Immediate Investment Portfolio Strategies for A Rising Rate Environment:
Part Two: Floating Rate Securities vs. Adjustable Rate Securities
MARK WICKARD

ALSO IN THIS ISSUE:
Meeting Your Member’s Expectations
Being a Credit Union in the Expectation Economy
AARON GREGERSON
15 Years of Serving Credit Unions

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Subscriptions
Credit Union Business is published monthly (12 issues per year) by CU Business Magazine, Inc. A one-year Digital membership is $75/yr. An online membership form is available at www.cubusiness.com/register.

TeamBuilder
https://creditunionbusiness.com/the-team-builder/

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Member Business Lending Comes Full Circle

Although it was 14 years ago when I was planning for the content of CU BUSINESS magazine in late 2004, my plan for the editorial of this new national trade publication was to stress member business activities as a means of growing credit unions quickly and powerfully.

For generations, credit unions had all of the “right stuff” to compete with successfully with community banks, but only lacked the infrastructure.

As I recall, it was the passage of The Credit Union Membership Access Act of 1998 that greatly changed things for the credit union industry. For one, it had all of the tools to become a real “industry” as opposed to a political movement. Suddenly, almost anyone who lived, worked or worshipped in a community could join a credit union in that same community.

And, commercial banking became a possibility for CUs, too. That prospect held a lot of promise following the passage of HR: 1151 right up until the Great Recession of 2008-2009 when it all came crashing down. But now, a number of years down the road of fiscal recovery it’s beginning to look like credit unions will have the infrastructure to successfully compete with community banks, and even the BofA’s of the world.

Case in point, the CO-OP Shared Branch Network and its 5,600+ shared branch locations makes local banking possible coast-to-coast, just like the big boys! Only, when you find a CO-OP shared branch, you’re dealing with a not-for-profit credit union as opposed to a bank.

And, while a number of member business providers went but leading up to – and following the great recession, it now looks like some are ready to move forward in a much improved econmy.

Last week, I received a press release from CU Direct, a leading lending software company based in California signed an agreement with a pioneering company in member business lending, aptly named Member Business Lending (MBL) based in Utah.

The agreement provides an opportunity for the two organizations to work together on advancing commercial and SBA lending for credit unions.

**Background on the new partnership:**
- Partnership to deliver new lending solutions that help credit unions build stronger business and commercial loan portfolios
- Agreement leverages the strengths of both company’s expertise to help credit unions expand market share and efficiencies of commercial and small business lending
• Collaboration between the organizations affords an ideal opportunity to develop next-generation lending solutions that help credit unions gain a competitive marketplace advantage and better serve their small business members.

MBL’s President/CEO, Gordon Dames, stated, “This collaboration will afford credit unions of all sizes the ability to provide their members access to all types of business loans. And once businesses are in the door, that opens a wide variety of opportunities to increase member services.”

“We’re excited about the new partnership between our two companies, and what it brings to our credit union partners,” noted CU Direct’s COO, Bob Child. “The collaboration with MBL provides unparalleled opportunities for the innovation of lending technology that helps credit unions gain a leadership position in the small business and commercial loan marketplace.”

Better days ahead for all credit unions, and member business services should open many new revenue streams for credit unions!

Thanks for reading!
Tim

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Selling Opportunities

Several years ago, while I was working as a credit union outbound call center manager, I was asked to lead a series of sales training workshops as part of a loan officer refresher course. The purpose of the refresher course was to retrain employees on the most important aspects of their roles as loan officers.

Most of this two-day course was focused on topics such as compliance, title processing, loan audits, product knowledge, and so forth; things I considered important but rather routine and, quite honestly, a little boring.

For my part of the training, I wanted to make it meaningful, impactful, and engaging. I wanted the loan officers to walk away feeling empowered with a new understanding of why they should sell to their members and how to do it effectively. I posed this statement to begin the training: “As credit union employees, we must focus on selling opportunities.”

I then asked them to tell me what they felt it meant. Most of the answers I received went something like this: “It means we should always be looking for opportunities to sell products and services to our members.” I told them they were absolutely correct, but to read it again because there is also another meaning.

As I watched, facial expressions turned from confused to inquisitive and finally to enlightened. It usually only took a few moments before someone would shout out with excitement “It also means we should focus on selling the opportunity our products and services provide our members, not the other way around.

Selling opportunities—what to sell

The first concept employees usually need to know when learning how to properly sell in the credit union way is how to identify when a member has a need for a new or better product or service. Having employees who can quickly and accurately identify a product or service need, in different situations and settings, will elevate our credit union’s sales success.

Employees should be equipped with the ability to identify their members’ needs when opening new accounts, new products, and services, but more importantly, during routine member interactions. Here are three skills they should have to help them with that.

Product Mapping: Every member has an account profile. Basically, the account profile is the core and ancillary products and services your employees see when they pull up a member’s account. The account profile is the extent of your member’s relationship with the credit union and represents both the opportunity as
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well as the limitation you have to serve your member’s needs.

For example, if your member has a basic savings account and an active checking account with ancillary products such as a debit card, direct deposit, and bill pay, you have the opportunity to serve his or her checking and savings needs; however, you are limited to only those needs unless you can sell additional products.

Product mapping is the process of assessing the member’s account profile and identifying the next best product or service to offer the member. The goal in this strategy is to identify what is missing from the relationship and to offer the next best product or service that will fill a member’s need.

In our example above, the employee may have noticed that the member is signed up and using the credit union’s mobile app, but has never deposited a check using remote deposit. This may be the next best sales opportunity. The employee should also be looking for the three key core products, which are savings, checking, and a credit card. In this example, the member does not have your credit union’s credit card, which would also represent a next best sales opportunity.

Life Events: Life events represent a significant opportunity for employees to identify new or upgraded product or service needs that members have. This would include significant events such as the birth of a child, going to college, marriage, divorce, and retirement. It could also include events such as a new job, loss of a job, and buying a new home.

One of the best things you can do with employees when teaching them to see life events as an opportunity to sell is to write down a life event such as marriage, then have the employees discuss all the possible financial needs the member will have as they prepare for and get married, and the product or service they can offer to fill that need. Here is an example of what typically comes up in my training courses when we discuss marriage.

- **Signature loan**: to pay for wedding expenses such as the reception, a ring, and a honeymoon.
- **New joint member**: we need to add the new spouse to the member’s account
- **New loans**: the new spouse may have loans we can refinance when adding him or her to the account
- **Life insurance**: With a new spouse, the member’s life insurance should be reassessed to ensure it is sufficient.

Strategic Questions: Regardless of how and for what purpose the member is engaging the credit union, employees should be inquisitive. They should know how to ask questions to identify member needs but also do it in a way that is natural and doesn’t make the member feel like they are being interrogated or that the employee is just being nosey. Strategic questioning has the opportunity to identify many sales needs your members have, especially those that generally go unidentified through other sales approaches.

A great example of this was shared with me by a regional branch manager who works for one of my credit union clients. It was a Friday afternoon and one
of her tellers was helping a member with a routine check deposit. The conversation went something like this:

**Teller:** “Do you have any plans for the weekend?”

**Member:** “Yes, I am starting a huge backyard project.”

**Teller:** “That sounds expensive. What are you doing?”

**Member:** “Yeah, we are putting in all new landscaping, building a deck, and a patio cover.”

**Teller:** “That will be nice, though, when it’s done. So, I am curious. How have you planned to fund this major project?”

**Member:** “Well, we were planning to mostly use some savings we have, but the rest we’ll probably put on the credit card.”

**Teller:** “Have you considered a home equity loan by chance? We can probably get you a line of credit for more than you need, at a much lower rate than your credit card, which means you can hold onto your savings and pay a lot less interest in the long run.”

**Member:** “No, I hadn’t thought about that…”

Of course there are many other ways to identify sales opportunities such as transaction history, credit reports, and simply watching what the member brings in with him or her. Stay tuned for future articles and more on these sales topics.

**Selling opportunities—how to sell it**

At the beginning of all my training courses, I ask the class to share how a member typically responds when they sell a product or service to him or her. The majority of the time, the class participants share that they hear more times than not, “I’m not Interested.” I then ask, “Who would like to know how to avoid getting this response in the future?” Of course, they all raise their hand.

I then ask, “Tell me how you usually sell your credit union’s credit card.” They say something that sounds like this: “We offer a really great credit card with a rate as low as 10.99%. Is this something you’d be interested in?”

This gives me the opportunity to explain how and why this approach doesn’t work.

First, this approach does not require taking time to identify whether the member has a need for a credit card; it is simply based on the fact that the member doesn’t have a credit card with the credit union and assumes the member wants one.

Second, this approach assumes that the member is interested in your credit card’s interest rate, and uses that as the foundation for the sales pitch. Rate is a feature and features don’t sell.

Third, this approach does not illustrate why the member would be interested. There is no benefit, and as a result, the member doesn’t see the opportunity he or she could be missing out on by not taking advantage of the credit card.

Fourth, this approach asks the member to make a final buying decision before he or she has the information needed to make that decision. Without the information he or she needs to make the decision to buy, his or her only response is to say, “No.”

Selling in this way is better than not selling at all. Even a broken approach works every now and then. The only time this approach works, though, is when the member is able to see the benefit on their own; and the opportunity they will capture by opening the product. For most members, however, the employee needs to be the one to point out the opportunity and the benefit.

Employees must be taught to start a sales conversation by asking questions. Specifically, they should be asking questions to understand the needs the members have and to align the right product or service to those needs. When they understand this, they will know what benefits the member is looking for, and can then sell the opportunity the product or service provides.

Had the employee asked the right questions, he or she would have learned that the member in the example above might be saying no because he or she never carries a balance on his or her card and so he or she never pays interest. When the employee touts a rate of 10.99%, it simply doesn’t interest the member. Even if the member’s current credit card has a rate of 25%,
Nick Brown Consulting, established and founded by Nick Brown in 2015, is a credit union–specific sales training group dedicated to bringing a proactive sales approach to every credit union. Nick Brown Consulting accomplishes this aim by providing sales consulting and training to enhance branch sales, outbound sales and lending center sales. With an emphasis on lending and cross-sales, Nick’s goal is empowering credit unions to add value in the life of every member in every interaction. Engage Nick Brown directly at 801-860-5807 or nick@nickbrownconsulting.com. Ask about his credit union–specific workshops and online sales training, featured at www.nickbrownconsulting.com.

FINALLY! Online Sales Training
Specific For Your Credit Union
“Have you had any sales training?” This was one of the initial questions during my first interview for what eventually began my career in the credit union industry. My answer, “Tons!” By the time I had been offered my first credit union job I had worked two years at a Citibank branch during college and then another two years as a registered representative for two different brokerage firms.

My sales training during those four years took many forms. There was classroom training which consisted of explaining the differences between features and benefits. There were scripts that were designed to help me overcome objections such as what to say when the prospect replied, “I need to speak to my wife first.” And there was the impromptu training from the sales manager that sometimes began with “Just sell the (bleep) stock!” That was one of his more professional training moments.

Whether it was the training, my personality, or a combination thereof I had some success at sales. I won a number of sales contests at Citibank, one of them even a regional one among several branches in the Chicagoland area. I got a plaque and even got to attend the big dinner attached to the promotion. I wonder what ever happened to that plaque.

I even had some success in the highly competitive brokerage world when I won a trip with all of the other top young brokers in the firm to a meeting at a resort in Clearwater, FL. Shortly after winning that trip I found myself interviewing. At the age of 23 the stress of quotas and multiple sales managers yelling at me, regardless of how well I was doing, was already getting to me. I made the wise decision that I didn’t want to have an ulcer before my 30th birthday.

Then began my credit union career where I could put my sales skills to good use where management actually did have an appreciation for them. And where I always offered a product or service that was of value to my prospect. My business development prowess earned me two promotions over eight years.

Fast forward to 2001 when I started Bator Training & Consulting where my signature service was cross-sales training to financial institutions. By 2003 I had abandoned that program because I found as a trainer that trying to provide surface-level solutions to deep cultural problems just doesn’t work!

I finally realized that after being a sales-person, then a sales manager, and finally a sales trainer that it wasn’t about building sales skills in individuals. It’s about building a sales process with the entire team. Sure, you can create a few sophomoric sales scripts with your frontline staff but that doesn’t change a poor lead-generation effort by marketing. You can throw incentives at your member-facing employees but that doesn’t help them to align their mindset with the brand of the business. You can even threaten their jobs if...
they don’t sell – and, yes, I have actually witnessed this in the credit union industry believe it or not – but that doesn’t make people change behavior. It simply speeds up the ubiquitous revolving door for the HR department.

Again, it’s about the sales process. Or better yet the business development process. If you have ever heard me present you probably heard me say how I love “sales” as a noun but I have little affinity for the verb “to sell.” Sales are the lifeblood of any business. However, to sell is a focus on the transaction and not the individual. For example, the first definition on dictionary.com is “to transfer goods to or render services for another in exchange for money; dispose of to a purchaser for a price.” There’s nothing in that statement about fulfilling a need or solving a problem. It’s simply the understanding that a transaction needs to take place. And I don’t think any of us wants to “dispose of” something on to a member.

However, when you use “business” as an adjective in conjunction with the noun “development” you form a phrase with a positive connotation. “The act or process of developing; growth; progress.” Hey, there’s that word process again.

One of the first steps of that process is psychological and that is explaining that the actions of “hard-selling” AND “order-taking” are BOTH negative and inappropriate for the culture of your credit union. Many people have a picture in their heads that selling is an “either-or” activity, i.e. I am either pushing a product or I am an order taker. And that’s simply not true.

The fact is to not make a member aware of a service that would be of benefit to him or her is, in essence, a disservice. The job may not be to sell but it is to point out how a specific service can legitimately solve a problem. Once people understand that concept and that business development is everyone’s job the task begins to seem less daunting even for some of the most anti-sales MSRs. You know the ones. The ones that say, “I wasn’t hired to be a salesperson.” That may be true but, as one CEO told me once, “Regardless of your job description, every employee has two tasks: member retention and member acquisition.”

The next part of the process ironically is to create the business development process, but not at the strategic planning retreat or a management team meeting. Then it’s just one more directive coming down from the top…one more that staff probably won’t be passionate about and will, at best, go through the motions to adhere to.

As Lee J. Colan, Ph.D. said in his book, Leadership Matters, “People support what they help create.” I advocate building a cross-functional team to create the process from the ground up. Then it’s their process or their peers’ process and not management’s. Depending upon the size of the credit union I advocate having a five to eight person team to build the business development process from the ground up. The team might look something like this: one teller, one personal banker, one IT professional, one marketing professional, and one finance professional.

You may ask “Why on earth would you want someone from IT or finance on a team to create a business development process?” As with most systems, the process is going to effect most if not all departments in the organization. Wouldn’t it be a good idea to have IT and finance on board before there’s a problem in a portion of the business development process that effects either department? Otherwise there will be the ubiquitous argument of IT saying that marketing doesn’t know what it’s doing and marketing saying that finance is the anti-sales department. You
Since 1996, Credit Unions for Kids has raised more than $100 million for Children’s Miracle Network Hospitals, giving hope and healing to kids in your local community.

**YOUR FUNDRAISING DOLLARS IN ACTION:**

<table>
<thead>
<tr>
<th>Amount</th>
<th>Item Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10 MILLION</td>
<td>1 iMRI machine and surgical suite</td>
</tr>
<tr>
<td>$2 MILLION</td>
<td>1 Cardiac X-ray machine</td>
</tr>
<tr>
<td>$270 THOUSAND</td>
<td>1 Ultrasound machine</td>
</tr>
<tr>
<td>$250 THOUSAND</td>
<td>1 Bone marrow transplant</td>
</tr>
<tr>
<td>$100 THOUSAND</td>
<td>1 Fully-equipped Giraffe OmiBed incubator</td>
</tr>
</tbody>
</table>
want everyone that will be involved at any level to have some buy-in, be on the same page, and resolve obvious problems before they happen.

Here’s an example of a simple process that could be created by the team. Say the credit union is losing business to direct mail pre-approvals like SoFi or local car dealerships. You know that over 80% of the time the credit union could have offered them a better deal but you don’t hear about it until after the member takes the offer and has obtained a loan somewhere else. So the team develops a process such as this:

Marketing develops a campaign with brand messaging such as “Bring those deals you get in the mail into us for a review. We’ll let you know if we can do better or if those other guys really do give you an offer you shouldn’t refuse.” Either way we’ll give you a free gift for coming in to talk to us.

The branch personnel having worked with marketing on the concept are already set up for success. They know exactly what the program is and what to say when a member walks in or calls. They even know what the free gift is. You would be surprised as to how many times it is the “free gift” that is the disconnect between marketing and the branch staff.

IT sets up a program in the system to track the success of the process. They also create an online form for the website for those that want to participate online. And finance has already provided parameters of what can be offered and what can’t in order to earn the business. This way there are no surprises and frontline staff don’t mistakenly make a promise to the member that can’t be kept by the credit union.

This is a simple but good example. Everyone’s on the same page. Everyone has buy in. Everyone understands the role they play in the process. And, guess what, no one has “to sell.” The branch professionals can be in the business development zone and simply present the facts to the member. You can either help them with a better deal or not. You can also point out when their deal and your offer is an apples to oranges comparison and what the difference means them. Doesn’t that sound better than teaching features and benefits or passing out some surface-level sales scripts? If it doesn’t you can always resort to the training that I had in my early years by telling your frontline staff “Just sell the (bleep)” and hand them a script to help them to keep the prospect from talking to his or her spouse.

Ken Bator is the author of The Formula for Business Success = B+C+S and the founder of Bator Training & Consulting, Inc. (BTC). Credit unions hire Ken to create environments where employees actually want to come to work and members want to keep coming back. BTC accomplishes this through a combination of Branding, Culture building, and Strategic planning. This is the unique B+C+S Formula created by Bator and featured in his latest book. To have BTC assist your credit union in creating a differentiating and engaging experience, contact Ken directly at 714-681-2821 or kbator@btcinc.net. Learn more about BTC’s training and strategic planning sessions at www.btcinc.net.
Immediate Investment Portfolio Strategies For A Rising Rate Environment

Part Two: Floating Rate Securities vs. Adjustable Rate Securities

The Problem: Most CU’s do not differentiate between variable rate alternatives – specifically floating rate and adjustable rate – which leads to: 1) Lower / lagging investment income; and 2) Declining market value / increased devaluation in a rising rate environment.

In our last two articles, we focused on the negative effects of rising rates on both net interest margin (NIM) and the mistakes most CU’s make in investment portfolio strategy, thereby causing unintentional harm to their institution.

In this article, we will focus on addressing those problems. Specifically, from the standpoint of how adding floating rate investments are not only preferable to fixed rate bonds, but also adjustable rate bonds.

Why Differentiate Between Floating Rate and Adjustable Rate Bonds?
For purposes of clarity and comprehension for this discussion, we distinguish variable rate investments into two distinct categories. The importance of this distinction and differentiation will not be lost on the reader when taking into context how the FED (FOMC) has steadily raised the FED Funds Rate 7 times (175 Basis Points) since December 2015.

Here are the 2 distinct categories of variable rate investments we make for purposes of educational clarity and portfolio strategic opportunity:

1. Floating Rate Bonds: Floating Rate bonds have a frequent resetting coupon under one year. Thus, a frequently resetting coupon will react quickly and positively to rising rates from an income / earnings perspective. As will be explained, floating rate bonds which reset every 1-3 months are strategically beneficial.

2. Adjustable Rate Bonds: Adjustable Rate Bonds have an infrequent or irregular resetting coupon. These coupons reset one year or greater. Thus,
they are slow / late to react to a rising rate environment. Although “adjustable in name”, they fail to adequately respond to a CU’s need for rapidly increasing income to offset the squeeze on their NIM.

**What to Look for in Selecting the Best Floating Rate Alternatives for Your Credit Union.**

Let’s take a look at what characteristics are most desirable in selecting a floating rate bond. Then we will look at what characteristics to avoid – this breakdown will reveal why floating rate bonds can outperform adjustable rate bonds in a rising rate environment.

**The Optimal Floating Rate Characteristics to Look for When Selecting Floating Rate Bonds for your Portfolio:**

- **Frequent Reset:** Look for a coupon that can react quickly to changing rate environments – particularly bonds with monthly or quarterly resets.
- **High Coupon CAPs:** Make sure any coupon CAPs are high enough to allow your investment to react appropriately to a rising rate environment.
- **Cash Flow:** Monthly cash flow into a rising rate environment can be beneficial as the coupon resets and the credit union can lend or reinvest those funds at higher rates.
- **Small Market Value Change / Low Duration:** Negligible devaluation (market value decline) in a rising rate environment.
- **Good ALM tool:** A frequent resetting coupon can behave like cash on your ALM report with a potentially significant yield enhancement.

**Characteristics to Avoid When Selecting Floating Rate Bonds for Your Portfolio:**

- **Infrequent / Periodic Reset:** Avoid bonds with infrequent or irregular coupon resets. These bonds will be late to react to changing rate environments (i.e. 1 year or longer resets).
- **Low Coupon CAPs:** Low coupon CAPs will reduce your investment’s ability to react appropriately to a rising rate environment.
- **Cash Flow:** The lack of monthly cash flow into a rising rate environment can be very problematic and can contribute to earnings risk.
- **Significant or Moderate Market Value Change / Low Duration:** Higher devaluation (market value decline) in a rising rate environment.
- **Poor ALM tool:** An infrequent resetting coupon does not benefit the credit union’s overall ALM position.

**A Look at the Permissible Types of Floating Rate (Frequent Coupon Resets) Bonds and Adjustable Rate (Periodic/Infrequent Coupon Resets)**

It is helpful to know the most common types of both floating and adjustable rate bonds in the permissible Credit Union Investment Universe. From a regulatory standpoint, §703.14 of the NCUA Rules and Regulations provides what characteristics make a variable rate investment (either floating or adjustable) permissible. However, this regulation does not articulate at all which specific investments are permissible.

The following is a description of the most common types of variable rate investments permissible for CU’s, along with a very brief definition:

**Floating Rate Bonds (Frequent Coupon Resets) Brief Definitions**

- **Floating Rate Agency Bullet**
  - Bullet (non-amortizing) that resets monthly or quarterly issued by most Agencies
- **Floating Rate GNMA HECM**
  - Amortizing (monthly P&I) that resets monthly only issued by GNMA (100% Full Faith and Credit of the U.S. Government)
- **Floating Rate Agency CMO**
  - Amortizing (monthly P&I) that resets monthly issued by most Agencies
A closer look at the specific characteristics of Floating (frequent reset) and Adjustable (periodic reset) Bonds which are permissible and most common for CU’s

We will now breakdown the specific and differentiating characteristics among variable rate alternatives from the same types of floating and adjustable rate bonds identified in the previous section.

**Frequent Coupon Reset**

**FLOATING RATE CMO**
- Tied to 1-MO LIBOR | Resets Monthly
- Yield Range: PAC1 | PT = ~3.25% to 3.40% (Base Case)
- Yield Range: SUP = ~3.40% to 3.75% (Base Case)
- Typical CAP Range Between 5.00% & 7.00%
- Index Duration = -0.08%

**FLT RATE SBA - EQUIPMENT**
- Tied to PRIME | Resets Monthly or Quarterly
- Yield Range: ~2.30% to 3.00% (Base Case)
- Small Business Administration – Full Faith & Credit

**FLT RATE SBA - RE**
- Tied to PRIME | Resets Monthly or Quarterly
- Yield Range: ~3.30% to 3.90% (Base Case)
- Small Business Administration – Full Faith & Credit
- NO CAP
- Index Duration = -0.60% to -0.90%

**GNMA HECM**
- Tied to 1-MO LIBOR | Resets Monthly
- Yield Range: PT = ~2.90% to 3.15% (Base Case)
- Typical CAP Range Between 7.00% & 13.00%
- Duration = ~-4% - -~6%

**FLT RATE BANK NOTES**
- Tied to 1-MO LIBOR | Resets Quarterly
- Yield Range: 3YR to 5YR = ~2.30% - 3.00%
- Typical NO CAP
- Index Duration = -0.25%

**FLT AGENCY BULLET**
- Tied to 1-MO LIBOR | Resets Monthly
- Yield Range: ~1.75% to 1.95%
- NO CAP
- Index Duration = -0.08%
PERIODIC Coupon Resets
*Typical Characteristics*

**AGENCY STEP-UP CALLABLES**
- Callable Monthly, Quarterly, Semi-annual, Verde
- Maturity Range: Typically 5-YR to 15-YR
- Yield Range: YTW ~3.00%
- Yield Range: YTM ~3.50%
- +300 BPS Devaluation = -5% to -25%

**AGENCY FIXED-TO-FLOAT CALLABLE**
- Callable Monthly, Quarterly
- Maturity Range: Typically 10 – 20 Years
- Fixed-Rate Coupon: ~2.50% - 3.00%
- Floating Rate Spread: ~1.50% - 2.50% to 3M LIBOR
- These securities have CAP’s that start lower and gradually increase per set CAP schedule.
- +300 BPS Devaluation = -~17%

**GNMA ARM**
- Tied to LIBOR or US TSY
- Initial Fixed Period 5 – 10 Years
- Yield Range: ~2.85% to 3.25%
- Backed by Adjustable Rate Mortgages – 100% Full Faith
- Initial CAP = 5.00% | Periodic CAP = 1.00%
- Lifetime CAP Varies
- +300 BPS Devaluation = ~ -6% to 12%

**AGENCY ARM**
- Tied to LIBOR or US TSY
- Initial Fixed Period 5 – 10 Years
- Yield Range: ~2.75% to 3.20%
- Backed by Adjustable Rate Mortgages – Implied Backing
- Initial CAP = 5.00% | Periodic CAP = 2.00%
- Lifetime CAP Varies
- +300 BPS Devaluation = ~ -8% to -13%

**Conclusion: What to do now?**

While not exhaustive, this introduction to the different types, definitions and characteristics of the most commonly utilized variable rate bonds has hopefully clearly established one essential guidepost – that it is critical for a C.U. Portfolio Manager to know the difference between Floating and Adjustable Rate Bonds.

The importance of this difference is underscored when the FOMC has not wavered from its intent to raise the FED FUNDS Rate 3 to 4 times during 2018. What we can do now is to identify:

1. The characteristics of those bonds most beneficial to your CU’s income / earnings as well as your ALM and NEV position. As an example, a Credit Union with an asset mix of predominately Fixed Rate, should look to diversify into more frequently resetting coupons, i.e. Floating Rate Bonds.

2. The under-allocation of Floating Rate Bonds available vs. the presumably over-allocation of both Fixed and Adjustable Rate Bonds in your portfolio. A consideration of reallocation through a buy / sell swap strategy can quickly rectify an earnings and devaluation dilemma.

So Why are Some CU’s Better Positioned with their Investment Portfolios to Benefit from Rising Rates?

We maintain that the difference is education. Your education is essential to the success of your portfolio. The detailed discussion and analysis of Floating Rate Alternatives is paramount to how we work with our clients before any recommendations are made.
In Part Three of this series on Immediate Investment Strategies for A Rising Rate Environment, we will focus on strengths and weaknesses in bonds we have discussed today. We will point out the practical utilization of the best available alternatives over the types of bonds which are commonly recommended to CU’s.

Credit Union Investment Strategy Group of Oppenheimer & Co. Inc.

Request your complimentary Portfolio Evaluation today. Call 844-616-4431 or email us at mark.wickard@opco.com

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Meeting the demands of financial consumers has become increasingly difficult over the past two decades or so. Technology and the evolution of brand marketing has changed what consumers expect from the businesses they choose to do business with. For financial institutions, this has largely meant trying to keep up with the convenience, simplicity and user friendliness of brands such as Amazon, Apple, Samsung and others.

Consumers today also see what brands such as Bank of America, Wells Fargo and USAA have done to make managing finances easier. In turn, consumers expect degrees of those streamlined services from every financial institution. The rapid distribution of these expectations to consumers has largely been influenced by good brand management and a solid marketing strategy. The large bank brands have created expectation by tapping into the mindset of consumers.

**Market Segmentation and the Buyer’s Journey**

When the era of mass marketing ended, the advertising industry saw a definitive separation between marketing and advertising. Marketing became about the “how” to reach your target market by performing research, applying the research findings to an advertising campaign, and executing that campaign through market segmentation.

As market segmentation became more advanced in recognizing how consumers acted, four types of market segmentation were exposed.

- **Geographic segmentation**: Defining a market based on location, often where a consumer resides.
- **Demographic segmentation**: Defining a market based on proven traits of the consumer; such as age, gender, and income.
- **Psychographic segmentation**: Defining a market based on how the consumer thinks and interacts with the world around them. It is often measured by what media they choose to consume.
- **Behavior segmentation**: Defining a market based on how the consumer acts and behaves. This is often measured by tracking online activity.

The practice of market segmentation is defined as the process of dividing broad consumer groups into specific markets. These markets are based on one or more of the types of segmentation listed above, utilizing various metrics to achieve the desired outcome.
In large part, advanced market segmentation is responsible for driving consumer expectation. In the era of mass marketing, and even limited segmentation, everyone received the same message at the same time. Understanding that some consumers were at different stages of the buyer’s journey did not occur to marketers (advertisers) at the time. Advanced segmentation changed this.

Consumers are not only at various stages of a buying journey, but they are also wildly different when it comes to adoption of innovation. Advanced market segmentation takes all of this into account so that a brand understands who the target market is at each stage of the promotion life cycle.

The five stages of consumer adoption have been defined as:

- Innovators: These are your brand enthusiasts. These consumers will consistently raise their hand to beta test new products, services and systems.
- Early Adopters: These consumers are visionaries. They see how a new product can improve their life or, at the very least, be cool enough to try out.
- Early Majority: Largely, this group fits into the category of “Keeping up with the Joneses.” They see what the Early Adopters have and catch the trend wave while it’s still riding up.
- Late Majority: These consumers are more conservative than most and prefer that a new product, platform or system has been tried, tested and true before joining the trend.
- Laggards: Simply put, these consumers are skeptics. They were likely the last (or still have not) to sign up for online banking.

Meeting consumer expectation means first understanding which areas of your target audience fit into which stage of adoption. Then, cross-segment your adoption markets with identifying triggers for each stage of the buyer’s journey. For each consumer adoption stage, the triggers will vary.

**Market Segmentation is Changing**

People continue to evolve. Technology continues to become more advanced. The way people interact with technology (and, thus, other people) has changed. Before the iPhone came out 10 years ago, there were very few instances of people walking down the street and running into stationary objects. Technology has changed that!

To understand why market segmentation is changing means that we must first understand how our economies have changed.

Over time, advertisers and marketers have changed their tactics and abilities to reach people based on shifts in consumer behavior. Society’s “economy” also changes along with these eras and movements. The goal of every shift in economy is to better reach consumers where they are most ready to purchase or engage.

<table>
<thead>
<tr>
<th>Time</th>
<th>Marketing/Advertising Era</th>
<th>Economy</th>
<th>Goal to Consumers</th>
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<tr>
<td>Mass Marketing</td>
<td>Goods Economy</td>
<td>Control costs</td>
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<tr>
<td>Basic Market Segmentation</td>
<td>Services Economy</td>
<td>Improve quality</td>
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<tr>
<td>Advanced Market Segmentation</td>
<td>Experience Economy</td>
<td>Render authenticity</td>
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In short, market segmentation is changing because consumers are demanding that it changes. Today, we are living in what is known as: the expectation economy.

**The Expectation Economy**

Like it or not, your consumers have expectations of you. Expectations of your brand, expectations of service, expectations of technology offerings, and more. The list keeps growing! And the more they interact with other channels, brands, and buying experiences their expectations grow and evolve.

Evolution is the hallmark of the expectation economy. What is expected today is quickly replaced by a new expectation tomorrow. Today’s consumers are not interested in the status quo.
Fun activity:
Think about a time that you were using an app or visiting a brand’s website on your smartphone.

Think about that experience from start to finish.

What piece of functionality do you, or did you, want that app or site to have that it did not? Was it a smoother mobile ordering process? Perhaps the site was not laid out to your liking. Maybe fewer steps to transact. More intelligence about you? More intuition on your position in the buyers’ journey?

That’s the expectation economy. You expected better of an experience you had. And it didn’t even need to be a bad experience.

The expectation economy is not limited to nor all about technology. Much of the expectation economy uses technology to feel more personal. Many of today’s consumer expectations stem from using technology, but it is not relegated to that role. With the amount of media and messages available, consumers are making up their minds about things like service interactions, physical locations and how brands interact with society. They are passing judgement on everything long before they may even interact with your brand.

What is the Expectation Economy About?
As explained in the book “Trend-Driven Innovation,” the expectation economy is based on the idea that consumers have ever-accelerating expectations that they apply to every purchase decision, experience and moment of attention.

There are three strands of consumer expectation:
1. **Rising Quality.** This means that consumers expect the best. They see right through products and services that are rushed to market. Brands that deliver anything but their best will die a rapid death. The promise must match the outcome.
2. **Positive Impact.** This means that your brand’s actions and how the brand interacts with society are subject to unavoidable awareness. In today’s world, brands are judged based on the impact they leave with the environment, social issues and health impacts, even the local economy. Consumers expect brands to take a stance so that they know whether or not they want to be a part of your story.
3. **Personal Expression.** This means that today’s consumers are prioritizing self-improvement and personal expression through the products, services and brands they align with to meet their needs. Your brand must create a personalized, emotional experience for your consumers. Consumers expect not only to have and get more from your brand, but to be more to your brand. The personal and technological engagement are critical.

In the expectation economy, consumers find and interact with brands based on what matches their values and social mores. Brands must take positions in order to trigger emotional responses from their target audiences.

Meeting Expectations in the Expectation Economy
As consumers expect more from the brands that they do business with and subsequently become loyal to in various stages of life, your brand must learn to stay relevant. Staying relevant means your brand must find
a way to meet the expectations of today’s consumers with relevant and timely communication.

The previous economy, the experience economy, was about rendering authenticity. The experience economy is about customizing interactions. This means you know “who” your audience is, “where” they are located and “what” they want/need, and you provide the “how” to engage and complete their need.

The evolution of market segmentation has become what is known as audience planning (or Audience Targeting). Audience planning is a process that provides the tools to customize interactions on a granular level. By becoming more granular within the existing target markets of your brand, you create more personal and customized communication that reflects the individual consumer.

To begin practicing audience planning, gain insight into the consumers you want to target with these stages of planning:

- **Organizational segmentation:** Begin with the market segments and personas you already have. Identify which segment(s) fit the target audience based on your objectives.
- **Behavior triggers:** What behaviors does your market exhibit when coming into contact with your brand, or similar brands? Your products?
- **Sequencing:** Each behavior fits at a certain point in the buyer’s journey. Therefore, there is a sequence of events for each behavior that will need to be mapped in order to target and retarget the behaviors. Knowing this sequence shortens your potential buying cycle with your customer.
- **Life stages:** When performing the organizational segmentation step of this process, you will find that audience planning spans across multiple segments. Therefore, it is important to identify each of the life stages that you are dealing with, how they will need to be communicated with and how they will react to your message. The key is knowing that this step is far beyond age segmentation and incorporates where people are in their life, regardless of demographic position or profile.
- **Value scoring:** Establish a set of rules to understand how valuable your audience finds your brand, products, service and message. Utilize these rules in the execution phase in order to focus on your core audience at the right time with the right message.

Following these stages allows your brand to create hyper-targeted, customized messages. Your consumers will, in turn, respond to this positively. It shows that you are listening to who they are, where they come from and what their needs are.
Aaron Gregerson is the Chief Digital Officer for MarketMatch, a full-service marketing consulting firm that provides energizing expertise, ideas and strategic marketing thinking for credit unions. Aaron brings over 12 years of financial marketing and business development experience to the industry. Aaron focuses on digital marketing, strategic planning and promotion, branding and market segmentation with his clients to help grow credit unions in meaningful ways.

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Everything Your Members Need—Anywhere They Need It
Are You Relying on Dated Time Studies in Branch Scheduling?
Real-time data provides more accurate branch staff schedules

Technologies have drastically changed the banking landscape, but the fundamentals for delivering on service standards are just as important as ever. Members expect great service—and they don’t want to wait too long for it.

The methods that credit unions can employ to deliver great service as efficiently as possible have improved dramatically, especially in the area of staff scheduling. Time studies, a commonplace method for measuring employee output, are being replaced by systems that rely on real-time data on staffing and branch volume.

Time study refers to a structured process of directly observing and measuring employees’ work, literally counting the minutes to establish the average time required to complete specific tasks when working at a defined level of performance. In the past, time studies might have been a useful tool in scheduling staff in combination with forecasts of expected member traffic. But in today’s fast-paced environment, relying on a manual process tied to forecasts based on historical patterns may lower service levels and increase costs.

You might say that the use of time studies in branch scheduling is well past its prime.

Credit unions now have the opportunity to apply real-time data to guide scheduling, with much more accurate information about assist times, or the amount of time frontline employees typically spend with members to complete specific tasks. Rather than a general estimate of assist times across a wide range of product and service requests, lobby tracker software captures the actual time it takes to process individual member interactions.

This data-based system can supply a whole host of information that would be impossible (or at least prohibitively expensive) to collect through time studies or is outside the purview of that tool, including assist times per product for individual employees; patterns in branch traffic and transactions by time of day, week, or month; and new accounts opened and other relevant sales statistics.

An automated alternative to the time study can facilitate more efficient staff scheduling and even alert managers when unexpected traffic spikes extend wait times beyond the credit union’s specified target. In that event, other employees can step in to assist when needed to maintain service levels.

Compare that functionality to the practice of calculating staffing needs manually and based on historical patterns. If time studies are “close,” they might be just a minute off here and there—which is still significant when multiplied by the rate of transactions that occur over the course of a week or month. And that approach can’t account for differing traffic patterns and assist times from branch to branch, which widens the accuracy gap even more. However slight, those variations can add up to significant costs over time in terms of poor service and/or overstaffing.

The disparities between time-study estimates and real-time data can build up to the point that branch managers either abandon the use of that information in scheduling or continue to rely on inexact figures. Either way, staff schedules are not aligned with current member traffic patterns, and the credit union ends up either short-staffed or overstaffed.

The use of real-time data ensures that the basis for scheduling is continually updated and remains as
accurate as possible going forward. In comparison, time studies are past their “sell-by date” soon after they are completed.

Access to real-time data in scheduling is especially crucial in state-of-the-art branches staffed with universal employees. Members are likely to use these service centers differently than when they relied on traditional branches, especially if the credit union’s strategic aim is to encourage a new sales and service model in these settings. Over time, branch visits may take longer and result in higher sales as members shift away from routine transactions and toward more consultative interactions.

Universal employees tend to earn more than traditional tellers, so appropriate staffing becomes even more important to the bottom line. A lobby tracker system collecting real-time data keeps pace with evolving traffic patterns and member expectations in a way that no time study can.

There was an era when time studies were considered a top-shelf solution for aligning staff schedules with the best possible estimates of member service needs. But that approach is now out of date. The time that matters most to members is when they walk into a branch—and only real-time data can keep pace with those expectations.

Chad Davis is senior industry marketing manager, Financial Services Practice Group, Kronos, which is a leading provider of workforce management and human capital management cloud solutions. Kronos’s industry-centric workforce applications are purpose-built for financial institutions of all sizes. Chad can be reached at chad.davis@kronos.com.
Digital Commercial Lending
The financial industry is starting to embrace the idea, so it’s a win-win for small business owners.

The latest disruption to the financial industry is the emerging presence of digital commercial lending. Consumers have long been able to apply for a personal credit card or mortgage online, but the commercial side of the lending house has been slow to change.

The technology is now available, and the financial industry as a whole is starting to embrace the idea of digital commercial lending, so it’s a win-win for small business owners. Businesses can still use their trusted financial institution but also have the ability to apply for and receive approval in record time using online business lending software.

The FinTech commercial lending train is picking up speed and if credit union’s don’t get on board soon or are too slow to adopt digital commercial lending they will be left behind and their members will be looking for a financial institution that can keep up with their fast paced business needs.

Jim Gallagher, CEO of Lucro a CUSO based in Tallahassee, Florida, saw the need for a small business fintech lending solution. According to Gallagher, “Most smaller credit unions don’t have a dedicated small business sales person, so the process falls on the consumer loan officer or branch manager.” This is not cost effective so those same small credit unions shy away from business lending. On the flip side, for a larger credit union who has a full time business development officer, Gallagher says, “that sales person is focusing on larger dollar, more complex requests. They can’t spend their time chasing and then originating smaller dollar loans. It’s just not cost effective for either scenario.”

So what’s the answer? And why should banks and credit union’s embrace online business lending solutions right now?

1. There are more choices than ever. The market is ripe for small businesses and small business lending. A quick online search will direct someone to an alternative lender, or five! Be there for your member before they click away.
2. **Consumers expect it.** Figure out how to digitize the face-to-face lending processes. There is very little that consumers don’t do online. Forcing them to fill out an application and then wait days or weeks for approval is archaic and when they can get answers from Siri or Alexa or any .com in seconds, they simply won’t stick around and wait anymore.

3. **Credit still matters.** Just because you’re using a FinTech product doesn’t mean you don’t hold yourself and your members to the same standards. The process is changing and freeing your loan offers to do other things, that’s all.

4. **It’s the ultimate “sticky” product.** Credit Unions who offer credit cards, personal loans, student loans, mortgages and small business loans, among other financial product will have members for life -- assuming the process for getting those loans is as simple and fast as they want it to be. The more a single lender can satisfy all the financing needs of their borrowers, the better they’ll do.

5. **Partnerships matter.** Alternative lenders have speed, better user experiences, and a regulatory vacuum wherein to operate. To compete with these alternate lenders, find a FinTech company that you can partner with and will define how the credit needs of your members’ small businesses are met in the future. Lucro Commercial Solutions is an example of a fintech partner that provides a digital business lending option for credit unions.

It’s a natural fit for members to turn to their trusted CU for their home, auto and credit card loans, but what will they do when that same member turns to your credit union for their small business loan? The time for FinTech business lending solutions is now.

**LUCRO** is a team of dedicated and knowledgeable business lending experts who thrive at assisting financial institutions. Whether it’s support with underwriting, servicing, and documentation services for loans, or developing commercial lending policies and procedures, we pride ourselves in helping your financial institution get the most out of your portfolio.

*Jim Gallagher, President of Lucro Commercial Solutions. His responsibilities include the delivery of business products and services to credit unions. Business Services offers a wide range of products to assist credit unions in the development and expansion of their member business lending and deposit programs.*
Harassment
Keeping Your Name Out of the News (Part 1)

With claims of sexual harassment being levied against prominent figures in Hollywood, sports and industry, community banks are wise to ensure that they’re taking proactive steps to keep harassment out of their workplace, communicating effectively so all understand what harassment entails and how to report infractions, and responding quickly and appropriate to any allegations. What steps should you be taking, proactively, to avoid these claims? Input from HR and legal experts.

The Basics

Christopher W. Smithmyer, is a lawyer and strategic resource development coordinator at Brâv Online Conflict Management, a dispute resolution company. “The #MeToo movement is a result of bad social design for the last hundred or so years,” says Smithmyer. “Companies found it easier to hide instances of sexual abuse—as evidence in the Weinstein case and the Congressional slush fund—rather than deal with the problem. While the media is wringing their hands with the ‘what do we do’ mentality, the solution is quite simple. Have good corporate practices.” Those practices, says Smithmyer, should include:

- Training to define what sexual harassment is within your corporate environment.
- An HR person designated to deal with sexual harassment claims, with backup individuals to serve in this role if one of these people is the accused.
- Dealing with any claims quickly and openly. Without naming the party, Smithmyer says, a statement at a meeting such as “We have had a claim of sexual harassment and this is how we are dealing with it,” can serve to empower others to come forward rather than staying silent.
- Consider using a third party—e.g. conflict management service, or attorney—to deal with any claims.
- Nance L. Schick is an employment attorney, arbitrator and mediator, and has also personally sued a prior employer for sexual harassment. It’s not enough just to have a policy, or to conduct training once a year, says Schick. “You will be more effective if you help employees identify sexual harassment and what causes it, how to report it, investigate it and take appropriate disciplinary action.”
HARASSMENT

Zero Tolerance: We Mean It!
Taking a strong stance against harassment is important and sends a message, loud and clear, about the community bank’s commitment to a harassment-free work environment. “We advise community banks to implement zero tolerance anti-harassment and anti-discrimination policies, which are adhered to in all circumstances,” says Kimberly Capadona, a partner at Archer, and advises clients on employment law and labor relations issues. These policies, she says, should be distributed to all employees through email, or hard copy—and employees should be asked to sign an acknowledge that the policy and received and reviewed.

In addition, Capadona says, “we suggest that community banks conduct anti-harassment and sensitivity training for all management and staff.” This, she says, should be done upon hire and annually thereafter.

But communication should be ongoing to ensure that employees understand both expectations and how to report any issues. Policies should clearly indicate who employees should turn to if they need to report a complaint; there should be more than one option. For instance, reports could be made to a supervisor or manager, the HR department or a specific VP or senior-level executive. Having options can prevent situations where employees fail to report because the individual they’re expected to report to is the harasser. Policies should also clearly prohibit any form of retaliation against employees who make a complaint, Capadona advises.

Most importantly, employers must act—and act quickly and consistently—whenever incidents of harassment are observed or reported. “When employees observe that their employer is tough on harassers, employees are less likely to engage in such unlawful conduct,” says Capadona.

There is a balance to be struck, though, in terms of making it clear that the company takes such situations seriously, and violating the privacy of those involved. “Internally, I recommend that you limit discussions of the investigation while it is ongoing,” says Schick. “Keep the knowledgeable parties to a minimum. Defer to the investigators to determine whether there was sexual harassment. Work closely with your legal counsel when developing an action plan, regardless of whether harassment was confirmed. There will be relationships to repair and monitor, no matter what happens next, and the more objectively you can manage those relationships, the better your entire workforce will deal with the incident.”

Afraid to Speak
While the #MeToo movement has certainly directed attention to the issue of harassment, it’s not a new issue, says Hosage. “Even before the #MeToo movement, the legal standard for an employer has been quick and remedial action when it comes to addressing any form of unlawful harassment in the workplace.”

Unfortunately, not all employers have followed that legal standard—some purposefully and others because they were unaware that incidents had occurred. Keep in mind, though, that “the absence of a formal complaint is not an excuse for failure to act,” says Susan Hosage, SPHR, SHRM-SCP, a senior consultant and executive coach with OneSource HR Solutions. Individuals who feel victimized don’t always report,
she says. That can happen for many reasons, including fear of retaliatory action. Still, the community bank is on the hook for ensuring an environment free from harassment. Even if an employee doesn’t report a situation, the back “will be held to the legal standard of whether they ‘could or should have known about the existence of a harassing environment’,” says Hosage. Research supports the need to ensure that many eyes and ears are alert to the potential of harassment. In November 2017, Fairygodboss surveyed 500 women about harassment in the workplace. While 56.2 percent indicated that they had been sexually harassed at work at some point in their careers, 66.7 percent said that they did not report the situation to a manager, HR or law enforcement. SHRM research puts the number of non-reporting victims of harassment at even higher levels—76 percent according to research conducted in January 2018.

In this case, for community banks, what you don’t know could hurt you. Ensuring an environment where employees both understand what constitutes harassment and feel free to report incidents that occur, are important steps to take to create a non-hostile work environment.

Fear of retribution, though, isn’t the only thing keeping employees from coming forward. Fairygodboss’s research indicated that the top reason (52.2 percent) was that employees “didn’t want to create a fuss/look like a trouble-maker/get a bad reputation.” Next highest, at 34.1 percent was feeling that nothing would happen if they did report and, coming in third, was fear of retribution (at 27.5 percent).
Harassment From Customers

Employees, of course, are not always the only potential offenders.

“The biggest challenge for a community bank is when the offender is a customer,” says Susan Hosage, SPHR, SHRM-SCP, a senior consultant and executive coach with OneSource HR Solutions.

It’s a situation that any customer-facing organization faces; community banks are not immune. If an employee is harassed by a customer, says Hosage, the bank must address the situation. “An initial private conversation with the customer may be all that is necessary to end the unwelcome conduct,” she says. But, if the behavior continues, “it may be necessary to end the professional relationship.” Not an easy thing to do, but a necessary one, says Hosage. “The obligation for the community bank as an employer supersedes any business objective it may have to retain that customer,” she says. “Financial consequences for the bank that may arise from an employee who was repeatedly subjected to the harassing behavior by a customer would likely be far greater than any revenue that would result from his or her business.”

It’s important for employers to seek legal counsel when dealing with harassment issues, Schick stresses. “If community banks require advice regarding specific instances, I recommend that they consult an employment attorney with experience in sexual harassment in the state where they operate.”

The bottom line: “The best way to show the bank’s commitment to a harassment-free workplace is to maintain a harassment-free workforce and environment,” says Hosage. It’s a message that banks—and other businesses around the country—are getting loud and clear.
Stress-Free Banking
How to Wow Your Members With Mobile Video

A frazzled mom drops by the credit union to apply for a car loan. Her 4-year-old twins race across the room and loot the lollipops. She shrieks as one of them smashes a snow globe.

The trailblazing team at Pioneer Federal Credit Union in Mountain Home, Idaho, can chuckle at chaotic scenes like this. Instead of making everybody cram into the branch, Pioneer offers mobile video banking with the help of POPin Video Banking Collaboration. Through the platform, members can use their smartphones to check account balances, change PINs, apply for loans, sign documents, transfer money, and more—all from the comfort of their living rooms.

“It’s so fun to watch them on-screen while you’re helping and know their kids are happy and it’s a stress-free transaction,” says Tracey Miller, Vice President of Branch Operations for Pioneer Federal Credit Union.

Mobile video is the future of banking, and the future is now. Two-thirds of Americans rely on digital banking as their primary channel, according to an American Bankers Association survey conducted last year. Mobile banking is also accelerating among millennials, showing that traditional branches must continue to evolve to serve members on their terms.

“The fact that we can service the hours we do at a credit union our size is pretty remarkable,” Miller says. “Our members have really become accustomed to the convenience.”

Miller recounts how a Spanish-speaking member recently visited the branch, but Pioneer didn’t have a Spanish speaker on duty. No matter—the teller used her own phone to contact somebody in the video call center who spoke Spanish and was able to provide immediate assistance.

“The member was absolutely blown away,” Miller says. “Now he knows he doesn’t have to come into the branch. He can reach a Spanish speaker on his phone. The mobile video platform has made it so much easier for our members, and it’s made it easier for our staff, too.”

Miller expected millennials and military members to embrace this exciting new technology. But she was surprised to also hear from elderly members, who cherish the ability to handle their banking from home and would rather not have to ask for rides to the branch. After the introduction of POPin, Miller recalls one such member commenting on her renewed independence, saying, “You’ve given me my life back.”
Making It Easy for Your Members to Do Business With You

Not only does a mobile video platform enhance the customer experience, but it also increases sales, claims Luke Campbell, Vice President of Sales and Service at Southwest Financial Federal Credit Union in Dallas, Texas.

Campbell remembers how his team once lost loans because they struggled to collect the necessary documents. Often, the fax machine malfunctioned or members forgot to email the right attachments. But the POPin mobile video banking platform allows his employees to capture signatures on the spot and confirm that they have all the paperwork.

“I want to unplug the fax machine,” Campbell says. “I don’t want to use it anymore.”

Southwest has already made much bolder moves than unplugging the fax machine. The credit union closed its Houston branch when it realized it could service those members more efficiently through a digital branch structure, allowing it to cover far more ground while controlling costs. Even though Southwest now only operates one branch in Dallas, its team serves Kroger grocery stores and affiliates across Texas and Louisiana.

“We don’t have a big physical footprint,” Campbell says. “But we feel that our digital footprint is huge and there are no limits to what we can do with that.”

Implementing Mobile Video With Existing Budgets and Teams

Many credit union executives and branch managers know the benefits of video banking, thanks to the proliferation of Interactive Teller Machines (ITMs), pioneered by uGenius in 2008. But some still fear they can’t afford to invest in the technology, given ITMs can cost $100,000 per machine. Others worry they won’t be able to staff their video call centers to handle the demand.

But Pioneer’s Tracey Miller says her mobile video banking platform, which cost considerably less than an ITM, was so affordable and easy to use that it never raised any concerns with her CEO or board.

“There was no hesitation from a cost standpoint,” she says. “It’s very, very easy to meet ROI on this, and exceed it, because you are opening up so many different channels. We track all of it and we’ve seen the advantages. The price wasn’t even a blip on our radar.”

Miller’s team was off and running immediately because she already had a video call center handling requests from her ITMs. As more of the credit union’s members have adopted digital banking, she has increased her video staff. Miller recommends starting with a soft launch and throttling demand by initially limiting the number of products and services you offer over video.

“Make sure you have a strategic plan for how fast this can grow or how you’re going to control the volume for your deployment,” she says.

Pioneer’s transition to mobile video went smoothly in part because the POPin team helped Miller’s crew build its workflows on the platform.

“It truly felt like one team working toward the same strategic plan and the same vision,” she says. Pioneer’s transition to mobile video went smoothly in part because the POPin team helped Miller’s crew build its workflows on the platform.

“The first touch is the scariest touch,” Miller notes, but once people try the app, they love it and they’re hooked.” After all, your members don’t have to be mothers of restless toddlers to recognize the advantages of doing their banking on their smartphones and tablets. Most of them appreciate face-to-face customer service no matter where life takes them.

“If you want to come see us at the branch, we’re happy to be there,” Miller says. “However, we want you to do it at your convenience. That one day that you’re on vacation, and you can’t get to this branch, and your debit card isn’t working, pick up this app. We’ll make sure that your card is working, so your vacation isn’t interrupted.”
After helping build 500+ branches across 20+ years, Gene Pranger is among the foremost experts on video banking technology. Pranger created the original video banking platform, the Interactive Teller Machine (ITM), with uGenius, which sold to NCR Corporation in 2012. He then harnessed mobile video with his latest venture, POPin Video Banking Collaboration, for banks and credit unions, which finally places a virtual branch in everyone’s pocket.
Dodd Frank Update

As the financial reform effort aimed at rolling back the 2010 Dodd-Frank Act winds its way through the U.S. Senate, it appears likely that the legislation, which substantially revised U.S. financial laws in the wake of the 2008 economic collapse, will be dismantled in the not-too-distant future.

Credit unions have been lobbying for relaxation of Dodd Frank almost since the day the bill was originally passed. Noting that it was unfair to lump them into Dodd Frank’s far-reaching efforts to regulate big banks, credit unions have consistently made the case that they are not-for-profit financial cooperatives, owned and operated by their members. As such, credit unions are focused on returning profits to their investors, unlike the big banks which answer primarily to Wall Street.

While the specifics of the Senate version of the Dodd Frank roll back still need to be crafted, the House version of the bill – known as the Financial Choice Act – would undo many of the key provisions of Dodd–Frank, paving the way for deregulation. Among other actions, the Act gives the president power to fire the directors of the Federal Housing Finance Agency (FHFA), which oversees mortgage giants Fannie Mae and Freddie Mac, and the Consumer Financial Protection Bureau (CFPB), the agency responsible for protecting consumers in the financial sector.

It also gives Congress purview over the CFPB’s budget, meaning lawmakers could defund the agency entirely, and prohibits the CFPB from regulating small-dollar credit or restricting arbitration. The CFPB would no longer have the authority to prohibit unfair, deceptive, or abusive practices and will be limited to enforcement actions derived directly from consumer protection laws.

In light of these proposed revisions, which appear likely to pass in some fashion, the biggest question facing credit union executives may be, “How will our institution react to these changes in the law?”

In order to be efficient and maximize new opportunities in light of an increasingly deregulated environment, credit unions will need to change the way they do business in the lending field.

That means revising financial processes in order to better reflect the changing legal and commercial environment in which they will now operate. Failing to do so will create inefficiencies at best, and liabilities at worst.

When Dodd-Frank was first enacted, the country was still reeling from the effects of the 2008 financial collapse. As a result, financial processes were often written hastily with minimum resources in response to the then-new legislation. This minimalist approach to process management usually resulted in documents which did next to nothing to engage staff and, consequently, were ignored and left to sit on the shelf, or in the shared drive.

Those outdated documents clearly won’t suffice to manage change in the wake of a Dodd-Frank rewrite. And simply replacing them with more of the same is likely to yield the same result.

It is possible for organizations to respond quickly to changes like these. It’s all in the communication. When organizations efficiently and effectively communicate new ways of doing things, teams are more likely to adopt the new methods and execute processes correctly and enthusiastically.
Poorly communicated changes can lead to internal frustrations and a perceived lack of direction. It can cause stress and create a culture of anxiety and resistance within teams that can be hard to turn around. Members can also lose out. When even basic processes are disrupted and service levels decline, it can lead to frustration and, if not quickly corrected, defections to other financial institutions.

Instead, credit union executives need to create a framework that accommodates financial regulations to allow them not simply to navigate the changing environment, but to take full advantage of it while investing in the creation of a robust process improvement culture. Doing so will help to maintain momentum, while providing the kind of sound process management that can help make credit unions more responsive, responsible, and resilient.

Process improvement doesn’t happen by itself. To become more responsive in a changing environment requires a culture that encourages engagement and welcomes feedback.

To create a healthy process culture that enables agility and a change-ready organization, credit union executives should consider these five tips:

1. **Lead from the top.** Involve the organization’s leadership team in process improvement and change management communications, and make sure their support is visible to the entire operation.

2. **Involve all your teams.** Process improvement is a team effort, so your people should know that “we’re in this together”. Frontline teams are often most impacted by changes and can provide good improvement ideas.

3. **Make process management a routine activity.** Drive process adoption and engagement by embedding processes into other business systems that your teams use every day.

4. **Communicate often.** Process improvement initiatives are more likely to be top-of-mind for staff if they hear about them regularly, in places that they visit frequently.

5. **Make it easy.** Allocate time so your teams can contribute to your process reviews and refreshes, to make sure process info remains current.

With a strong process culture, teams from every department are empowered and equipped to develop ideas that improve quality and consistency, enhance customer service, reduce waste, streamline effort and help the business operate more efficiently. Processes are documented, acted upon, referred to and improved on a continual basis, and it becomes easy to make and communicate process changes.

Of course, processes are of no value if they are not used. Staff will require easy access to process know-how, as well as a feedback mechanism which can be used to highlight and suggest resolution for process issues. Business process management tools can help by measuring whether agreed-upon processes add real value and are being utilized.

Bottom line: process management plays a key role in creating a change fit organization that welcomes rather than fears change. A healthy process culture will go a long way toward engaging staff, sustaining process improvement efforts and providing clients and teams with the least disruptive experience, no matter the type of legislative changes.

Sarah Berkowski is Chief Marketing Officer at Promapp Solutions, an industry leading provider of cloud-based process management (BPM) software. Sarah is passionate about helping organizations create a positive improvement culture. After spending 16 years in Canada in various senior marketing management roles, Sarah joined Promapp as CMO in 2015. For more information visit [www.promapp.com](http://www.promapp.com) or contact Sarah directly at sarah.berkowski@promapp.com.
From Consultant to CUSO
Leading Tech Firm Makes the Leap

DaLand Solutions moves to strengthen its role as a true credit union technology leader.

AURORA, Colo. and Rocky Hill, Conn. – June 19, 2018: DaLand Solutions, a leading provider of technology and professional services to credit unions nationwide, today announced that it has been acquired by Nutmeg State Financial Credit Union ($450M; 39,000 members) and will operate as a wholly owned CUSO of the credit union. Nutmeg State became a DaLand customer in 2015, initially relying on the firm for assistance in selecting its new core processing platform. The two organizations have undertaken many joint projects since.

“My partner Jon Ungerland and I both have strong credit union roots,” said DaLand co-founder Dan Micale. “We’ve always considered DaLand as more than just another credit union vendor. When Nutmeg approached us about becoming a CUSO, it made perfect sense as the next logical step for our company.” According to Micale, the two organizations share a common vision of technology and what it means to the future relevance of the credit union industry. Operating as a CUSO will give DaLand access to resources they wouldn’t have otherwise had available.

“We’ve created what we consider a next-generation CUSO,” added Ungerland. “From the early stages in the dialogues about this concept and through the legal formation of DaLand CUSO, Nutmeg has been committed to intentionally structuring the CUSO to ensure we’re even more focused and aggressive in pursuing a wide range of important technology initiatives designed to directly impact credit union relevance.”

Micale now takes on the role of Chief Relationship Officer, while Ungerland, formerly the CEO, is now COO. Ungerland remains responsible for DaLand’s technology products and professional services delivery.

“The relationship between our two organizations quickly grew from a mere client/vendor relationship to one of a partnership in the truest sense of the word,” said credit union CEO John Holt. “The DaLand folks were like employees – a part of our extended family. It was readily apparent that DaLand shares our commitment to keeping credit unions relevant through the effective use of technology.” Holt says he plans to help DaLand become an even bigger influence in the credit union marketplace.

Effective immediately, Jeff Levesque, the credit union’s EVP and COO, has assumed the role of DaLand CEO. While the CUSO expects little disruption in its day-to-day operations, the new DaLand team promises that exciting developments are on the horizon.

“We wouldn’t have made this move if we didn’t believe we can have a significant impact on the credit union movement,” said Levesque. “We have the right team and the right tools in place to make a real difference.”

John San Filippo is Principal & Co-Founder of OMNI Communications
About Nutmeg State Financial Credit Union
Nutmeg State Financial Credit Union (NSFCU) is a member owned, not-for-profit, financial cooperative. Founded in 1936, NSFCU has grown to be one of the largest credit unions in the country. Growth has been steady, but NSFCU has never deviated from its original premise: to offer the finest rates and services while maintaining financial stability. Those principles have served us well over the years. Additional information is available at www.nutmegstatefcu.org.

About DaLand Solutions
Based in Aurora, Colorado, DaLand Solutions is a multifaceted technology and professional resources company that serves credit unions exclusively. With extensive experience in every level of credit union operations, the DaLand team is divided into three groups: project management, which manages many different types of technology implementations; brokerage, which handles core, EFT and other technology searches; and enterprise services, which develops software and custom technology solutions. Additional information is available at www.dalandsolutions.com.
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Choosing the Right Social Media Channel for Your Credit Union

Having a social media presence is imperative for any business, particularly those that are consumer-facing. Sixty-five percent of Americans use at least one social media platform and that number is only expected to increase. Here is a breakdown of some of the most popular social media channels to help you determine which may be a good fit for your credit union.

**Facebook**
Facebook dominates the social media space. Sixty-eight percent of Americans say they access Facebook online or on their cellphones, with users ranging from 18 years old to over 65 years old. This makes it one of the best social media channels for credit unions. With a presence on Facebook, credit unions can build brand awareness amongst consumers and engage with members on a more personal level. Facebook rolled out many new features throughout the years, like live video and messenger, which help it compete with other social media platforms. It also has great advertising capabilities that include audience targeting and a wide range of formats. If your credit union can only manage one social media channel, Facebook is the best option.

**LinkedIn**
LinkedIn offers a platform for both a personal and business presence. Having a LinkedIn page for your credit union is great for recruiting new talent. Fifty percent of LinkedIn users are college graduates, and with a robust job posting section, many look to LinkedIn when applying for jobs. It can also be used to target small business owners and entrepreneurs to promote your credit union’s business services. Using their targeting feature, you can reach users with the title of owner or entrepreneur, or even by their seniority level at the company. Maintaining a LinkedIn profile also doesn’t require a huge time commitment for posting content as many companies only post once or twice a week.

**Instagram**
Instagram is a great social media channel to reach a younger demographic since 71 percent of Americans ages 18 to 24 years old use it. The platform focuses primarily on photo and video content but has rolled out new features like Instagram stories, which competes with Snapchat, and direct message which competes with other social media messaging platforms like Facebook, LinkedIn and Twitter. Developing content for this channel requires a bit more creativity and out-of-the-box thinking since you must post an eye-catching video or photo, but if your credit union is looking to reach a younger audience, this might be a good fit.

**Twitter**
Similar to Facebook, Twitter users range in age from 18 to 65 years old. A variety of content can be posted on Twitter including video, photos, text and even polls. Given this range of options, content creation on
Twitter can be a little easier than other social media platforms. Credit unions can use Twitter to let their members know if an ATM is down or if branches are closing early, for example, in addition to spreading the word about community events and special promotions.

**Snapchat**

Similar to the audience on Instagram, Snapchat is great for reaching a younger consumer, as 68 percent of its users are under the age of 30. Snapchat users like to follow brands and celebrities on this platform because it gives them a behind-the-scenes look into their daily lives. The challenge is to make your content engaging. If your credit union is thinking of expanding to this channel, look at your membership. Credit unions affiliated with schools and universities have a particularly sweet spot that can fit well with Snapchat. If your credit union audience and Snapchat demographics don’t align, try using the Instagram stories feature, and if there is a positive response, explore Snapchat.

Regardless of which social media channel or channels your credit union chooses, it’s important to have an active presence. However, with limited resources, overcommitting to too many channels can result in low engagement. Instead, focus on being active on the platforms that work best for your credit union’s marketing strategy. Align this approach with your credit union’s membership demographics to experience all the benefits that utilizing social media channels can offer your credit union.

Managing an active social media presence can be overwhelming but utilizing tools or partnering with service providers can help. PSCU, for example, offers **Engagement Builder** – a full suite of free marketing resources and a social media management tool that provides content designed specifically for credit unions and allows those credit unions to better engage with their members through the platform. Incorporating tools like **Engagement Builder** into your social media strategy can lead to better content, activity and engagement across all of your channels.

*Tiffany McEachern works with PSCU’s Engagement Builder team to help credit unions better manage their social media presence. Her background includes experience in content creation, market research and strategy, web development and design consulting.*
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