2019
CEO Strategies Week

1970 - 2020 50 CU ANSWERS

CEO Roundtable: Scribe Notes

Scribe Name
Esteban Camargo

Group #1

Name	Credit Union
Bill Burke	Day Air CU
Mark Richter	First United CU
April Tompkins	Services Center FCU
Nelson Tavares	Taunton FCU
Ken Acker	TruChoice FCU
Tracy Miller	Kellogg Community CU

Scribe Name
Julie Gessner

Group #2

Name	Credit Union
Greg Gurka	Forest Area
Bill Bikolauk	1st Community
Steve Cobb	BlueOx
Justin Bamford	HarborLight
Jodi Ritthaler	H.P.C

Scribe Name
Barb Cooper

Group #3

Name	Credit Union
John Rupert	Muskegon Co-Op FCU
Barb Page	Kent County CU
Dean Wilson	Focus CU
Kris Lewis	Allegan Community FCU
Peter Bernard	RKgoBig CUSO
Corinne Coyle	Advantage CU

Scribe Name
Emily Claus

Group #4

Name	Credit Union
Vickie Schmitzer	Frankenmuth Credit Union
Scott Harriman	Cumberland County Credit Union
Chuck Papenfus	Inland Valley Credit Union
Leo Vaulin	CU*South

Scribe Name
Annalyn Hawkes

Group #5

Name	Credit Union
Janet Borer	MEMBERS1st Community Credit Union
Kent Hartzler	Everence Federal Credit Union
Scott McFarland	Honor Credit Union
Carma Peters	Michigan Legacy Credit Union
Cathy Ellis	Meijer Credit Union

Scribe Name
Jalyn Lindeman

Group #6

Name	Credit Union
Jim Miles	MidUSA CU
Linda Bodie	Element FCU
Rick Preble	RVA Financial
Carolyn Mikesell	Public Service CU
Robert Shane	ATL FCU

Scribe Name
Kristian Daniel

Group #7

Name	Credit Union
Kim Hall	Tri-Cities Credit Union
Karen Browne	TBA Credit Union
Connie Taylor	First General Credit Union
Adam Johnson	Safe Harbor Credit Union

Scribe Name

Danielle Caliendo

Group #8

Name	Credit Union
Kim Bourdo	Service 1 Federal Credit Union
Tom Gryp	Notre Dame Federal Credit Union
Thomas Flowers	Calhoun-Liberty Employees Credit Union
Scott Shelton	Members Source Credit Union
Liz Winninger	Xtend
Patty Preuss	Filer Credit Union

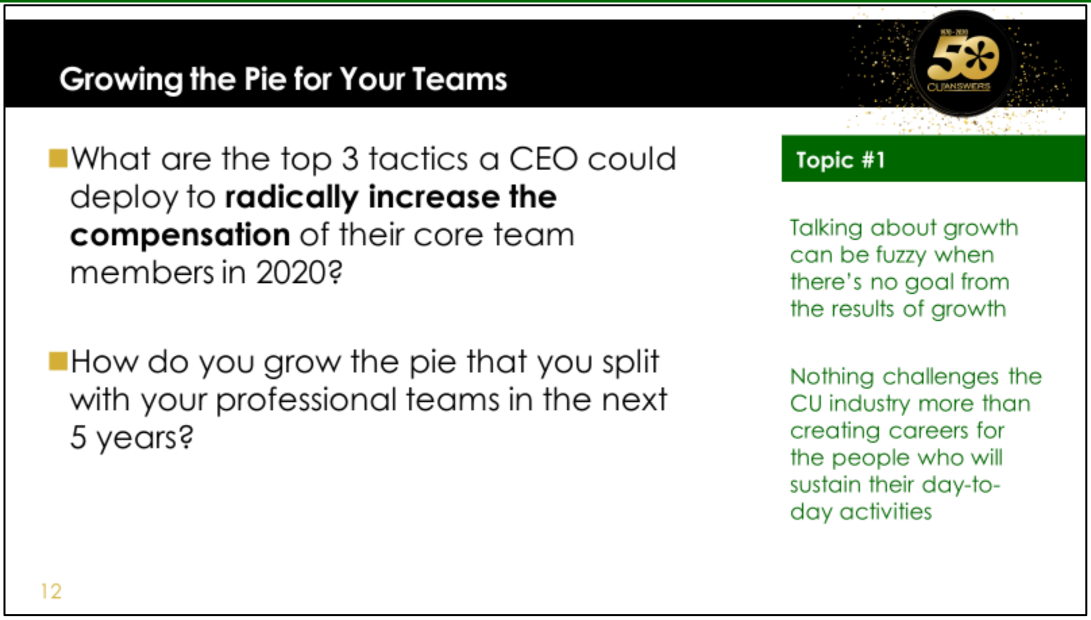
Scribe Name

Peter Meyers

Group #9

Name	Credit Union
Janelle Franke	River Valley
Page Bennett	Horizon Utah
Jeff Jorgensen	Sioux Empire
Chris Ison	Tahquamenon Area

Topic #1



What are the top 3 tactics a CEO could deploy to radically increase the compensation of their core team members in 2020?

<u>Group #1</u>

- Mark: lots of competition in GR, so we have to keep our pay ahead of others. To keep our growth up there, we've created a sales-heavy culture. Staff can make $1000/month in incentives, plus their $30-40k salary. We also have a profit-sharing program that gives back to staff in annual bonuses. This year is a good one, so we're looking at 10%.
- Bill: We also have a bonus program, but it's not necessarily the same amount across the board.
- Nelson: We built a tiered payout structure based on six metrics. The metrics create the growth necessary to payout the incentive pay.
- Ken: We do "balance scorecards"; it's a scorecard for the entire institution. On the employee basis, 50% of their bonus comes from individual performance, and 50% comes from the institution wide scorecard.
- April: We have cross sales bonuses, with no minimum goals. We also have a subjective year-end bonus that we're looking to formalize better and make more objective through metrics.
- Ken: We stick to a formula-based system so that team members know the goals they need to hit to get paid.
- Nelson: We're looking internally to create an executive benefit program that increases compensation, but from a benefits standpoint – the idea being to keep top executives around longer.

<u>Group #2</u>

- Right size compensation based on where you want to go in the future .
  - Analyze current positions and determine whether or not each one is aligned with our current goals and ability to earn.
  - Analyze salaries and determine if they are consistent with industry averages and consistent with the role.
  - Variable compensations give better base pay and variable increases.
  - Establish and communicate the culture across the entire organizations.
- Establish Tactics That Will Help Your Earn /Taking on a New Line of Business.
  - Add a CUSO.

- Participation Lending Programs.
- Business Loans/Members.
- Insurance.

- Aligning Business Partners.
  - Make sure your partners understand your business and goals.
    - Setting up as referral business – loan capture/re-capture.
  - Set up your relationship to earn – money back to you.
- Analyze Your Business.
  - Shut down a branch.
  - Determine where or if people can be reduced in order to be automated by technology and still meet the needs of the member.
  - Study ROI of technology (ITM) balanced with the investments needed to make installation happen.
  - Investing in improving software to ensure successful integrations.
- Job Sharing – Sharing Officer Positions. Business Development Officers compensate based on their success and production.

Group #3

- Change the Board culture to be more accepting of CEO salaries attaining a higher level than their own. Start by using processes that provide board candidates (Associate Board members, or an Honorary Board position to retain those that still want to participate).
- Provide ways for the core team (including the CEO) to earn bonus funds that reward for performance. Create a 'sales' team to increase member use of products/services.
- Use a percentage of net worth to fund a pool of money to be given back to the core team. Create a (for a lack of a better term) *Wealth Development* portion for compensation that is separate from the normal salary raise portion.

Group #4

- Vickie starts off with a strong stance: "I believe in this – we have 280 employees and I want my top ten management team to feel comfortable in their spot, that they have a fair wage, and the possibility of a bonus. They're not looking to go to another institution or credit union. I want them to be in a position where they have enough money to raise a family and make a living so they can concentrate on doing their job. We have six goals for the credit union: one we want to make, one we are happy about, and one we are excited about. 18% of their wage is in those six goals, and they can earn more money if they strive to hit those goals of the credit union. Those goals can be about growth but others. We put a cap on the loan growths so the others can catch up."
- Chuck says, "It's a balancing act, we are a co-op, we are supposed to be delivering those benefits back to members but you have to split it. We have four leaders of our team and 15%-30% is at risk, whereas other members of the team can get bonuses 12% but those aren't at risk, they are more profit-sharing type. What are the results and what are you doing? The COO can get up to 25% extra salary and 10-15% of that are projects to get done. Have goals – where do you want to go, and what can you do to get to that? Balance giving back to staff and patronage dividends. At least that much back to the members as given to staff."
- Scott says his CU is working to lower employee numbers. This not only lowers expenses, but by having less employees you can pay the remaining ones more. Vickie argues that he has too few employees, and if he loses just a few to illness, vacation, maternity leave, etc., he could be in trouble.
- Scott counters, "Anyone at a branch can be a teller, even branch managers. And we lost a few because of that because it felt like a step back for them. We've had some long-term illness and leaves, and it's been a challenge but everyone bands together. It's a team. Our COO had a double maternity leave,

spent a month on the teller line, and came back with more knowledge. She hadn't been doing things in front of members for a long time. Balancing paying employees with the board."

- This launches them into a discussion on how to measure effectiveness in tellers. The main source seems to be surveys and feedback, along with transparent ranks (such as publicly announcing that Teller A is better than Teller B).

Group #5

- What is the core team? What is its importance?
    - Scott**:** The core team is the people who "get" my 'why' and my member promise. I tell new hires all the time "If you can't recite our member promise, I'll fire you."
    - What matters is finding who does take the opportunity and acts on your credit union's 'why' (mission/member promise) – those people are the ones who you need to become your "core team."
    - Scott: We need take some time and evaluate who my core group may be. Talk to individuals on my staff and identify. When you see core-type behavior, engage in it and reward it.
- How to engage core team:
    - Janet: Sometimes as leaders sometimes we exclude people by our assumptions. I'm thinking about going back and offering to all my staff the opportunity to participate – we need a champion for these projects and my first line people especially don't get an opportunity to practice some of these skills. And I might be disappointed in some of it, but I'm ok with that and it wouldn't have gotten done anyway.
- Carma: We had a gentleman offered more money and shorter commute – but he did not take it because he knew if he gave it up he would lose the ability to make decisions.

Group #6

- Get board to embrace strategy; Ensure leadership is on the same page.
    - Divergence of opinion of board members who may be aging out, encourage longer term to mentor newer term in strong leaders, embrace change.
- Engage employees to drive their passions in CU.
    - Drive employee buy-in/purpose – letting their voices be heard; develop into what the future will bring and what they can bring into the future of the credit union, the community, and their own lives.
        - Element went all in on video 2019; Linda wrote lyrics, staff members sang - compensate/incentivize based on business brought in.
- Hire individuals who are qualified, of course, but who also match your culture:
    - Hire slow – fire fast (culture killers).
    - Focus on relationship building tactics to generate revenue.
    - Incentivize earnings based on how much they can save the member.
    - Develop collections incentives.
    - Ensure employee goals are clear and achievable.
    - Talk in terms members or communities will understand.
- Consider what it means to be a success & create a strategy with measurable goals to increase revenue that can carry down to core team members.
    - ATL – Reach 1% ROA, contribute ROA to members and community.
    - RVA – run internal contests to keep compensation exciting.
    - Public Service – drive revenue through sales.
- Misc. comment from group: How do credit unions break the vilification of who we are?

Group #7

- We need to come up with a new product/service, CUSO, or a way to generate income. Commercial accounts, we have not had the funds to lend out, and could participate with other credit unions - need to find the staff. Finding CUSOs to assist and search for who will. Or, when working to create a CUSO, you need people to agree and challenge each other at the same time. Further ways to make remote connections with new CUSOs for credit unions who are not in the area.
- We need to learn to share employees at smaller credit unions, such as rkGoBig, and sharing back office employees. Cut down on expense.
- Charge a processing fee for loans, other credit unions are charging this, we have discussed this with indirect loans. Research the area and what other credit unions are charging and expand on this further. Refinancing the loan could only charge processing fees, if you come in X number of times, as mostly credit unions are advertised as lower rates, etc.
- Involved in creating other types of services. We have had goals for loan growth, however this can be scary because it could force into riskier and risker type loans. Adding other products that you do not offer.

Group #8

- Era of entrepreneurism for employees – careers for staff and not just an employee.
- CUs need to understand that we need to change culture (stagnate, silo). Ideal culture is a sales culture, tie sales growth to incentives. Target members already there to get 2 or 3 products/services. Increase minimum wage.
- Start planning for where you expect to be in the future. Plan for the future size of the credit union.
- Employee bonuses tied back to community outreach – half of outreach number goes into what bonuses to employees. The more the employees see what we do for the community creates family culture (paying it forward).
- Increased base compensation (but a struggle).
- What we don't have today is what I want to give you a piece of (entrepreneurial principles).
- What else can we get into – new line of business? That income stream will then be a shared pot for CU and staff.
- Build the bonus structure around the entrepreneurial spirit.
- Have to spend money to make money – can only push down expenses so much, but potential to get more is limitless.
- How do you get that sales mentality company-wide, rather than just lending?
- Member driven focus. Community driven focus and giving back to communities.

Group #9

- Janelle has had a consultant who has helped create incentives plus base pay.
    - Credit Union needs to be healthy and perform.
    - Management is compensated on 4 factors.
        - Sales & Service culture.
        - Cross selling w/ loan sales.
        - Higher penetration has been realized.
    - What motivates people?
        - Base pay.
        - Incentives.
    - How do you set yourself to be competitive when frontline people could make more working at another retail job?
        - Holidays/Weekends/Benefits are better.
- What is the goal?
    - Number of loans.

- Number of members.
- Asset size – 1-5% growth.
  - Deposits per member are growing.
- Jeff has 3 things:
  - Fire 25-50% of your staff – pay the people that are left more money.
  - Start another business – make other stuff, you can only cut a pie so many ways.
    - Find different ways to make more money.
  - Change my culture completely:
    - Fire everyone and make them all re-interview.
    - Make it drastic – rip the band aid off.
    - Everyone was not hired back.
  - What other benefits can you provide?
    - Retirement.
    - Time off.
    - Tuition reimbursement.
    - Everyone doesn't get the same.
      - Fair, but not equal
  - How do you identify what the employee wants/needs?
- Chris Ison: we closed three offices in 5 years.
  - They were a drag on the income.
    - No reason to believe it could change.
    - Both the community and staff culture were problems.
    - No negative feedback on closing offices.
  - Ready for growth after shedding the dead weight.
    - Now they need to pay the remaining staff.
  - Take the emotion out and think logically.
- If you were leaving today to start a new credit union: which 3 employees would you take with you?
- What about mergers? Would you get more by merging it in?
  - People, assets, etc?
- Automation?
  - Eliminating bodies with automation would save money.
- Increase income or reduce expenses.
  - Reduce Staff.
  - Merge/Buy/Start a new business.
  - Culture shock – fair but not equal benefits.

How do you grow the pie that you split with your professional teams in the next 5 years?

Group #1

- Expand commercial lending and "riskier" paper.
- Don't try to undercut the market on rates.
- Bill: Top line revenue growth is key. We need a bigger share of household wallet share.
- Mark: We shouldn't be ashamed to increase rates – we're never going to beat Lending Tree and other providers that can cut those rates to the bones.
- Bill: CUs need to focus more on being local, responsive, and provide strong service. Main St. can't compete with the Walmarts of the world on price.

- Mark: Balance sheet management is important. I've rarely seen a successful credit union that isn't highly loaned out. If you want to radically increase compensation, get more aggressive in managing loan assets.
- Ken: We do risk-based lending to maximize loan yield.
- April: We're extremely conservative currently with our loans, and that's an area we need to approach to increase revenues.
- Ken: 20% of the balance on D/E loans compared with A loans, and we make more money on the former.
- Bill: Credit unions need to consider seeking low-income and CDFI status to get grants and provide to underserved communities.
- Ken: Not only are those loans more profitable, but those members are more loyal. If you can provide a 15% car loan where they were paying 27% before, and teach them how to improve their financial well-being, they'll stick with you.
- Nelson: We do 15% commercial lending, although CRE does not technically qualify as commercial.

Group #2

- New lines of business.
  - Cannabis.
- Reset the volume of outside vendors.
- Study vendor relationships – renegotiate and do not let the auto renew happen before you have done that.
- Pay staff for implementation for ideas that cut expenses.
- Explore options of working remotely – increase hours but fewer investments in branch improvements.
- Perform line item reviews of internal best practices and procedures and align technology that can help you reduce or automate (paper).
- Think outside of the box on branch partnerships:
  - Lease out empty space in your building.
  - Service from the doughnut shop.
  - Going from owning to leasing – pack up and go, should the time come.
- Really take a look at your construction/remodel expense.

Group #4

- Chuck brings the group back to the original question about splitting the pie. He notes, "When asked how to grow the pie, we look at projects that senior teams are doing and see how that can bring in more revenue. It would be fun to be a point where you can create projects that have a radical impact, but I don't think we are there yet. Fintech, for example – we play with it and managers look at it and ask what apps people are using and what's cooler and what will be helpful, and encourage them to use it and the stock market ones, because our members are using them. We look at ACH lists and see where people are having money sent out every week. It's interesting."
- Vickie lays out her payment system, in which each payment level has tiers. To move up a tier, the employee must complete certain classes, take tests, or read books, etc. They then base the budget off of employees moving up. Chuck does something similar – giving employees books to read and tests to take. If they are successful, they can get bonuses.
- Discussing radically increasing compensation, Scott brings up that his credit union wants to close on Saturdays in the future, since most transactions done on that day are very routine. He argues 95% could simply be done online. Vickie and Chuck do not agree, arguing that weekends are when they do the most lending and it is convenient for people who work 9-5 during the weekdays.
- The end decision was that while the pie is important, they would rather focus on individual performances and help their employees improve – with that, the pie will increase.

Group #5

- Kent: First, communicate why – why are we building new ways to compensate staff?
  - Scott: we need more members to meet goal of growing forward instead of sliding back.
  - Scott: depth of wallet. We truly believe we're providing solutions so we need to offer them.
  - Scott: strength of a co-op.
- Scott: Be less fuzzy – I think that's a goal tactic. We need to communicate to employees and tell them/ask them "how do you see yourself developing at this company and how can we help you get there with the resources we have as a company?"
- Scott: We have shared employees with other credit unions. New opportunities for those individuals.
- Carma: If you create revenue, we will give you some of that revenue (business-building / incentives).
  - Janet: I have tried that but it doesn't happen often. Part of it is because people just don't know how to find that – it would be great to mentor these folks. Sometimes they don't take the opportunity for more personal revenue, but the ones who do are the ones I want to encourage.
- Janet: I attended a leadership session with my managers and the group felt that, if a person isn't supervised well, that 37% of their capacity is used. If well supervised, they felt that capacity would be closer to 90%. If we can solve that 37% to 90% gap, we could realize increased revenue.
- Kent: What I'm realizing and struggle with a little bit is the question of when there's money to distribute, where's the line on giving it back to the member versus investing in staff?
- Kent: What keeps us from doing this?
  - Time.
  - Focus.

Group #6

- Use CUSO resources – ensure employees are focused on what they can bring to the table & meeting their goals by outsourcing ancillary tasks.

Group #7

- We look for ways to charge for misc. services within online banking, or other self-service channels.
- We have our employees set goals for themselves and then look to meet the goals and share this with the board of directors.
- Incentives for our management team, we would need to base this off the net income (percentage of what is listed). We currently do this by product, and building a team is the key to success and stability moving forward.

Group #8

- Strong incentive program, performance based.
  - Encourage ideas.
  - Entrepreneurial.
  - Business builders.
- Create programs for business builders to share in the earnings.
- Giving back to community – investing in people is important, measuring those goals.

Group #9

- Growing the pie with the base salary.

Additional comments

Group #3

- John Rupert: Board members are limiting the incentive effort – don't want employees to make more than they do.
- Barb Page: Board from the County – same thing, once the salaries hit their own, there is push back.
- Corrine Coyle: Give employees ways to earn bonus funds (loan officers).
- Barb: Loan Department is the highest in bonus funds.
- John: Even if we can increase our earning, we are limited to giving these earnings to the staff.
- Dean Wilson: There is no bonus goal for the CEO.
- Peter Bernard: Could create a *Wealth Development* portion of compensation. As opposed to the normal salaries/raises.
- John: Ed from Patelco said that the percentage of net worth would be given back to the staff.
- Peter/John: Money is a motivator, or is passion for the job the motivator? Money is the baseline.
- Dean: Tie out the services to how these can save the credit union money. Example: e-statements save the CU money. Provide an incentive for increasing e-statement members.
- Dean: Another example: debit card expenses have already been paid, so every new debit card adds money to the credit union's income. Increase debit card usage to increase surcharge income.
- John: Can we compensate performance or do we continue to provide a salary with a cola raise and state that is your job to do.
- Kris Lewis: We lost several employees in the beginning of the year and gave those salaries back to those who remained.
- Associate Board Members, or Honorary (emeritus) board members that can contribute, can help with culture shift changes.
- CEO succession is lacking and the reason for mergers.
- Peter: Career development is important to get passionate people on your staff.
- Tap into employee skills – Element CU has two staff who like to sing and they created a video to promote the credit union products.
    - Randy: "Build the Business" (sales culture) vs. "Run the Business" (worker culture).