-acquisitions-key-industry-trends-to-watch/?slreturn=202400

PYMTS. (2024, January 5). *Pymnts.com/opinon*. Retrieved from pymnts.com: https://www.pymnts.com/opinion/2024/credit-unions-will-continue-consolidating-success-2024/

Seward & Kissel LLP. (2024, 01 26). *Credit Union Share Certificates: A Primer.* Retrieved from Seward & Kissel LLP: https://www.sewkis.com/publications/credit-union-share-certificates-a-primer/

Snyder, N. (2021, 01 18). *How Credit Unions Persue Growth.* Retrieved from Bank Director: https://www.bankdirector.com/article/how-credit-unions-pursue-growth/

Streeter, B. (2021, 03 31). *How Big Do Credit Unions Have to Be to Survive?* Retrieved from The Financial Brand: https://thefinancialbrand.com/news/bank-culture/how-big-credit-unions-survive-ncua-millennial-genz-digital-111325/

The National Credit Union Foundation. (2024, 3 1). *The Cooperative Principals*. Retrieved from ncuf.coop: https://www.ncuf.coop/development-education/program/cooperative-principles/

Van Dalsem, S. (2016). *The Effects of Credit Union Service Organization on Credit Union Performance.* Topeka: Washburn University School of Business Working Paper Series Number 187.

Wrapp, M. K. (2021, December 21). The Next Generation CUSO: New CUSO Models for Growth and Innovation. *Filene Research Institute Report #554*, Report 554. Filene Research Institute.