CFO Focus: 8 Ideas for Success

Credit unions must take action now to be competitive when the economic turnaround starts to happen

By Peter Duffy

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The economic crisis will continue to have a far-reaching effect on all financial institutions, including credit unions. While many struggle to survive, well-managed FIs, with few or no asset problems and an adequate supply of capital, are positioned to "win" more business from the consumer and small business owner. The question is: Will they?

Seeing the market as "business as usual" will not help FIs reach their growth potential and, further, could prove to be woefully inadequate once the dust settles. This is because many other FIs (both troubled and healthy) are gearing up for what surely will be a more unforgiving "Darwinian" environment. Even the wounded FI that accesses the Troubled Asset Relief Program or other capital and conducts a "shake down cruise" to steady its ship can come back as a formidable competitor.

GMAC is one example. Now called Ally Bank, GMAC adopted a bank charter, executed a re-branding, and accessed TARP funds. Now Ally Bank is running front-page "teaser" ads in *The Wall Street Journal* (and full-page ads in the same edition as well as *Money* magazine and elsewhere) offering "above market" rates on deposit products.

Right away, CUs must identify and seize upon the factors that will benefit their individual franchise. The fact is, the business is too competitive to allow for excess baggage. In discussions with many CEOs and boards, some consistent themes have surfaced:

> ***1. Improve return on investment of marketing, branding, advertising and selling.*** CUs have been range-bound with a 5 percent to 6 percent share of U.S. deposits since 1993. Some CUs have enjoyed much better results than this, and in each of these CUs the *commitment to organic growth* (rather than growth from indirect lending) is obvious. Throughout these organizations, it's clear there is an expectation for adding households while increasing household penetration. Contrary to current rhetoric, the reason for a high expense-to-asset ratio is more likely that assets have not been growing, rather than excessive spending.
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> ***2. Analyze/improve ROI of your largest expense items.*** List your CU's largest expense items (all of them). Ask the hard questions that no one has wanted to ask in the past with this one thought in mind: Every dollar I save can go toward the CU's marketing. There is only one sacred cow; it's your culture… and it deserves a higher market share.
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> ***3. Improve ROI in the investment portfolio.*** CUs have underperformed banks by 30 to 130 basis points since 1995, and CU regulations allow you to invest in the types of instruments and durations that can close this gap significantly.
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> ***4. Consider the role of merger in your strategic plan.*** Merger of equals have increased somewhat in the past year, but are still not at a level that we see elsewhere. Many CUs do not have the funds to comply with new regulations and technology demands, let alone conduct effective marketing or branching. Their members may be better served, and with greater convenience, if the CU merges with a larger, friendly partner. Any FI with an extended period of growth and ROE at a pace below its competitors while reducing/eliminating marketing should examine the merits of a merger. If a suitable and friendly partner can be found, the board should strongly consider this option.

5. Determine the importance of capital to your CU. We regularly discuss and model the consequences of not having access to secondary capital, though the competition does have it. What role will capital play in your CU's future growth, and do you have enough? Despite Herculean effort to achieve regulatory parity through the Credit Union Regulatory Improvements Act, lawmakers have shown no interest. Perhaps the answer is "no." Secondary capital has not been part of the CURIA effort, perhaps indicating it is a remote likelihood.

6. Conduct due diligence on your strategic options. What role do charter, merger, choice of marketing and strategic advisors play in your recent growth and earnings results?

7. Determine for yourself the likelihood of increased stabilization costs for your CU (both from corporate and natural-person CUs). We have been asked by many large CUs to do this and compare the results to the community banks. *You must analyze and discuss this information.* Obviously, not being able to see the actual investments in the corporate CU portfolios nor the cost to the National Credit Union Share Insurance Fund of assisted mergers is troublesome. To hear some CUs proclaim they're not happy with their stabilization costs and then say "but we can afford it" is alarming, considering the competitive implication of the analysis and the role capital plays in executing the strategic plan.

8. Consider adding/expanding the role of small business lending to your product mix. Increasingly, this looks like a desirable business (when done right), while consumer lending continues to experience margin erosion from unrelenting competitive forces.

We like the future of the well-run community FI, especially for those willing to challenge "sacred cows," and to grow both organically and through acquisition while emphasizing effective capital utilization.

For these FIs, there will be no shortage of opportunity.

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