THREATS / FUTURE OF CREDIT UNIONS
NCUA LISTS THESE RISKS

- CREDIT
- LIQUIDITY RELATED
- INTEREST RATE
- COMPLIANCE
- STRATEGIC
- TRANSACTION
- REPUTATION

IS THIS A COMPLETE LIST?
CAN YOU THINK OF OTHER SPECIFIC THREATS?

- EXAMPLE: ROBBERY
AGING MEMBERSHIP THREAT

- WHO BORROWS MONEY TO BUY CARS? NOT SENIORS.
- WHO BORROWS MONEY TO BUY HOUSES? NOT SENIORS.
- WHO BORROWS MONEY FOR TUITION, MOTORCYCLES, CHRISTMAS, ETC? NOT SENIORS

LOANS ARE THE LIFE BLOOD OF CREDIT UNIONS! WHY?
AGING MEMBERSHIP THREAT

DISADVANTAGES

- Seniors often have less income after retirement
- Seniors don’t borrow as often

ADVANTAGES

- Seniors need direction
- Seniors are loyal
- Seniors have financial resources
AGING MEMBERS THREAT

WHAT IS THE SOLUTION TO AGING MEMBERSHIP?

1. RECRUIT NEW MEMBERS
2. SERVE **EXISTING** MEMBERS THEY WAY THEY WANT TO BE SERVED
3. SERVE **NEW** MEMBERS THE WAY THEY WANT TO BE SERVED

KEYS
   A. CONVENIENCE
   B. CONVENIENCE
   C. CONVENIENCE

HARRY BLACK 601-946-7534
BLACK_H@BELLSOUTH.NET
AGING BOARD MEMBERS THREAT

- WHAT IS THE AVERAGE AGE OF YOUR CREDIT UNION’S BOARD MEMBER?
- DOES YOUR CREDIT UNION HAVE A TERM LIMITS POLICY?
- DO ALL BOARD MEMBERS MEET THE REQUIREMENTS OF THE NCUA TO BE A BOARD MEMBER?
  - ABLE TO ATTEND MOST MEETINGS
  - ABLE TO UNDERSTAND FINANCIAL STATEMENTS
  - ABLE TO RELATE TO RECRUITMENT OF YOUNG MEMBERS? (MINE)
LACK OF TRAINING AND EXPERTISE FOR BOARD MEMBERS THREAT

- BOARD HAS BOTTOM LINE RESPONSIBILITY FOR ALL CREDIT UNION ACTIVITY
- AUTHORITY MAY BE DELEGATED TO MANAGEMENT, BUT NOT RESPONSIBILITY
- TRAINING IS REQUIRED BY THE NCUA
- TRAINING CAN BE OBTAINED AT CONVENTIONS, ON LINE OR IN HOUSE
MERGERS THREAT

• MERGERS USUALLY OCCUR BECAUSE A CREDIT UNION HAS A SHRINKING EQUITY RATIO

• MERGERS ARE USUALLY IMPOSED BY NCUA EXAMINERS TO PROTECT THE NATIONAL CREDIT UNION INSURANCE FUND (NCUIF)
LARGER CREDIT UNIONS COMPETE WITH SMALLER CREDIT UNIONS FOR BUSINESS

THERE IS ALWAYS A LARGER CREDIT UNION THAN YOURS (NAVY FEDERAL IS OVER $84 BILLION WITH A “B”!)
ADVANTAGES OF LARGE CREDIT UNIONS (AND BANKS)

- LARGE FUNDS TO INVEST FOR BETTER RATES
- STAFF CAN SPECIALIZE
- MORE BUILDINGS, ATM’S, EMPLOYEES TO DO EFFICIENT JOBS
- MORE PUBLIC EXPOSURE
- MORE INCOME TO PAY FOR THE BEST QUALIFIED, MOST EXPERIENCED EMPLOYEES
- LARGER ASSET BASE SO LARGE CREDIT UNIONS CAN WITHSTAND SETBACKS
MERGER/LARGER CREDIT UNIONS THREAT

- ALL BUSINESSES EVENTUALLY ARE REDUCED TO ABOUT FOUR COMPETITORS
- CAUSED BY INEFFECTIVENESS DISADVANTAGE OF SMALL INSTITUTIONS
- APPLIES TO MANY SITUATIONS
  - CARS (FORD, GM, TOYOTA, HONDA)
  - BANKS (JPM, B OF A, CITY, WELLS FARGO = $8T ASSETS)
  - TELEPHONE COMPANIES (VERIZON, T-MOBILE, AT&T, SPRINT)
  - CREDIT UNIONS (NAVY, STATE EMPLOYEES, PENTAGON, BOEING = $150B)
TAXATION THREAT

- Competitors are pushing Congress to tax credit unions net income.
- Credit unions do not pay income tax.
- Other financial institutions do pay income tax (banks, stockbrokers, payday loans, financial advisors, automobile lenders).
BANK ARGUMENTS

- CREDIT UNIONS ARE IN DIRECT COMPETITION WITH FINANCIAL INSTITUTIONS WHO PAY TAXES.
- THE UNITED STATES GOVERNMENT IS DESPERATE FOR TAX REVENUE.
- IN 2011, A CREDIT UNION EXECUTIVE RETIRED WITH A $9 MILLION SEVERANCE PACKAGE!
CREDIT UNION ARGUMENTS

- CREDIT UNIONS ARE NOT FOR PROFIT.
- CREDIT UNIONS ALREADY PAY SALES TAX, PAYROLL TAX, AND PROPERTY TAXES.
- CREDIT UNION EMPLOYEES DO PAY INCOME TAX
- CREDIT UNIONS PROVIDE ALTERNATIVES TO BANKS, THEREFORE BENEFITING THE PUBLIC.
- MANY BELIEVE CREDIT UNIONS COULD NOT EXIST IF THEY HAD TO PAY INCOME TAX.
- SEE DONTTAXMYCREDITUNION.ORG

HARRY BLACK 601-946-7534
BLACK_H@BELLSOUTH.NET
BANKS CAUSED THE STOCK MARKET CRASH OF 2008

BANKS LOBBIED SUCCESSFULLY TO REPEAL GLASS STEGALL ACT. REPEALED IN 1999 BY REPUBLICAN CONGRESS AND DEMOCRATIC PRESIDENT

GLASS STEGALL ACT SAID THAT BANKS COULD NOT BE IN THE INVESTMENT BANKING BUSINESS AND IN THE COMMERCIAL BANKING BUSINESS

SO WHAT?
HERE IS WHAT!

- After 1999 banks could be in the investment business and in commercial banking business.
- Now banks could make mortgage loans to customers (commercial) and sell them to investors (investment).
- Now they can make bad loans and sell them off.
- Easy loans drove housing prices ever higher.
HERE IS WHAT

- WHEN HOUSING PRICES GOT TOO HIGH, LOAN PAYMENTS STOPPED
- INVESTORS HOLDING MORTGAGES DID NOT GET PAID
- MARKETS PANICKED AND COLLAPSED BY 50%
- CREDIT UNION MEMBERS LOST MONEY AND LOOKED FOR SAFETY
- INTEREST RATES PLUNGED BECAUSE EVERYONE WANTED SAFE INVESTMENTS
RESULTS OF FINANCIAL COLLAPSE CAUSED BY BANKS

- Federal Reserve lowered interest rates to increase borrowing and stimulate investment
- Deposits boomed at credit unions
- Low interest rates cause thin net interest margins at credit unions
- The current worldwide financial situation is a direct result of the crisis of 2008
THE NCUA HAS PROPOSED NEW CAPITAL REQUIREMENTS BASED ON THE RISKINESS OF A CREDIT UNION’S ASSETS

THE NEW CAPITAL REQUIREMENTS ARE 50% HIGHER THAN THE EXISTING REQUIREMENTS

BASE RATE REQUIRED FOR CAPITAL RATIO GOES FROM 7% TO 10.5%
CYBERSECURITY THREAT

- HEADLINES ALMOST EVERY WEEK OF NEW BREACHES
- % ADULTS WHO SUFFERED SOME KIND OF SECURITY INCIDENT DURING 2016 = 51%
- GLOBAL SPENDING ON CYBERSECURITY IN 2016 = $81.6 BILLION
- PROJECTED COST OF GLOBAL CYBER ATTACKS IN 2019 = $2.1 TRILLION
FAILURE TO KEEP UP WITH ON LINE SERVICES THREAT

- Young members and potential members expect instant information about their accounts and their loan applications.
- Old methods of paper checks and paper loan applications are unacceptable.
- Prospective members are not like older board members.
- Credit unions only get one chance to make a good first impression.
- There are many, many alternative competitive financial institutions.
FAILURE TO USE SOCIAL MEDIA THREAT

- FACEBOOK (1.5 BILLION USERS)
- YOUTUBE (1.49 BILLION USERS)
- TWITTER
- INSTAGRAM
- LINKED IN
- REDDIT
- VK
- TUMBLR
FAILURE TO USE SOCIAL MEDIA THREAT

• YOUNG POTENTIAL MEMBERS USE SOCIAL MEDIA FOR EVERYTHING
  • TO FIND BEST RESTAURANTS
  • TO FIND NEW FRIENDS
  • TO KEEP UP WITH OLD FRIENDS
  • TO FIND HOUSES TO BUY
  • TO FIND ALL KINDS OF SERVICES, INCLUDING FINANCIAL INSTITUTIONS
ON LINE LENDERS THREAT

- QUICKEN LOANS
- ROCKET LOANS
- LENDING TREE
- E-LOANS

PROMISE 2 MINUTE ANSWERS, DIRECT DEPOSITS TO BANK ACCOUNTS, 24 HOUR SERVICE, NO CREDIT CHECK
PAYDAY LENDERS THREAT

- IMMEDIATE CASH ADVANCES
- MORE PAYDAY LENDERS THAN MACDONALD’S FRANCHISES
- RIDICULOUS INTEREST RATES
- PREY ON DESPERATE AND UNEDUCATED CONSUMERS
DIFFICULT MORTGAGE APPLICATION THREAT

- TOO MUCH PAPERWORK
- SLOW ANSWERS
- TOO MUCH TIME TO DEPOSIT MONEY SO THE MEMBER CAN CLOSE ON PROPERTY
- DIFFICULT CLOSING PROCESS
EMBEZZLEMENT (INSIDER THREATS)

- Michael Lajoice, CFO at Clarkson Brandon Community Credit Union, turned himself in for embezzling almost $20m in 2015.
- He had just received a Community Hero Award from the Chamber of Commerce.
- He used bogus transactions and investments to hide insider theft.
EMBEZZLEMENT THREAT

• CARLA WELBORN WAS SENTENCED TO 23 MONTHS IN PRISON FOR EMBEZZLEMENT OF $350,000 FROM THE CREDIT UNION OF LEAVENWORTH COUNTY IN 2013.

• SHE BEFRIENDED AND MANIPULATED ACCOUNTS OF ELDERLY MEMBERS.

• HER CREDIT UNION AND CUNA HAD TO BE REIMBURSED.
THREAT THAT YOUR CORPORATE CREDIT UNION MAY FAIL

- They provide a source of overnight cash
- They provide automated clearing house services
- They provide electronic funds transfers
- They provide ATM transaction services and networks

US Central CCU and Western Corporate CCU were placed under conservatorship in 2009. Capcorp failed in 1990’s
MISUNDERSTANDING OF CREDIT UNIONS THREAT

- POLLS SHOW THAT MOST OF THE PUBLIC DOES NOT KNOW WHAT A CREDIT UNION IS.
- WHEN APPROACHED TO JOIN A CREDIT UNION, THE PUBLIC THINKS THEY ARE BEING ASKED TO APPLY FOR A CREDIT CARD OR THEY ARE BEING ASKED TO JOIN A LABOR UNION.
INVESTMENT POLICY THREAT

- OVERLY AGGRESSIVE INVESTMENTS
- OVERLY CONSERVATIVE INVESTMENTS
- LACK OF DIVERSITY IN PORTFOLIO
- NONCOMPLIANCE WITH NCUA INVESTMENT REGULATIONS
PERCEPTION THAT CREDIT UNIONS OFFER LIMITED SERVICES THREAT

- THE PUBLIC THINKS THAT CREDIT UNIONS ONLY OFFER LOANS.
- THE PUBLIC THINKS THEY HAVE TO GO TO BANKS TO GET CREDIT CARDS, WIRE MONEY, OPEN CHECKING ACCOUNTS, FINANCIAL PLANNING, INSURANCE PRODUCTS
LACK OF PROFITABILITY THREAT

- CREDIT UNIONS MUST MAINTAIN AN EQUITY RATIO REQUIRED BY THE NATIONAL CREDIT UNION ADMINISTRATION
- PROFITS OR LOSSES ARE ADDED TO A CREDIT UNION’S EQUITY RATIO
- EQUITY MUST GROW AS FAST AS ASSETS OR THE RATIO WILL GO DOWN
LACK OF ABILITY TO ATTRACT NEW MEMBERS THREAT

- MEMBERS PASS AWAY
- MEMBERS MOVE AWAY
- MEMBERS LOOK FOR BETTER RATES AND CHANGE INSTITUTIONS
- CREDIT UNIONS MUST RECRUIT NEW MEMBERS
TOO LOOSE OR TOO TIGHT LENDING POLICIES THREAT

- TOO LOOSE LENDING POLICY CAN RESULT IN LARGE LOSSES
- TOO TIGHT LENDING POLICY CAN RESULT IN MISSING LOANS
FRAUD THREAT

- IDENTITY FRAUDULENT LOANS
- CHECK KITING
- FORGERY
- FRAUD ON MEMBERS
- STOLEN CHECKS
- CREDIT CARD FRAUD
- WIRE TRANSFER FRAUD
- PHISHING
OVERBUILDING OF BRANCHES THREAT

- EXPENSIVE TO BUILD
- EXPENSIVE TO MAINTAIN
- EXPENSIVE TO ADD EMPLOYEES
- MUCH CHEAPER TO OFFER MOBILE BANKING AND INTERNET BANKING
COMPETING AUTOMOBILE LENDING SERVICES THREAT

- THEY ARE AT THE POINT OF SALE
- THEY MAY MANIPULATE AND CONFUSE THE MEMBER WITH CONFUSING TERMS AND OFFERS OF DISCOUNTS AND MIXING FINANCING TERMS WITH THE PRICE OF THE VEHICLE
- FINANCE AND INSURANCE MANAGERS ARE ON COMMISSION AND MAY RECEIVE ADDITIONAL PAYMENTS FROM THE AUTO COMPANY
TRID REGULATIONS THREAT

- ISSUED BY US CONSUMER FINANCIAL PROTECTION BUREAU
- REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)
- TRUTH IN LENDING ACT (TILA)
- COMBINE TO MAKE **TILA-RESPA INTEGRATED DISCLOSURE** ACT (TRID)
- ADDED TO DODD FRANK ACT (UNDER REVIEW IN CONGRESS)
FAILURE TO SHIFT TO EMV-ENABLED CHIP CARDS THREAT

- EMV MEANS EUROPAY, MASTERCHARGE, VISA
- EMV-CARDS STORE DATA ON CHIPS RATHER THAN MAGNETIC STRIPS
- EMV-CARDS ARE MORE SECURE THAN STANDARD CARDS
- EMV-CARDS ARE HARDER TO COPY
LACK OF MEMBER LOYALTY THREAT

- Members with capital receive offers from competitors for special deals on loans and dividends.
- Members who borrow from credit unions instead of payday lenders are more loyal because few lenders will loan them money at a reasonable rate.
NATURAL DISASTERS THREAT

- HURRICANES
- FLOODS
- TORNADOS
- EARTHQUAKES
- LIGHTNING STRIKES
- MUD SLIDES
- LOSS OF ELECTRICITY
- DATA CONNECTION IS CUT BY DIGGER
THE NATIONAL DEBT THREAT

WHAT IS THE DIFFERENCE BETWEEN THE NATIONAL DEBT AND THE NATIONAL DEFICIT?

HOW DID WE GET INTO THIS MESS?
- BAD ECONOMY AFTER 2008 CRASH
- TAX CUTS
- BAILOUTS
- DEFICIT SPENDING!
THE NATIONAL DEBT THREAT

- NOW OVER $20 TRILLION
- U. S. POPULATION IS 330,000,000
- NATIONAL DEBT IS $62,000 PER CITIZEN
- NATIONAL DEBT IS ABOUT $165,000 PER TAXPAYER
LOSS OF KEY PERSONNEL THREAT

- GOOD MANAGEMENT IS THE KEY TO CREDIT UNION SUCCESS
- DOES YOUR CREDIT UNION HAVE A KEY MANAGEMENT SUCCESION PLAN?
- DOES YOUR CREDIT UNION HAVE A KEY MANAGEMENT RETENTION PLAN?
RUNNING A CREDIT UNION IS A TOUGH JOB. TAKE CARE OF GOOD MANAGERS.
THE FUTURE OF CREDIT UNIONS

BY HARRY BLACK
By 2032, there could be fewer than 4,000 credit unions left.
BAD NEWS, GOOD NEWS

- The number of credit unions will be below 5,000 by the year 2020.
- The number of credit unions will be below 4,000 by the year 2030.
- Surviving credit unions will be larger, stronger and more efficient.
- Majority will be over $1 billion in assets, many over $10 billion.
TRADITIONAL BANKING

- DRIVE TO BANK
- STAND IN LINE
- FILL OUT DEPOSIT SLIPS
- WAIT FOR LOAN APPROVALS
- WRITE OUT CHECKS
- MAIL PAYMENTS
- WAIT FOR ACCOUNT UPDATES
- PAY FOR POSTAGE
- LIMITED HOURS OF SERVICE
- MANUAL CHECK REGISTRY BALANCES
SMART PHONE BANKING

- SERVICE FROM ANYWHERE
- NO WAITING IN LINE
- NO PAPERWORK
- IMMEDIATE LOAN APPROVAL
- NO CHECK WRITING
- NO WAITING FOR MAIL
- IMMEDIATE ACCOUNT UPDATES
- NO POSTAGE COSTS
- UNLIMITED HOURS OF SERVICE
- INSTANT BALANCES ALWAYS AVAILABLE

HARRY BLACK 601-946-7534
BLACK_H@BELLSOUTH.NET
NEW MARKETS CREATE MANY COMPETITORS

PROFITS COME EASILY

MORE COMPETITION CAUSES CUTTHROAT PRICING

NEGATIVE BUSINESS CYCLES WEED OUT THE WEAK OR POORLY MANAGED

ECONOMIES OF SCALE FAVOR THE LARGER, SO MERGERS OCCUR

EVENTUALLY EVERY MARKET IS REDUCED TO FOUR COMPETITORS!
OTHER INDUSTRIES

- AUTOMOBILE
  - FORD
  - GENERAL MOTORS
  - TOYOTA
  - HONDA
  - CHRYSLER

- PETROLEUM
  - EXXON
  - BP
  - SHELL
  - CHEVRON
OTHER INDUSTRIES

- BANKS
  - CHASE
  - BANK OF AMERICA
  - CITI GROUP
  - WELLS FARGO

- CREDIT UNIONS
  - NAVY FEDERAL - $58.1 BILLION
  - STATE EMPLOYEES (NC) – $28.3 BILLION
  - PENTAGON FEDERAL – $17.6 BILLION
  - YOUR CREDIT UNION?
PREDICTIONS FOR CREDIT UNIONS

- There will be more CUSO’s than CU’s
- Regulations will become more cumbersome forcing CU’s to merge
- Small credit unions will have to merge to achieve economies of scale
- Credit unions will market cooperatively
- Shared branching will become nationwide
- Aging of membership will cause major problems
- Keeping tax exemption will be a problem
NEW BUSINESS MODEL?

- ONE CONSULTANT PREDICTS THE ACE HARDWARE MODEL FOR CREDIT UNIONS
  - SMALL HARDWARE STORES OPERATE INDEPENDENTLY
  - HOME OFFICE MAKES PURCHASES AND DISTRIBUTES INVENTORY TO SMALL STORES
  - EFFICIENCY OF BUYING POWER AND CENTRAL ADMINISTRATION
  - OUTSOURCING OF COLLECTIONS, LENDING AND HUMAN RESOURCES
NEW BUSINESS MODEL?

- Branches will look like Apple stores or Cell phones stores.
- Self service kiosks will be used like the check ins at airports.
- Face to face meetings will be for complex reasons like financial planning or debt counseling.
- Square footage will decrease.
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