

CU Boards Must Be Careful in Cutting the Right Corners

I applauded your position of credit union industry's strength and opportunities during these tough economic times. You stated in "In Times of Crisis, CUs Can Lead the Way to Recovery" (*CU Times*, Oct. 1, 2008) that credit unions should "continue doing what they were founded to do." I wholeheartedly concur with this idea but with much more gusto to take advantage of this huge competitive opportunity. While deposits are quickly building as expected, many of our clients are telling us their branches are constantly running out of "change kits." New members are fed up with big banks and want a banking relationship with someone who knows their name and lives and makes decisions in their community. This sounds like credit unions' positioning all along, just not enough people knew about the benefits and safety of credit union membership or had enough motivation to change.

The sweet spot for most credit unions has historically been lower middle to upper middle income households due to their roots in blue collar employment. This has changed to include white collar workers over the past 15 years, due in large part to community charters. But, a ceiling remains for many credit unions limiting their ability to attract and retain the emerging wealthy.

The occasion of so many troubled banks is the perfect opportunity for credit unions to change old market perceptions and gain and retain both increased share-of-wallet with existing members and the new emerging wealthy market in deposit, investment and trust services. Fortunately, many of the same credit union characteristics that move older households to switch to credit unions during this economy also work to attract young members as well if properly packaged, communicated and reinforced with promoted action.

We all agree it is important to remain financially strong through this banking crisis. Should credit unions then cut back at every possible point? Yes and no.

In a recent article by Diane Franklin, "Money Machine" (November 2008, *Credit Union Management Magazine*), she presents a number of steps credit unions can take to reduce branch costs, and increase productivity including consolidation, staff efficiencies, technology efficiencies and multiple delivery types. The message is not just about saving money; it is about making smart decisions and taking action.

The downturn in the economy affects us all and board members may feel that cutting back everywhere is the prudent thing to do for their members as they are doing for themselves. Unfortunately, cutting back everywhere does not take advantage of the current opportunities. Credit unions should be taking action now by clearly understanding the mutual benefits of existing member relationships, increasing targeted marketing, strengthening branch and market performance and efficiency, and enhancing and promoting their brands.

While the current economic situation provides a window of opportunity for many credit unions, the issue of scale remains. How big will a credit union need to be to successfully compete in their market, provide the best products and services to their members and thrive, not just survive, into the future?

It is becoming increasingly difficult to operate small credit unions due to lack of resources and increasing regulations. In small markets a credit union of \$50 million may be big enough in 2013, but in medium markets it may be \$250 million and in large markets \$1.5 billion.

Every credit union board must address the issue of scale and take actions to ensure long-term value to their members. This may include considering merging with equals or larger credit unions to do what is best for members. They may also want to consider the advantages of developing a CUSO to provide back-office functions as a group of credit unions has done successfully in Spokane, Wash. and other markets.

Whatever the strategy and tactics, what we hear consistently from all the pundits is take action now.

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