3Q 2022 CALLAHAN'S CREDIT UNION

STRATEGY & PERFORMANCE

PROVIDING DATA-BASED INSIGHTS THAT MOVE CREDIT UNIONS TO TAKE ACTION

LOW INCOME, BIG OPPORTUNITY

A diverse board, $4.5 million in CDFI grants, and deep community partnerships enable Carolina Foothills to thrive in its Upstate South Carolina market. (PG. 24)

+

THIRD-QUARTER PERFORMANCE ANALYSIS

ANATOMY OF CAROLINA FOOTHILLS FCU

YOUR GUIDE TO EMBRACING IMPACT

PUBLISHED BY

CALLAHAN & ASSOCIATES
the credit union company

FOR MORE THAN 35 YEARS, CALLAHAN & ASSOCIATES has been a strategic resource to credit unions across the country. Our purpose is simple: we empower credit unions to impact their members and communities in meaningful ways. Learn more at Callahan.com.

1001 Connecticut Ave, NW Suite 1001, Washington, DC 20036
Ph: (800) 446-7453 | F: (800) 878-4712 | editor@creditunions.com
Callahan.com | CreditUnions.com

CREDIT UNION STRATEGY & PERFORMANCE is a product of Callahan & Associates. A subscription with Callahan & Associates provides companywide access to *Strategy & Performance*, and CreditUnions.com as well as market share reports, industry research, and more. For more information, visit **Callahan.com/credit-union-programs/** today.

For article reprints or to purchase additional copies, please contact subscriber services at (800) 446-7453.

BIGGER ISN'T NECESSARILY BETTER

This quarter's "Anatomy Of A Credit Union" includes an in-depth look at one of the smallest shops Strategy & Performance *has profiled in years.*

BY AARON PASSMAN

AARON PASSMAN
EDITORIAL DIRECTOR

As the nation continues to grapple with inflation, pressures are starting to appear on credit union balance sheets.

At the close of the third quarter, credit unions reported rising balances across all loan categories, even as originations contracted. First mortgages, one of the industry's biggest moneymakers, have shifted as fixed-rate loans lost ground to adjustable rates and other alternative mortgage options. Moving forward, how well can credit unions keep the pipeline moving and grow their market share across multiple loan categories in a rising-rate environment?

A complete roundup of quarterly performance data begins on page 10.

This edition also includes our regular "Anatomy Of A Credit Union" feature, and I couldn't be more excited about this quarter's subject. At nearly $200 million in assets, Carolina Foothills Federal Credit Union is the smallest credit union we've profiled in years. But as credit union professionals know, bigger isn't always better, and Carolina Foothills excels at finding creative ways to conduct business. From embracing CDFI certification to finding inclusive, innovative ways to expand homeownership, make micro loans, and more, the full package begins on page 23.

The following pages also include insights from a host of credit union professionals at various stages of their careers, covering everything from leadership in the trenches to financial wellbeing and communications. One retiring CEO even offers a last look back at how the movement grew and changed during his decades of service.

My inbox is always open, and I welcome your feedback. You can reach me at apassman@callahan.com.

Yours collaboratively,

Aaron Passman
Editorial Director

BOB FALK ON LEADERSHIP

The CEO of Purdue FCU talks about courageous decisions, learning from mistakes, and laying the groundwork for more success.

BY MARC RAPPORT

BOB FALK
PRESIDENT/CEO, PURDUE FEDERAL CREDIT UNION

Bob Falk joined Purdue Federal Credit Union ($1.8B, West Lafayette, IN) in August 2002 as the vice president of lending at what was then Purdue Employees FCU. He took the helm in 2008 and since then, the cooperative has rebranded, tripled in assets, doubled in staff size, and grown membership from 57,000 to more than 83,000.

PFCU also notched some significant firsts along the way, including its first-in-the-movement university affinity program card program and opening the state's first student-run high school branches. Offering branded debit cards to high schools followed, as have a robust membership rewards program and numerous state and regional business awards.

Here, Falk talks about what he's learned during his 20 years with PFCU.

ON EVOLVING LEADERSHIP PHILOSOPHY AND STYLE …

I've worked for several good leaders and some weak leaders in my 30-plus-year career. I learned just as much or possibly more from the weak leaders because I didn't want to be that type of leader. I created lists in my head of traits and behaviors from the solid leaders I liked and traits and behaviors from the weak leaders I absolutely didn't want to be like.

I started out wanting to be liked but evolved into wanting to be a valued and respected strategic leader. I realized my team members aren't looking for a new friend, they're looking for someone to lead their team that has a well-thought-out plan on where we are headed.

ON COURAGEOUS DECISIONS …

One of the most courageous things [Purdue Federal Credit Union] did was becoming the first credit union to buy the rights to an affinity credit card program. We paid a significant sum for the Purdue Alumni Association credit card program, and we took the business away from the No. 1 provider in the country. I knew how to run a credit card program but had no experience with an affinity program. That was a huge risk, but our board trusted us to make the investment pay off long-term. We hit all our milestones, and we continue to have a successful affinity card program.

ON LEARNING FROM MISTAKES …

I've definitely made mistakes along the way. Fortunately, most were minor in impact or you probably wouldn't be interviewing me here today! When I was first learning this leadership thing, I thought I wasn't supposed to show weakness or show that I make mistakes. That was obviously wrong. I got better at owning the error, vocalizing the error to my board and my team, and talking about what we can all learn from my error.

Before long, the culture became more accepting of errors, and we had more dialogue around errors. Now when something blows up, I see the team calmly working through solutions without any real discussion on where to point the blame. We just get to work on fixing the mess and learning about how to avoid that mess in the future.

If I continued to hide my errors, that might have become the culture of the organization. We would most likely have made more errors, taken less ownership of these errors, and not learned from them.

ON MENTORS AND MENTORING …

I've been fortunate to have several people in my life provide incredible mentorship and honest feedback during my career. Someone took a chance on me at several critical points and gave me an opportunity. Fortunately, I've been able to turn these opportunities into even greater growth, but everything still comes back to key individuals that took a risk on me.

Now I interact with a lot of students on campus, many of them first-generation college students who don't have a strong professional network. These are my favorite people to work with as they typically are talented, hard workers that just need someone to connect them with the right

> Good leaders keep their eyes and ears open for changes in their market landscape, and they work with their teams to understand these changes and build plans to keep pace.
>
> BOB FALK, PRESIDENT/CEO, PURDUE CU

opportunities. It's been satisfying to see these individuals succeed greatly in careers and life with the little help I've been able to provide.

ON SUCCESS AND LAYING THE GROUNDWORK FOR MORE ...

It seems like every one of my past 14 years as CEO has had some level of satisfying or exciting outcomes. When I summarize the year for my board, I'm amazed at the story we have to tell every year. We lay out wonderful plans in January that inevitably change due to an economic or other uncontrollable environmental challenge, but this team somehow manages through these challenges and produces impressive results.

Some of the successes are the personal growth of team members, some are typical financial metrics, and some are the impacts we made on our membership. I guess the most satisfying and exciting thing is how this team manages to deliver impressive results for our members regardless of the situation we're facing. This gives me a ton of confidence that we can handle just about anything that comes our way

CU QUICK FACTS

PURDUE FCU
DATA AS OF 09.30.22
WEST LAFAYETTE, IN

$1.8B
ASSETS

84,964
MEMBERS

13
BRANCHES

6.88%
12-MO SHARE GROWTH

10.37%
12-MO LOAN GROWTH

1.06%
ROA

ON CHANGES IN THE CREDIT UNION MOVEMENT ...

There were about 19,000 credit unions when I joined CUNA Mutual Group in 1991. They mostly were relatively small and mostly tied to a single sponsor. That made sense at the time. Their offerings were generally simple loan and deposit products, and they tended to be conveniently located to where the employees worked.

Now we have about 5,000 credit unions, many of them community-focused, and our product offerings are significantly greater with an emphasis on a digital rather than physical presence.

The competition also now includes thousands of technology providers. Consumers today aren't walking down the hall of their building to visit the company credit union for a loan, they're using their phones and choosing the best solution queued up for them in a search engine from their kitchen table or home office. Consumers today care more about ratings and reviews from complete strangers versus testimonials from co-workers.

ON RESPONDING TO TRENDS AND CHANGES ...

Like any other industry, credit unions will need to continue to recognize shifts in consumer behaviors and respond accordingly. To compete and stay relevant in this environment, credit unions need to keep pace with the competition and keep pace with member needs.

Today, we have nearly as much commercial volume as consumer volume. Our spending on digital marketing and IT is significantly higher and very different from what we did five years ago, and all of these changes are the responsibility of leadership.

Life would have been easier if we kept doing things the way we always had, but we made significant changes to respond to what we're seeing. Good leaders keep their eyes and ears open for changes in their market landscape, and they work with their teams to understand these changes and build plans to keep pace.

ON TIME AWAY FROM THE JOB ...

I have a ton of hobbies and interests. I love to be outside and participate in activities that include golf, tennis, kitesurfing, kayaking, biking, and swimming. In the winter months, I switch over to snowmobiling and snowboarding. If I can't get outside, I have several restored cars in the garage that always need attention.

After I've burned off the excess energy, a glass of wine with my wife and catching up with my college-age kids is a great way to cap off a day. I also have responsibility for about 50 college kids in a cooperative house on campus, and I lecture regularly at Purdue's Krannert Business School. Sitting around isn't something I'm very good at.

WHAT'S IN A NAME: HEAD OF FINANCIAL WELLBEING AND BRAND COMMUNICATIONS

Grant Gallagher leads from the intersection of member education and public relations to build brand and impact at his New Jersey credit union.

BY MARC RAPPORT

Public and member relations have merged under Grant Gallagher's leadership at Affinity Federal Credit Union ($4.2B, Basking Ridge, NJ).

Gallagher joined the Garden State cooperative as a senior chat specialist in 2009 and is now entering his second year as Affinity's head of financial wellbeing and brand communications. He also leads his credit union's participation in the Callahan-Gallup Collaborative Financial Wellbeing and Member Engagement Program.

His responsibilities have grown over the past decade, and his new role is a culmination of the realization that financial wellbeing and external communications with the general public and public officials alike are part and parcel to helping ensure the credit union can maximize its ability to have a positive impact.

Here, he explains.

WHEN AND WHY DID AFFINITY CREATE THE TITLE OF HEAD OF FINANCIAL WELLBEING AND BRAND COMMUNICATIONS?

Grant Gallagher: Affinity created the title and role in the spring of 2021 to recognize financial wellbeing as a critical part of our brand identity and the value-add we deliver to our members. Financial wellbeing is at the forefront of our work with members and the support we provide them, so it must also be core to our public relations and communications efforts.

YOUR TITLE WAS RECENTLY CHANGED FROM FINANCIAL WELLBEING AND EXTERNAL AFFAIRS MANAGER. WHAT'S THE STRATEGY HERE?

GG: This new role was created to consolidate functions that were previously managed independently. Before this, my primary focus was leading our financial wellbeing efforts and managing related relationships and programs. The progression happened organically over time. In 2019, I was tasked with leading our financial wellbeing initiative at Affinity. Soon after, brand communications were added to my role.

WHAT ARE YOUR AREAS OF RESPONSIBILITY?

GG: Financial wellbeing and learning, brand communications, and external affairs.

I lead our financial wellbeing initiatives, including all member- and employee-focused programs for all of Affinity's business lines that are focused on financial health and wellbeing. This includes directing the surveying, data collection, and reporting, as well as relationship and vendor management related to the program, including the Gallup relationship. I am also involved in directing any financial wellbeing content creation, both internal and external.

The brand communications portion of my role includes public relations and corporate communications. This entails creating and implementing strategy and advocacy to complement our communications programs to build mutually beneficial relationships between Affinity and the public. This role also includes overseeing media relations, crisis communications, internal brand and marketing communications, and reputation management.

For the financial learning aspect of my position, I lead our educational programming and content. This includes managing online assets and vendors, content development, volunteer recruitment and management, and seminars and webinars.

In my role leading external affairs, I manage some of our partner programs and lead our political and regulatory advocacy efforts with our elected officials. This also includes serving as our PAC treasurer.

CU QUICK FACTS

AFFINITY FEDERAL CREDIT UNION
DATA AS OF 09.30.22
BASKING RIDGE, NJ

$4.2B
ASSETS

222,677
MEMBERS

22
BRANCHES

4.72%
12-MO SHARE GROWTH

20.91%
12-MO LOAN GROWTH

0.61%
ROA

> Affinity is at the forefront of all things related to financial wellbeing, and it allows us to be positioned as thought leaders in this space.
>
> – GRANT GALLAGHER, HEAD OF FINANCIAL WELLBEING AND BRAND COMMUNICATIONS, AFFINITY FEDERAL CREDIT UNION

HOW DO THESE PIECES WORK TOGETHER LOGISTICALLY?

GG: Affinity is at the forefront of all things related to financial wellbeing, and it allows us to be positioned as thought leaders in this space. We look for opportunities to share the importance of financial wellbeing with the media, and we see a similar alignment with our external affairs work.

Our elected officials hear similar themes from financial institutions, so having the ability to approach them with our unique value proposition and member-benefit focus gives us the ability to differentiate ourselves when advocating for credit unions.

HOW DO THEY WORK TOGETHER TO HELP IMPROVE MEMBER SERVICE?

GG: One of the largest challenges we face is the general lack of understanding of financial wellbeing and its value within the marketplace. By being able to share this information more readily, it helps our members understand how we're approaching member service differently. This synergy helps ensure that all of the educational resources available to both the membership and general public are visible and at the forefront of our communication efforts.

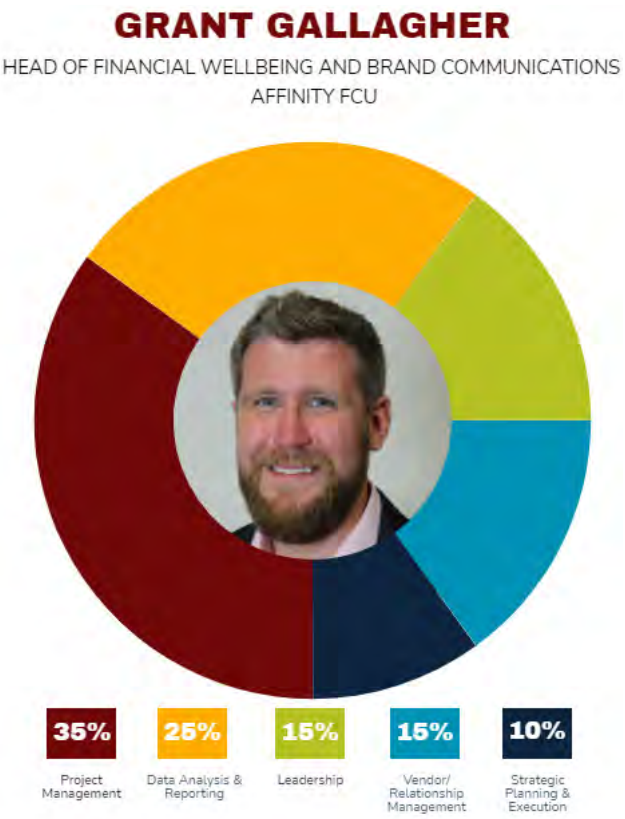
DESCRIBE AFFINITY'S WORK WITH GALLUP. HOW DOES IT HELP YOU DO YOUR JOB?

GG: There are multiple benefits to our partnership with Gallup, but the primary benefit is the understanding of member pain points and meaningful moments. This data is aggregated and analyzed as part of our Voice of the Member program and has helped us make impactful changes to our member experience in recent years. How our members regularly interact with us has comparatively changed, and the data from the Gallup program has given us meaningful insight into how to meet and exceed member expectations.

WHAT MAKES YOU A GREAT FIT FOR THE JOB?

GG: I have over a decade of experience working with credit unions, all of which have been dedicated to improving the financial lives of Affinity's members. Knowing where we started as an organization makes it easier to anticipate what the future holds, and we want to continue sharing this vision with the public.

Even before our focus on financial wellbeing and relationship with Gallup, I had been involved in financial education and financial health efforts at Affinity for many years. These areas are prerequisites to be able to effectively support a member's financial wellbeing and have prepared me to lead our efforts today.



WHO DO YOU REPORT TO? WHO REPORTS TO YOU?

GG: My team, which is a part of our marketing team, consists of two full-time employees and an admin. I report to Maureen Byrne, our vice president of marketing and product. The external affairs specialist on my team focuses on financial learning and external affairs, and the communications manager focuses on public relations strategy and communications. We also have multiple committees that support many of the programs and initiatives we run.

WHAT CHALLENGES AND OPPORTUNITIES DOES YOUR ROLE ADDRESS? HOW DO YOU ADDRESS THEM?

GG: One of the biggest challenges credit unions face today is that big banks have closed the service-level gap through personalization and automation, which is something credit unions have excelled at historically. This provides us a unique opportunity to differentiate and provide value to consumers through wellbeing.

> "At the end of the day, it all boils down to member impact. If all of these KPIs indicate we're reaching members to positively impact their financial lives and help them achieve their dreams, then I've been successful in my role."
>
> — GRANT GALLAGHER, HEAD OF FINANCIAL WELLBEING AND BRAND COMMUNICATIONS, AFFINITY FEDERAL CREDIT UNION

WHAT'S YOUR DAILY ROUTINE AT THE CREDIT UNION?

GG: My team works fully remote, and I find it key to stay connected and keep an ongoing conversation throughout the day. I have a daily huddle with my team to talk about upcoming deliverables and identify potential roadblocks to hitting delivery dates. We're all collaborative, so this approach helps keep everyone focused, and we're usually able to identify and solve potential issues rapidly and internally.

Most of my workflow is project-driven, so my daily routine is dependent on project status. Often, it's working toward the next project milestone or deliverable. During month- or quarter-end, I'm often focused on pulling together the latest financial wellbeing data to share with various leaders and committees.

HOW WILL YOU TRACK SUCCESS IN YOUR JOB?.

GG: There are multiple KPIs that we use to define success. Through our financial wellbeing survey, we track our members' emotional engagement, financial wellbeing, and rates of problem incidence. For financial learning, we track content engagement, webinar attendees, and lead opportunities generated. Our PR and communications efforts are dependent on media placements and audience size reached with our messaging.

At the end of the day, it all boils down to member impact. If all of these KPIs indicate we're reaching members to positively impact their financial lives and help them achieve their dreams, then I've been successful in my role.

HOW DO YOU STAY CURRENT WITH TOPICS THAT FALL UNDER YOUR ROLE?

GG: The main sources that help me stay current fall into a few broad categories: regular meetings and conversations with vendors/partners, industry newsletters and sites, our member surveys, and our trade associations. It's hard to isolate any one of these areas as the most important because the areas I oversee continue to grow and evolve at a fairly rapid pace.

This interview has been edited and condensed.

MARKET SNAPSHOT: 3Q 2022

INDUSTRY OVERVIEW

FOR U.S. CREDIT UNIONS

SOURCE: CALLAHAN & ASSOCIATES

	As Of 09.30.2022	12-Mo. Growth 3Q22	12-Mo. Growth 3Q21
Assets	$2,172.7B	6.5%	12.9%
Loans	$1,471.7B	19.1%	5.8%
Shares	$1,879.3B	6.3%	14.4%
Investments	$607.3B	-14.5%	28.5%
Capital	$200.2B	-8.1%	7.4%
Members	135.7M	4.3%	4.0%

130.0M
TOTAL MEMBERS 3Q21

135.7M
TOTAL MEMBERS 3Q22

20,926
TOTAL BRANCHES 3Q21

20,961
TOTAL BRANCHES 3Q22

1.11%
ROA 3Q21

0.88%
ROA 3Q22

TOTAL CREDIT UNIONS 3Q22

180 **4,917**

3Q21: 5,097

CREDIT UNION MERGERS & LIQUIDATIONS YTD

22 **134**

3Q21: 112

CREDIT UNION NEW CHARTERS

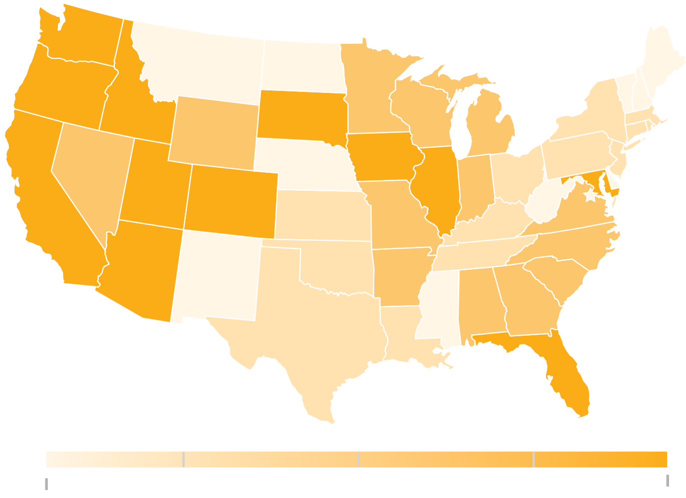
1 **3**

3Q21: 2

ANNUAL REGIONAL LOAN GROWTH

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES



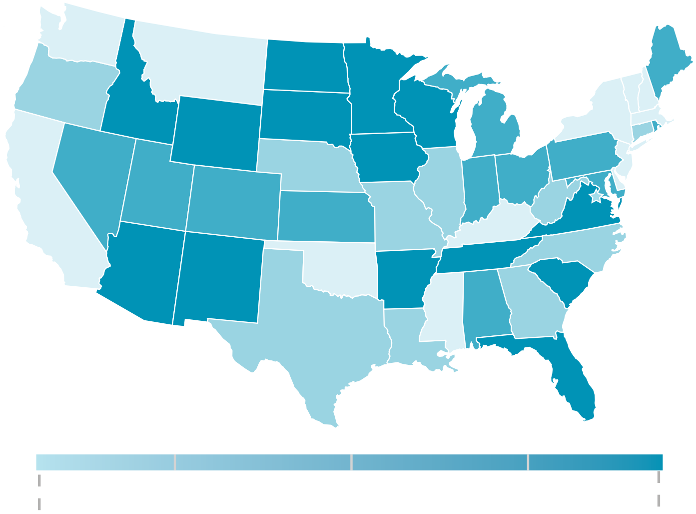
8.1%
WEST VIRGINIA

30.1%
IDAHO

ANNUAL REGIONAL SHARE GROWTH

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES



-0.1%
MISSISSIPPI

14.9%
IOWA

READY FOR TODAY, PREPARED FOR TOMORROW

Despite a challenging environment, opportunities abound now and in the future.

BY JAY JOHNSON

JAY JOHNSON
CHIEF COLLABORATION OFFICER,
CALLAHAN & ASSOCIATES

Credit unions are lending at an unprecedented pace in 2022. Originations exceed $600 billion through the first nine months of the year for the first time ever, with consumer lending pushing the pace as mortgage lending slows due to rising interest rates. Growth in loans outstanding is an even bigger story, with the loan portfolio increasing 19.1% over the 12 months ending September 30th, the fastest annual pace on record. Balances in every major loan category are growing at a double-digit pace over the past year, led by a jump in other real estate loans, primarily home equity loans, up an astounding 29.8%.

The strong loan growth is due in part to record membership growth, with nearly six million consumers joining a credit union over the past 12 months. New members are directing deposits to credit unions as well, and share balances are up 6.3% since last September. That annual growth rate is less than half the 14.4% rate posted a year ago but is close to the long-term average.

The growth dynamics across loans and shares are pushing up the loan-to-share ratio at a rapid pace. The ratio is at 78.3% as of September, a rise of more than 8 percentage points from the 70.2% recorded as of March. While not a historically high loan-to-share ratio, there are other factors that are raising liquidity as an area credit unions are focusing on more closely managing in 2022. Cash has fallen from 13.0% to 7.1% of total assets over the past year as lending has surged and cash is deployed. With rising interest rates, fewer mortgage loans are being originated and sold, so more are being retained on the balance sheet. Rising rates have also led to $39.7 billion in unrealized losses in the collective credit union investment portfolio. Since most credit unions hold investments to maturity, these losses are unlikely to be realized but it limits how much can be sold out of the investment portfolio to fund loans since CFOs do not want to sell securities with a realized loss.

The liquidity squeeze is evident in other areas as well. Purchases of loan participations fell to the lowest level since the second quarter of 2020. Members added nearly $19 billion to share certificate accounts in the third quarter, reversing two years of declining balances, as credit unions launched specials that enticed members to lock up savings at competitive rates. Borrowings have increased from 2.2% to 3.8% of total assets over the past six months, in line with historical norms but a material rise in a short time period.

The environment has changed quickly in 2022, driven largely by the Federal Reserve's hawkish stance to combat inflation. Higher rates are already starting to lead to higher net interest margins for credit unions, and consumer lending remains strong. While there are questions about the economy's resiliency as we head into 2023, unemployment remains low and the consensus seems to be that if there is a recession in the coming year, it will be relatively brief and shallow.

PLANNING IN AN UNCERTAIN ENVIRONMENT

As the economic environment shifts, credit unions need to continue to look forward and remain focused on the key value and outcomes they are looking to deliver for their members. Callahan is fortunate to facilitate dozens of strategic planning sessions with credit unions across the country each year. A few common themes have emerged this year, some reflecting near-term priorities, some geared toward longer-term issues. A number of the planning discussion topics, whether near-term or long-term, are linked. Here are a few of the near-term priorities:

TALENT MANAGEMENT

Credit unions have picked up the pace of hiring in 2022, with industrywide employment rising 5.1% over the past year to top more than 330,000 full-time employees and over 20,000 part-time. It is not just numbers that are the focus though – it is also the skills that employees are bringing to the credit union. Business intelligence, DEI, member experience, branding, and community engagement have emerged as key roles across the industry in recent years. Some credit unions have focused on attracting leaders from outside the movement while others have sought to develop skills from within. Positioning and distinguishing the credit union as an employer of choice has become increasingly important in a tight labor market. Executives are constantly evaluating whether they have the "right people on the bus," looking not just at current organizational needs but also to what is needed as they look forward.

TECHNOLOGY

Investments in technology are an ongoing part of every business plan today. Credit unions are regularly upgrading existing systems and/or converting to new platforms. Managing technology business partners is more complex as the technology footprint expands across the organization. Adding to the complexity, more are looking to fintechs to support their evolution, which typically brings a different risk profile into the picture that needs to be managed and evaluated. These investments are necessary though, as credit unions look to elevate their service model to meet rising consumer expectations.

ORGANIC MEMBER GROWTH

While credit union membership is growing at a rapid pace over the past year, a significant amount of new members have come via indirect lending channels. Credit unions are expanding beyond auto dealerships as a source of indirect loans and capturing more point of sale relationships or loans that come through fintech lending partnerships such as Happy Money and Upstart. The challenge continues to be converting members who join via indirect channels into engaged members. Members who join through direct channels typically use a wider range of credit union products and services but join in smaller numbers compared to indirect channels.

TAKING THE LONG VIEW

Regarding long-term issues, here are a few topics that are frequently being discussed:

SUCCESSION PLANNING

Executive turnover is reported almost daily in the credit union press. While there are near-term pressures to attract and develop talent, preparing the next generation of leaders is essential to an organization's long-term success. Succession planning is more than preparing for CEO turnover. Prioritizing skill and leadership development at all levels of the organization is needed, or the credit union is at risk of a leadership void.

BUSINESS MODEL EVOLUTION

Credit unions are thinking differently about both operating and financial models as the market evolves. Non-interest income as a percentage of assets has trended down over the past decade, with fee income in particular moving lower. The pressure from consumers, competitors, and regulators to reduce or eliminate fees is likely to increase. So what other revenue sources can be developed? Credit unions are looking to new or expanded lines of business such as commercial lending or wealth management to drive future financial results. From an operational perspective, new business partnerships via CUSOs and/or fintechs are increasingly being considered for both member-facing channels and back-office efficiencies to accelerate the evolution of the business and deliver more value to consumers.

SUSTAINABLE DIFFERENTIATION

This long-term issue is closely linked to the near-term issue of organic member growth. Credit unions have historically won consumers over with their ability to provide competitive rates and deliver service with a personal touch. As more consumers move to online channels for interaction, their advantage has diminished. According to the American Consumer Satisfaction Index, credit unions have declined for five consecutive years, falling below banks on overall satisfaction in the process. In an era when competition is increasingly moving to digital channels, being able to capture the attention of consumers, particularly younger generations, is increasingly important. Recognizing that being competitive in rates and service is necessary just to be "in the game," a number of credit unions are looking to differentiate themselves in other ways. Many of these credit unions are putting consumer financial wellness at the center of their efforts. It is a long-term play but one that credit unions seem well positioned for since it reflects on the connectedness of the cooperative model.

LOOKING AHEAD TO 2023

The past few years have taught credit union leaders to expect the unexpected. Balance sheets have swung from being flush with liquidity to managing funding sources closely to be able to continue to meet member borrowing needs. Despite the swings, credit unions are in a strong position to support members through whatever the coming year may bring. The industry has a strong capital base and asset quality profile, solid earnings and capacity to lend. Credit unions are at their best during challenging times when members are looking for guidance and help. As long as the focus remains on member needs, navigating the environment ahead becomes clearer.

INDUSTRY TRENDS

Section Authors:
UMBERTO DONDA
WILLIAM HUNT
ANDREW LEPCZYK
ROMAN OJALA
SHERRY VIRDEN

MACRO OVERVIEW

Outlooks for the economic downturn transitioned from feared to expected as key macroeconomic reports poured in over the summer and into the fall. Annual inflation hit 8.2% annually through September while wages and salaries across the United States increased just 5.1% over the same period. This dynamic occurred despite a tight labor market, with the number of available jobs per unemployed person holding near 2.0. In August, Jerome Powell, chair of the Federal Reserve, noted in a Jackson Hole speech that achieving price stability will "bring some pain to households and businesses." Americans are still trying to understand what that means for them as prices keep rising. Anecdotally, headline-making layoffs in sectors such as the tech industry have yet to materialize in a higher overall unemployment rate, which finished the third quarter at 3.5%. Going into the fourth quarter, all eyes are on the Fed's monetary policy.

KEY POINTS

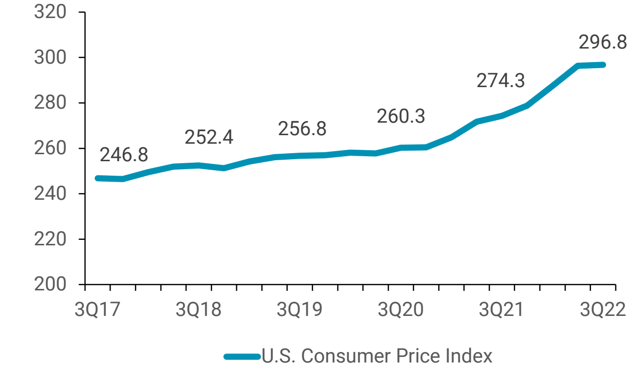
- **Total assets** at U.S. credit unions reached nearly **$2.2 trillion** during the third quarter, up **6.5%** year-over-year
- Credit union **membership** grew 4.3% year-over-year to reach **135.7 million**. That's 5.6 million more members than one year ago.
- **Loan balances** increased **19.1%** annually. **Share balances** were up **6.3%** during the same period, pushing the **loan-to-share** ratio up to **78.3%**.
- Annualized **salary and benefits** per full-time equivalent employee (FTE) increased **3.5%** annually to **$91,124**. Compensation historically comprises slightly more than half of all operating expenses.

THE BOTTOM LINE

Expectations for a recession could create headwinds for hiring beyond what is essential for operations and quality member service. Credit unions must have a playbook in place to ensure they don't get caught flat-footed in the event of a recession. Asset quality in particular should be a point of focus. Living costs are the primary pain point for most members — grocery bills are rising, gas and energy prices are still high, and housing is becoming less affordable. Credit unions need to evaluate what higher rates will mean for their members and how their cooperative can be a source of financial stability for the community when challenges materialize.

U.S. CONSUMER PRICE INDEX

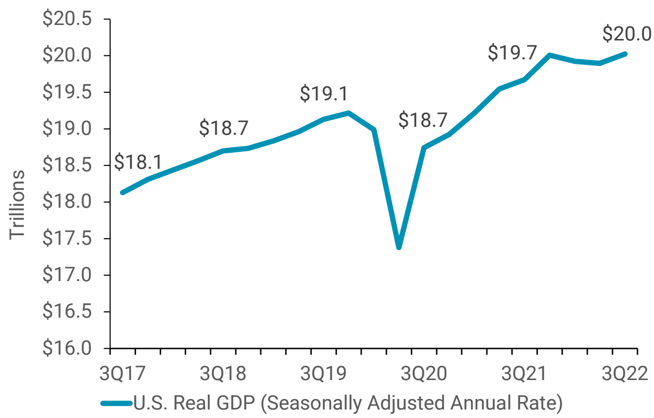
DATA AS OF 09.30.22
SOURCE: BUREAU OF LABOR STATISTICS



The CPI has risen by 20% in five years, but wage growth has moved at a substantially slower pace.

U.S. REAL GDP

DATA AS OF 09.30.22
SOURCE: FEDERAL RESERVE



Real GDP increased 2.6% (annualized) quarter-over-quarter, beating estimates of 2.3%.

CREDIT UNION INDUSTRY OVERVIEW

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22
SOURCE: CALLAHAN & ASSOCIATES

	As of 09.30.22	12-mo. Growth 3Q22	12-mo. Growth 3Q21
Assets	$2,172.7B	6.5%	12.9%
Loans	$1,471.7B	19.1%	5.8%
Shares	$1,879.3B	6.3%	14.4%
Investments	$607.3B	-14.5%	28.5%
Capital	$200.2B	-8.1%	7.4%
Members	135.7M	4.3%	4.0%

Annual loan growth tripled the pace of asset growth, while unrealized investment losses weighed on capital. Member growth surged a strong 4.3%, primarily through lending channels.

LOANS

Inflation rose at a higher pace than wages and salaries in the third quarter, causing consumers to lose purchasing power. TransUnion reported record expansion in credit card balances and unsecured personal loan growth for the third consecutive quarter, due in part to Americans searching for cash to lighten the financial squeeze. Furthermore, lending activity in the housing market continues to soften as high prices, increasing interest rates, and low inventories price many would-be borrowers out of the market. Americans bought and sold existing homes at a seasonally adjusted annual rate (SAAR) of just 4.7 million in September of 2022. That's down 23.8% from one year ago, according to the National Association of Realtors.

KEY POINTS

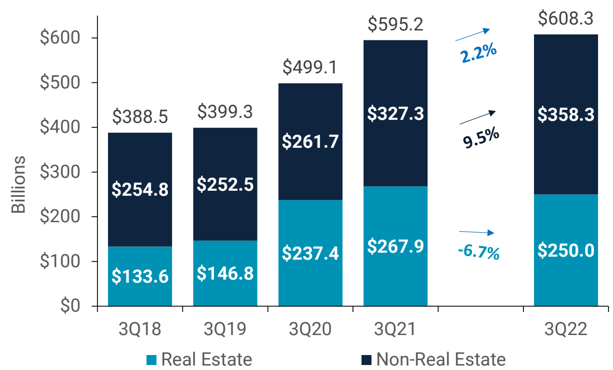
- **Outstanding loan balances** increased **19.1%** annually to almost **$1.5 trillion**, the highest year-over-year growth rate for the industry on record.
- **The number of loans granted year-to-date** declined 9.6% from the first nine months of 2021. Despite this, origination balances grew 2.2% to **$608.3 billion** year-to-date as average loan values surged with inflation.
- The industry's **delinquency ratio** increased **7 basis points** from one year ago. With tightened budgets, members prioritized paying loans of higher importance — such as mortgages — over credit cards. Real estate loan delinquency improved 4 basis points year-over-year; credit card delinquency increased by 44 basis points.

THE BOTTOM LINE

Credit unions are serving their communities and members by keeping up with loan demand. The popularity of indirect lending has returned as credit unions revamp partnerships with dealerships and fintechs to generate financing opportunities in an increasingly virtual world. However, loan growth has far outpaced the rate of share growth, leading to sudden-onset liquidity concerns for large portions of the industry. If heightened lending activity continues, credit unions will need to turn to new strategies — such as raising dividend rates on deposits or borrowing funds from other lenders — to generate liquidity.

YEAR-TO-DATE LOAN ORIGINATIONS

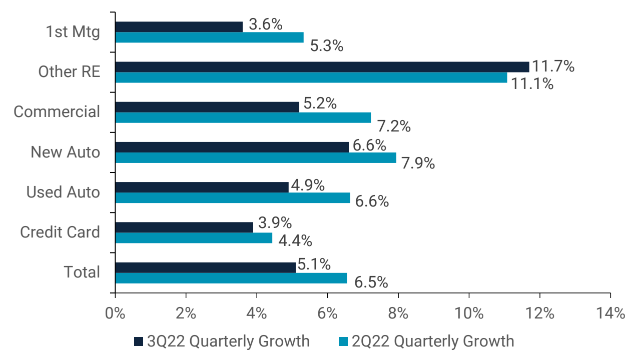
FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22
SOURCE: CALLAHAN & ASSOCIATES



Rising interest rates resulted in a 6.7% decline in real estate lending at credit unions.

QUARTERLY OUTSTANDING LOAN BALANCE GROWTH BY TYPE

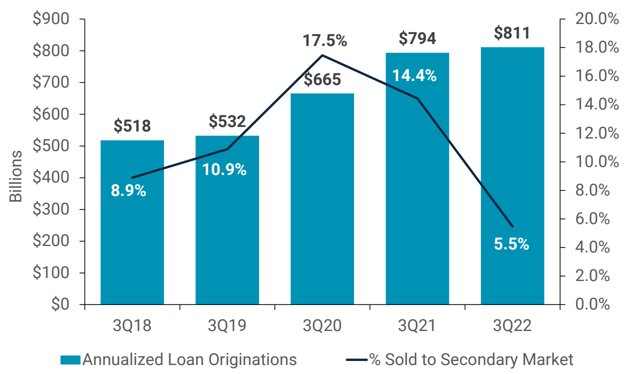
FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22
SOURCE: CALLAHAN & ASSOCIATES



Loans granted year-to-date were down compared to the first three quarters of last year, even as balances rose.

ANNUALIZED LOAN ORIGINATIONS AND % SOLD TO SECONDARY MARKET

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22
SOURCE: CALLAHAN & ASSOCIATES



After a surge during the early months of COVID, the percentage of credit union loans sold to the secondary market has plummeted.

MORTGAGES

The U.S. housing market continued to cool off in the third quarter. According to the National Association of Realtors, sales of existing homes (seasonally adjusted annual rate) fell from 5.1 million in June to 4.7 million in September, a decline of 8.4%. Although home prices did drop over that period — averaging $384,800 in September compared to $413,800 in June — it came as little reprieve for prospective home buyers. Higher interest rates more than offset cheaper home prices. Looking ahead, the Mortgage Bankers Association forecasts a slight dip in the median price of new homes and does not anticipate substantial growth in housing starts for single- or multi-family housing. Home production is now more costly for builders as well.

KEY POINTS

- Credit unions' holdings of **outstanding residential first mortgages** reached **$546.1 billion**, up 17.2% annually. Although home lending is slowing, high prices continue to boost the dollar amount of originations.
- Credit unions sold **21.3%** of **new mortgages to secondary buyers** in 2022. That's down from 36.7% through Sept. 30 last year.
- **Other real estate loans** increased 29.8% annually and **11.7%** quarter-over-quarter as members tapped into equity. This is the largest quarterly growth rate for this loan type since 2002.
- **Real estate loan originations** were down **6.7%** year-over-year in dollar terms, a reflection of falling asset prices and lagging demand for homes.

THE BOTTOM LINE

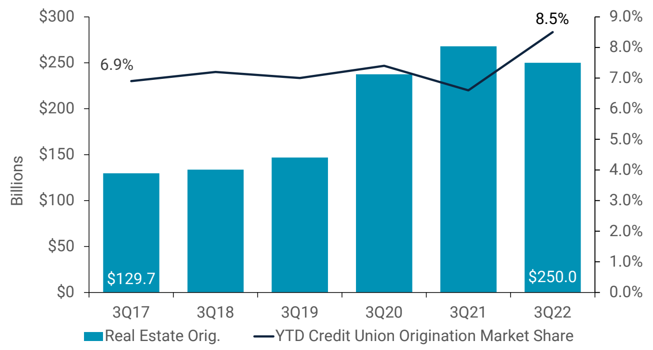
With interest rate increases forecasted to continue into 2023, the housing market is likely to face continued headwinds. Home prices are starting to fall, but they remain historically high. When combined with costly financing options, these high prices are likely to reduce homebuying demand. Credit unions must educate and advise potential homebuyers who might be priced out of the market. With news of a recession top of mind, industry leaders need to carefully monitor lending pipelines and existing real estate delinquencies in the coming months.

**Market share is calculated as a percentage of residential first mortgage originations. Total real estate values shown in this section include other real estate types like commercial and HELOCs, which are not included in the market share calculation.*

REAL ESTATE ORIGINATIONS & MARKET SHARE*

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES



Real estate origination balances have slipped even as the industry's market share has risen.

1ST MORTGAGE BALANCES OUTSTANDING AND GROWTH

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

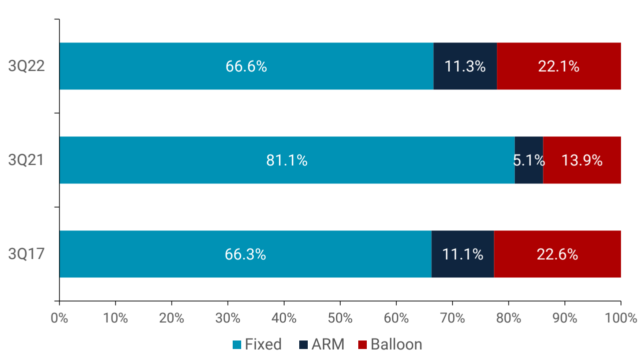
SOURCE: CALLAHAN & ASSOCIATES

First mortgage balances at credit unions are substantially above where they stood five years ago following a period of uneven growth rates.

YTD 1ST MORTGAGE ORIGINATION COMPOSITION

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES



Fixed-rate first mortgages are losing traction to alternative loan types.

AUTO LENDING

Total auto sales in the United States reached 13.9 million (SAAR) in the third quarter, up just slightly from the second quarter, according to the Federal Reserve. Although supply chain constraints and microchip shortages contributed to a steep increase in price for autos in recent years, inventory levels improved this quarter, helping to modestly reduce the average transaction price for new vehicles from a record \$48,301 to \$48,099, according to Kelley Blue Book. As rising rates lead to increased loan prices and monthly payment costs, consumer vehicle demand is expected to fall. If vehicle asset prices continue to decline from their record highs, lenders might need to closely monitor asset quality in their auto portfolios.

KEY POINTS

- **Total auto loan balances** outstanding grew **18.5%** year-over-year. Both used and new auto loans played a key role in overall loan growth, surging 18.9% and 17.9%, respectively. All told, vehicle loans outstanding reached \$476.7 billion, the highest dollar value on record.
- The most commonly offered **interest rate** for used auto loans on Sept. 30 was **4.94%**. For new vehicles, it was **3.84%**. Both rates were up 28 basis points from Sept. 30, 2021.
- **Auto loan penetration** reached **27.1%**, up 3.9 percentage points from 12 months ago and 84 basis points since June 30.
- **Indirect loan balances** grew **31.4%** annually and **7.8%** quarterly. In total, indirect loans made up 54.2% of total outstanding auto loans.

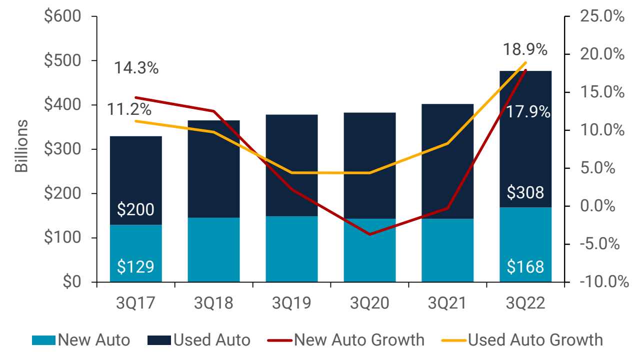
THE BOTTOM LINE

Member demand for cars is high, but constrained supply and high prices have made vehicle purchases increasingly difficult or unaffordable. Credit unions have moved beyond organic growth strategies to better deploy assets in a stifled market and help members obtain their desired vehicle. Cooperatives are partnering with indirect lenders such as fintechs and dealerships, using their pre-existing marketing and technology infrastructure. However, some credit unions — perhaps those without an indirect network — purchased participations to diversify portfolios and yields.

NEW VS USED AUTO BALANCES

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES

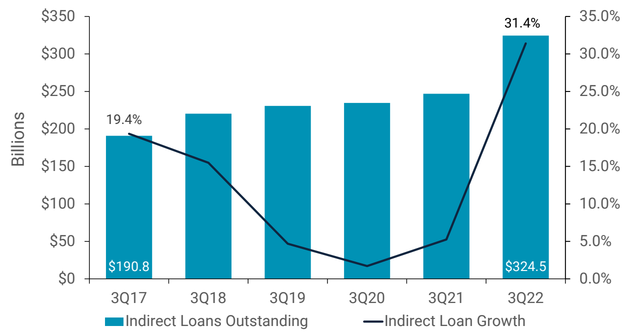


Price and rate increases helped boost auto loan balance growth despite inventory shortages.

INDIRECT LENDING

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES

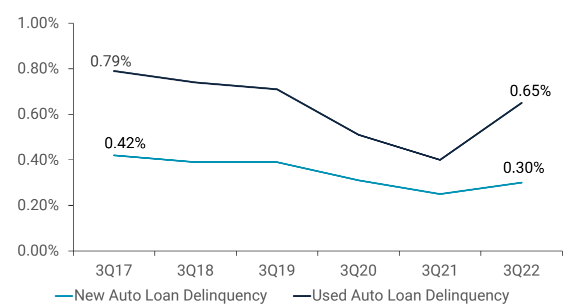


Indirect loan balances have surged thanks to a turnaround following a three-year slide.

NEW VS USED AUTO LOAN DELINQUENCY

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES



Delinquency rates on new and used auto loans have almost returned to normal levels following a drop which was fueled in part by pandemic relief payments.

SHARES

When the average cost of living rises, Americans must make decisions about what to do with their take-home pay: Do they buy less or do they save less? These days, the answer may be both. According to the Federal Reserve, Americans saved just 2.8% of their disposable income in the third quarter. That's down from 9.1% in the third quarter of 2021. Not since the run-up to the Great Recession in 2007 has the savings rate been this low. For members, they have less money saved to cover loan payments. For financial institutions, they have fewer deposits to fund loans. To attract funds, FIs might need to consider increasing the yields they offer on deposits, which will influence the types of deposit accounts consumers choose.

KEY POINTS

- **Total share balances** increased **0.26%** on a quarterly basis, the slowest three-month expansion since 2007. Credit unions have begun to raise rates to incentivize savings, and the average cost of funds is up 5 basis points since last quarter to 0.46%.
- Growth decelerated compared to one year ago for most share types. The lone exception is **share certificates**, which increased **2.5%** annually after multiple years of outright balance contraction. Credit unions have started to offer higher rates on certificates to attract new, secured deposits, and members are taking advantage.
- **Average share balances** declined **$166** quarter-over-quarter, or 1.2%, to **$13,719** — the second consecutive quarterly contraction. As prices rise, members rely on savings to make up the difference, reducing average balances.

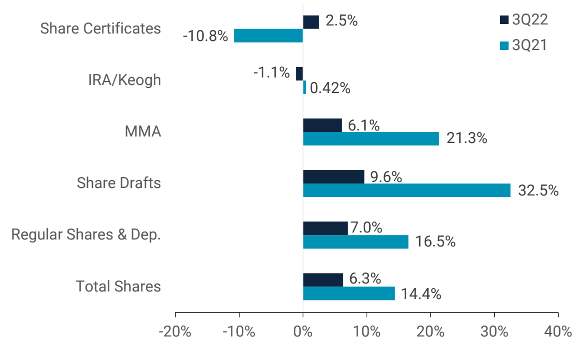
THE BOTTOM LINE

Buoyed by strong membership growth, credit unions have been thriving on the lending side of the balance sheet for much of 2022 and have burned through much of the liquidity accumulated during the pandemic. However, credit unions can only lend from their funds available, and the primary source of these funds — member deposits — is slowing. Looking forward, members are likely to continue operating under tight budgets. With government relief payments firmly in the past, cooperatives will need to implement new strategies to attract deposits. Shares are the core of the member relationship, and incentivizing savings allows credit unions to serve members from both a saving and borrowing standpoint.

ANNUAL SHARE GROWTH BY TYPE

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES

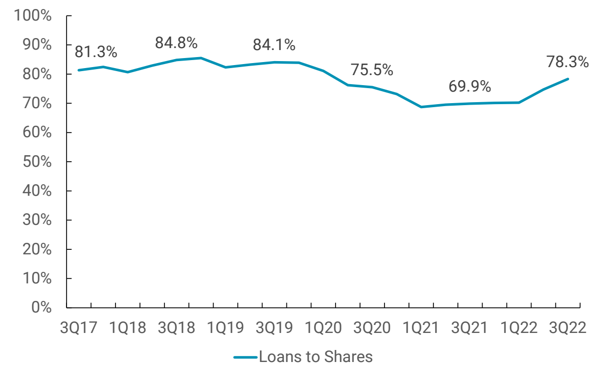


As rates rise, members are starting to prefer higher-yielding accounts – like certificates — to help offset the deteriorating effects of inflation.

LOAN-TO-SHARE RATIO

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES

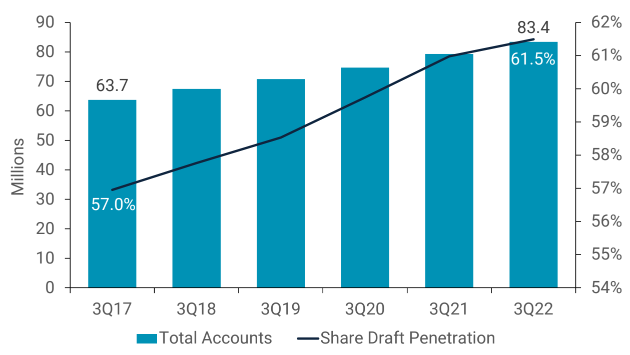


Loans are growing at a faster pace than shares, leading to a higher loan-to-share ratio compared to both last quarter and last year. This sudden change can be shocking to credit union liquidity profiles.

SHARE DRAFTS AND PENETRATION

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES



Both the number of total share draft accounts and share draft penetration have increased year-over-year.

INVESTMENTS

A difficult year for fixed-income securities continued into the third quarter. Investment volatility is now the norm as markets react to anti-inflationary actions taken by the Federal Reserve. In total, the Fed raised rates by 300 basis points throughout the first nine months of the year, including two 75-basis-point raises in the past few months. The yield curve remained inverted throughout the quarter, with the 2-year to 10-year spread widening to 45 basis points at quarter's end. Volatility in the 5-year Treasury yield reached levels not seen since the Great Recession, and heavy intraday price swings should be expected going forward as markets try to anticipate future Federal Reserve actions. Bond market participants will closely monitor leading economic indicators to predict when the tightening will stop.

KEY POINTS

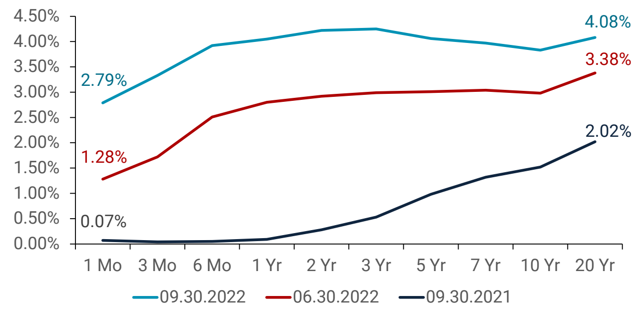
- **Cash balances** declined **17.1%** since June to **$154.1 billion**. That's half the peak of $301.4 billion recorded in the first quarter of 2021.
- **Total investment and cash balances** combined to fall 7.6%, or $50.0 billion, quarter-over-quarter to **$607.3 billion** as of Sept. 30.
- Unrealized losses on **available-for-sale securities** increased **$11.3 billion** during the quarter, bringing total book value losses up to $39.7 billion. However, these losses will diminish naturally if investments are held closer to maturity.
- Balances in the **over 10-year maturity** category grew **3.8%** quarter-over-quarter — the only segment to increase balances since mid-year. All other maturity category balances decreased by at least 1.8%.

THE BOTTOM LINE

To avoid hefty losses on securities, credit unions have funded new loan demand with cash during the first nine months of the year. Decreasing cash also benefitted the yield on investments, which expanded 26 basis points quarter-over-quarter to 1.38%. The gap between the investment yield and the average cost of funds reached 92 basis points in the third quarter, boosting the interest margins for credit unions. With stronger revenues, cooperatives can increase their dividend returns or shore up their balance sheets to prepare for tougher times. As cash balances dry up, however, cooperatives will need to decide how to fund new loan demand — be it through deposit promotions, borrowings, or selling investments at a loss.

TREASURY YIELD CURVE RATES

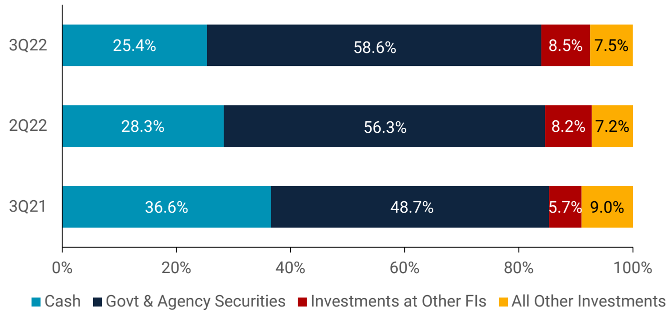
FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22
SOURCE: CALLAHAN & ASSOCIATES



The yield curve remained inverted after several rate increases pushed up yields toward the front-end of the curve.

INVESTMENT PORTFOLIO COMPOSITION

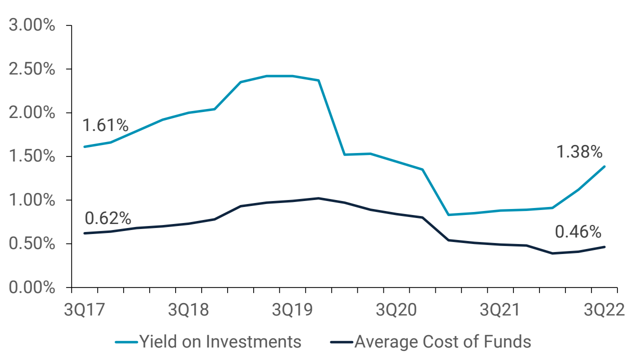
FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22
SOURCE: CALLAHAN & ASSOCIATES



Credit unions are quickly repurposing cash to meet loan demand. Since September 2021, cash as a percentage of total investments is down 11.2 percentage points.

YIELD ON INVESTMENTS AND COST OF FUNDS

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22
SOURCE: CALLAHAN & ASSOCIATES



A rising rate environment and declining cash concentration increased the average yield for credit unions investment portfolio.

EARNINGS

In an effort to combat price inflation, the Federal Reserve raised interest rates five times in 2022 from January through September. The Fed expected higher interest rates to reduce borrowing — which is finally starting to occur — but despite a slowdown in lending volume, high asset prices have elevated financing in terms of dollar amount. For financial institutions, increased yields combined with rising loan balances creates greater revenue. However, other macroeconomic factors pose headwinds for earnings, including increasing operational costs and rising delinquency.

KEY POINTS

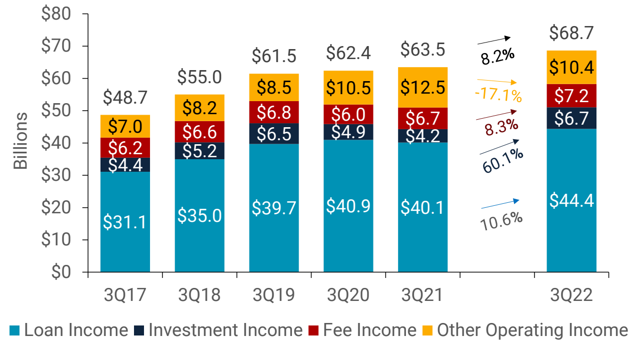
- **Revenue from interest channels** reached nearly **$51.1 billion** through Sept. 30, up 15.2% from the first nine months of 2021. Annual loan growth of 19.1% — combined with repricing portfolios — drove greater earnings from these core business channels.
- **Core non-interest income** declined **8.2%** year-over-year as credit unions sold fewer mortgages to secondary markets. Still, stronger interest income drove **total revenue** up 8.2% to a nine-month industry record of **$68.7 billion**.
- **Operating expenses** grew **9.4%** year-over-year as credit unions juggled inflation and expansion. Delinquency rates also increased; consequently, **provision expenses** were up **253.4%** from one year ago.
- Credit union **net income** declined **13.9%** annually after a record year in 2021, but ROA remains historically healthy at 0.88%. The industry **net worth ratio** was **10.6%** as of Sept. 30.

THE BOTTOM LINE

The pandemic was tumultuous for credit union earnings, but leaders were able to use non-interest income channels to support revenue and manage provision expenses to cover potential default risk. The post-pandemic period brings new challenges, including dramatic rate hikes and possible deterioration of asset quality. Although credit unions are nonprofit organizations, they must bring in enough revenue to keep the lights on, maintain capitalization, and invest in member products and services. As income statements fluctuate, credit union leaders must continuously determine the most appropriate earnings balance for their memberships.

REVENUE BY TYPE

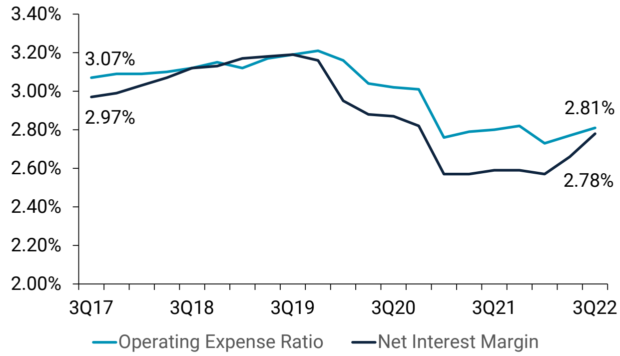
FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22
SOURCE: CALLAHAN & ASSOCIATES



Several earnings categories saw significant increases during the third quarter after declines one year prior.

NET INTEREST MARGIN VS. OPEX

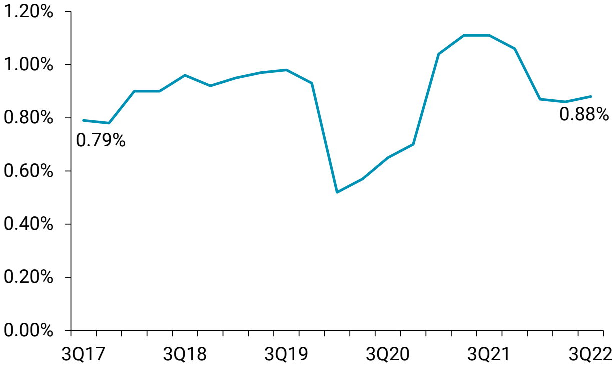
FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22
SOURCE: CALLAHAN & ASSOCIATES



After a gap that widened during the pandemic, just three basis points separate the industry's operating expense ratio from the net interest margin.

RETURN ON ASSETS

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22
SOURCE: CALLAHAN & ASSOCIATES



ROA has fluctuated in recent years but it remains at roughly pre-pandemic levels.

MEMBER RELATIONSHIPS

Even with low unemployment and rising wages, the University of Michigan consumer sentiment survey reported near record-low consumer sentiment in the third quarter of 2022. Most Americans remained pessimistic about the state of the economy. The Federal Reserve's interest rate hikes throughout the year have helped cool the housing market, but higher rates mean higher monthly payments, leaving many Americans priced out of major purchases. Still, consumer pessimism and the current economic environment haven't stopped their spending. Revolving consumer debt — including credit cards — grew 15.6% annually. As economic events unfold, it remains to be seen if this spending is a sign of confidence or of struggle.

KEY POINTS

- The **average member relationship** — the average share balance plus loan balance per member — increased **$1,386** year-over-year to **$23,575**. Credit unions deepened this relationship primarily by increasing the average loan balance, which was up $789, or 4.9%, from one year ago.
- The number of year-to-date **loan originations per member** contracted 13.3% annually to **0.21** through Sept. 30. The year-to-date dollar value of loan originations per member fell during the same period, down 2.0% to $4,485.
- **Annualized dividends per member** declined **$5** year-over-year to **$54**. However, it's up $4 since June 30 as credit unions start to raise dividend yields to attract new deposits.

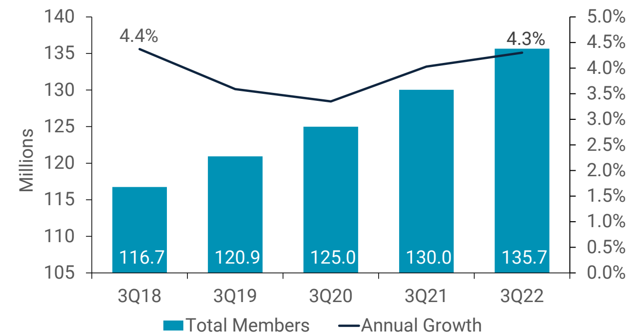
THE BOTTOM LINE

The current inflationary environment is putting pressure on members' financial wellbeing, but credit unions continue to steadfastly meet members' needs as they come. Lending might be starting to decelerate, but penetration across all four major categories was up in the third quarter as members continued to spend — although thanks to inflation, products are becoming more expensive. However, with record loan demand and decelerating share growth pushing the industry's loan-to-share ratio up 8.4 percentage points since last year to 78.3%, credit unions are quickly depleting their liquidity reserves. Going forward, cooperatives will need to consider strategies to meet the liquidity required to ensure members have access to financing. Without cooperative help, beneficial assets like homes and cars are likely to remain out of reach for many members.

MEMBERSHIP GROWTH

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES



After a brief decline, membership growth rates have risen to where they stood five years ago

PENETRATION RATES

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES

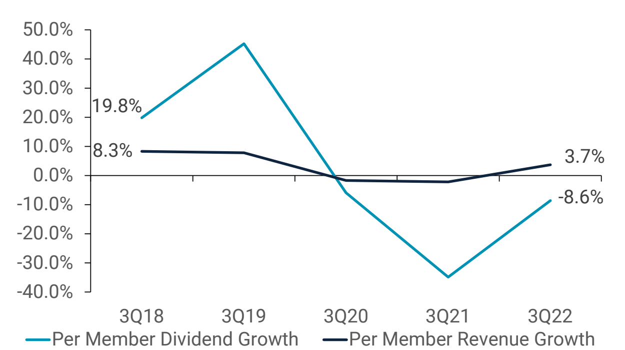
	Real Estate	Credit Card	Auto	Share Draft
3Q22	4.3%	17.9%	27.1%	61.5%
3Q21	4.0%	17.3%	23.1%	61.0%
Change	+0.3%	+0.6%	+4.0%	+0.5%

Auto penetration increased the most of all four penetration types, but this includes participations and indirect lending channels.

REVENUE AND DIVIDEND GROWTH PER MEMBER

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES



Although the annualized dividends per member decreased from 12 months ago, credit unions are giving back to members in less tangible ways, such as technology innovation and staff investment.

HUMAN CAPITAL

The job market continues to be favorable for those seeking employment. The U.S. unemployment rate fell to 3.5% in the third quarter, down 10 basis points from last quarter. The gap between open jobs and available workers remains near a 2-to-1 ratio. National compensation expenses were up 5.1% from one year ago, although this lags the rate of inflation. Looking ahead, rate increases are expected to continue, and job openings are likely to fall as business costs become more expensive and disincentivize expansion. Although labor markets remain tight and beneficial for many workers, employers are facing a more difficult economic environment and must decide how best to allocate their limited resources.

KEY POINTS

- **Full-Time Equivalent employees (FTEs)** at credit unions reached **340,704** as of Sept. 30, up 5.1% annually. This is the highest year-over-year staff increase in the past decade.
- **Loan Income per FTE** increased 5.2% year-over-year, reaching **$173,685**. Higher loan rates and asset prices helped credit unions earn more income despite a slowdown in loan originations.
- **Employee compensation** is on pace to reach $31.0 billion across U.S. credit unions through 2022, up 8.7% from 2021. This equates to $91,124 in compensation per employee, up 3.5% from last year.

THE BOTTOM LINE

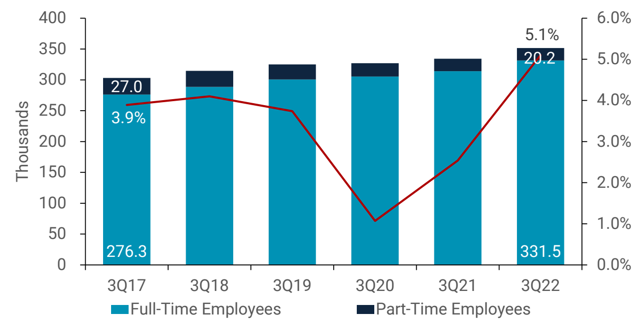
In a year highlighted by inflation and job demand, operational costs — including employee compensation and office expenses — rose at U.S. credit unions. As more members have joined the movement, managers have had to hire new staff to ensure the same level of service for new as well as long-term members. These hiring initiatives have worked. Key penetration rates such as share draft, credit card, and real estate have increased on an annual and quarterly basis. With nearly 6 million additional members compared to one year ago, credit unions must take care to balance their member-focused goals with the needs of their staff, who are likely impacted by inflation as well.

**FTE = Full-time Equivalent = 100%FT + 50%PT*

FULL-TIME AND PART-TIME EMPLOYEES

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES

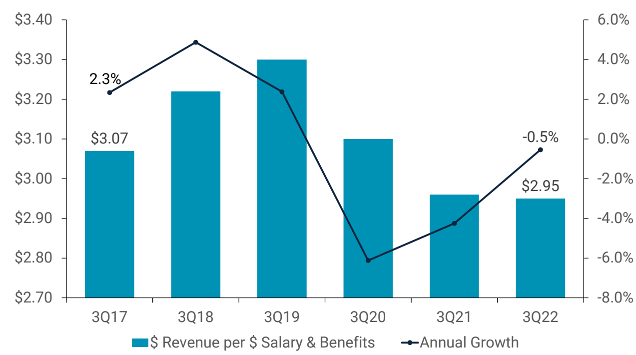


Credit unions continue to add staff, though job openings nationwide are expected to fall in the near future.

$ REVENUE PER FTE

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES

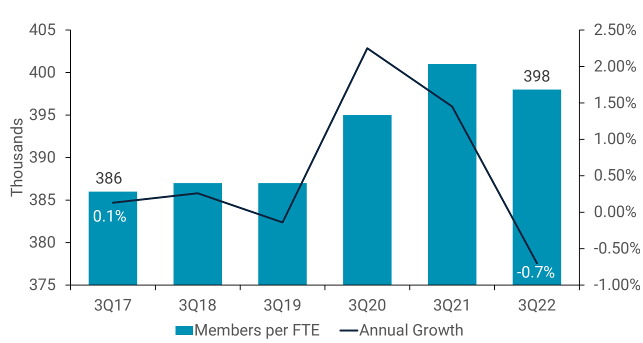


Salary & benefits expenses increased at a greater rate than revenue at cooperatives. This brought the revenue generated for every dollar spent on employees to $2.95, down from last year's $2.96 value.

MEMBERS PER FTE

FOR U.S. CREDIT UNIONS | DATA AS OF 09.30.22

SOURCE: CALLAHAN & ASSOCIATES



Credit unions hired full-time employees at a greater rate than they added new members. Now, cooperative employees handle two fewer members than last year.

PEER GROUP COMPARISONS: PERFORMANCE SCORECARD

This Performance Scorecard compares credit union performance in major metrics across seven asset-based peer groups. Callahan subscribers can build their own Performance Scorecard using asset size, state, individual credit union, and national data sets. Visit the Search & Analyze data engine at CreditUnions.com/analyze to get started.

DATA AS OF 09.30.22

ASSET-BASED PEER GROUP	All Credit Unions in the U.S.	>$10B	$1B-$10B	$500M-$1B	$250M-$500M	$100M-$250M	$50M-$100M	<$50M
Number Of Credit Unions	4,917	20	400	298	395	717	691	2,396
ANNUAL GROWTH RATES								
Shares	6.26%	7.88%	7.00%	6.10%	5.99%	5.11%	4.76%	2.81%
Loans	19.10%	22.06%	20.66%	17.68%	15.21%	13.30%	12.17%	8.88%
Capital	-8.06%	-8.92%	-7.76%	-6.96%	-9.11%	-6.07%	-1.22%	0.90%
Members	4.33%	8.44%	5.69%	2.72%	1.55%	0.39%	0.03%	-1.11%
MEMBER METRICS								
Members/Potential Members	2.99%	3.04%	3.55%	2.39%	2.33%	2.25%	1.98%	3.37%
Average Share Balance	$13,719	$13,782	$14,736	$12,967	$12,839	$12,045	$10,698	$8,632
Average Loan Balance	$16,888	$19,030	$20,951	$17,564	$12,561	$8,830	$6,510	$3,948
YOY Growth In Average Member Relationship	6.24%	4.31%	5.95%	6.92%	7.51%	7.43%	7.18%	5.96%
Share Draft Penetration	61.49%	69.67%	61.65%	59.75%	57.73%	55.42%	49.53%	35.59%
Auto Loan Penetration	27.05%	13.91%	22.84%	25.20%	38.62%	53.51%	59.92%	85.78%
Credit Card Penetration	17.85%	26.45%	16.53%	14.57%	14.11%	13.24%	11.83%	7.81%
First Mortgage Penetration	2.43%	2.20%	2.53%	2.51%	2.76%	2.73%	2.24%	1.09%
PRODUCTIVITY								
Members Per FTE	398	487	393	351	339	343	391	410
Loan & Share Accounts Per FTE	1,028	1,271	1,001	868	892	940	1058	1113
Annualized Loan Originations Per FTE	$2,380,747	$3,240,942	$2,631,270	$1,855,053	$1,563,884	$1,331,810	$1,220,087	$996,892
Annualized Loan Interest Income Per FTE	$173,756	$240,954	$179,857	$143,804	$128,550	$117,158	$111,489	$93,464
Annualized Net Income Per FTE	$54,786	$76,290	$60,798	$40,972	$36,734	$29,912	$27,484	$15,208
Revenue/Salary & Benefits Per FTE	$2.95	$3.31	$2.95	$2.71	$2.67	$2.63	$2.72	$2.50
Average Salary & Benefits Per FTE	$91,124	$104,614	$95,609	$84,766	$78,660	$73,255	$68,884	$59,467
YOY Growth In Average Sal. & Ben. Per FTE	3.50%	4.19%	2.05%	3.79%	4.63%	3.51%	3.85%	3.63%
EFFICIENCY								
Earning Assets/Total Assets	94.57%	94.47%	94.88%	93.81%	93.68%	93.88%	94.68%	96.19%
Operating Expense Per Member	$441	$401	$464	$472	$460	$434	$380	$305
Efficiency Ratio	72.31%	64.04%	71.91%	78.04%	79.65%	82.22%	83.97%	89.48%
Operating Expense/Average Assets	2.81%	2.52%	2.75%	3.21%	3.22%	3.23%	3.16%	3.09%
Revenue/Operating Expense	153.08%	177.08%	154.56%	138.97%	134.72%	129.40%	126.03%	119.00%
Revenue Per Member	$506	$533	$538	$492	$465	$422	$359	$272
Capital Per Member	$1,476	$1,494	$1,566	$1,367	$1,300	$1,306	$1,321	$1,234
Annualized Net Income Per Member	$138	$157	$155	$117	$108	$87	$70	$37
EARNINGS & CAPITAL								
Return On Assets	0.88%	0.99%	0.92%	0.79%	0.76%	0.65%	0.58%	0.38%
Capital/Net Assets	9.22%	9.19%	9.05%	9.11%	8.95%	9.58%	10.84%	12.40%
Solvency Ratio	112.30%	112.18%	112.66%	111.89%	110.84%	111.27%	112.47%	114.27%
Coverage Ratio	144.25%	136.67%	163.44%	133.99%	128.12%	115.80%	108.16%	90.31%
Delinquency Ratio	0.53%	0.81%	0.41%	0.49%	0.47%	0.52%	0.63%	0.89%
Net Charge-Offs/Average Loans	0.30%	0.60%	0.21%	0.21%	0.20%	0.20%	0.22%	0.24%

SOURCE: CALLAHAN & ASSOCIATES

THE CONSOLIDATED CREDIT UNION FINANCIAL STATEMENT

THE CONSOLIDATED CREDIT UNION FINANCIAL STATEMENT | FOR U.S. CREDIT UNIONS | THOUSANDS OF DOLLARS AS OF 09.30.22

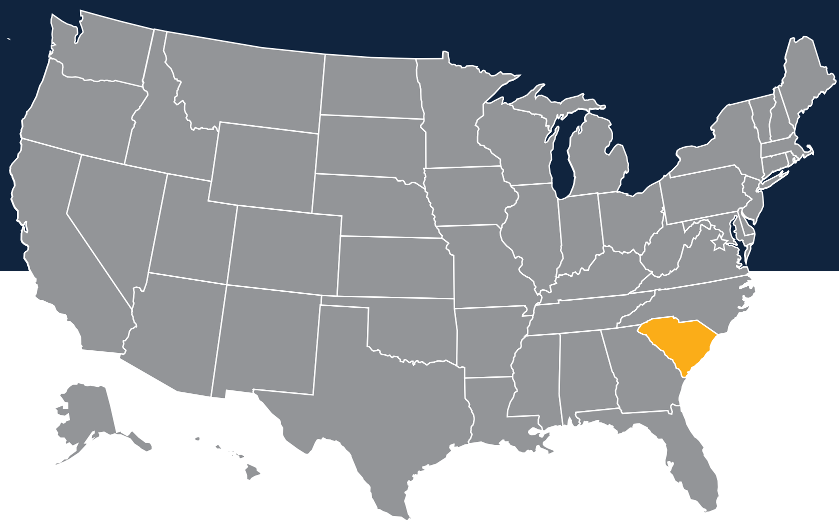
	SEP-21	SEP-22	% CHG
Assets			
Cash Balances	259,878,637	154,085,786	-40.71%
Government & Agency Securities	345,735,348	355,841,492	2.92%
Investments at Other FIs	40,441,278	51,857,854	28.23%
All Other Investments	63,931,495	45,490,196	-28.85%
Total Investments	**709,986,757**	**607,275,328**	-14.47%
Real Estate Loans	643,047,497	771,239,221	19.94%
Auto Loans	402,120,932	476,678,723	18.54%
All Other Loans	190,476,621	223,764,397	17.48%
Total Loans	**1,235,645,050**	**1,471,682,340**	19.10%
(Loan Loss Allowance)	(11,599,765)	(11,232,683)	3.16%
Repossessed Property	382,574	465,328	21.63%
Land & Buildings	29,071,037	30,205,095	3.90%
Other Fixed Assets	6,534,041	8,186,917	25.30%
All Other Assets	70,668,867	66,095,986	-6.47%
Total Assets	**2,040,688,562**	**2,172,678,310**	6.47%
Liabilities & Capital			
Dividends Payable	222,102	241,373	8.68%
Notes Payable	40,312,452	77,692,246	92.73%
Reverse Repurchase Agreements	2,218,380	737,551	-66.75%
Subordinated Debt (included in Net Worth)	568,485	3,232,288	468.58%
Other Liabilities	23,294,978	25,783,559	10.68%
Total Liabilities	**66,616,398**	**107,687,017**	61.65%
Regular Shares & Deposits	676,067,322	723,176,228	6.97%
Money Market Shares	394,448,706	418,382,375	6.07%
Share Drafts	358,961,138	393,257,069	9.55%
IRA & Keogh	84,744,950	83,787,304	-1.13%
Share Certificates	254,319,383	260,691,034	2.51%
Total Shares	**1,768,541,500**	**1,879,294,009**	6.26%
Undivided Earnings & Other Reserves	202,982,472	220,694,679	8.73%
FASB 115 Val Reserves	(2,981,055)	(41,545,005)	-1293.63%
Equity Acquired in Mergers	5,529,247	6,547,610	18.42%
Total Reserves & Undivided Earnings	**205,530,664**	**185,697,283**	-9.65%
Total Liabilities & Capital	**2,040,688,562**	**2,172,678,310**	6.47%

	9 MOS. ENDED SEP-21	9 MOS. ENDED SEP-22	% CHG
INCOME			
Loans	40,161,224	44,399,590	10.55%
(Less Rebates)	(16,996)	(18,166)	-6.88%
Investments	4,167,293	6,670,662	60.07%
Fee Income	6,682,770	7,239,365	8.33%
Trading + Other Operating	12,492,907	10,371,078	-16.98%
Total Income	**63,487,197**	**68,662,528**	8.15%
EXPENSES			
Employee Compensation & Benefits	21,413,697	23,284,606	8.74%
Travel & Conference	189,012	319,303	68.93%
Office Occupancy	2,586,641	2,734,087	5.70%
Office Operations	7,570,178	8,144,352	7.58%
Education & Promotion	1,467,442	1,713,340	16.76%
Loan Servicing	2,847,264	3,118,003	9.51%
Professional Services	3,597,573	3,992,429	10.98%
Member Insurance	20,917	21,796	4.20%
Operating Fees	161,358	152,520	-5.48%
Miscellaneous	1,163,558	1,372,179	17.93%
Operating Expense Subtotal	**41,017,640**	**44,852,615**	9.35%
Provision for Loan Losses	939,634	3,320,958	253.43%
Operating Exp. + Provision for Loan Losses	**41,957,273**	**48,173,573**	14.82%
Non-Operating Gain (Loss)	1,152,430	145,238	-87.40%
Income Before Dividends	**22,682,354**	**20,634,193**	-9.03%
Interest On Borrowed Funds	666,447	1,146,771	72.07%
Dividends	5,756,109	5,488,083	-4.66%
Net Income	**16,259,798**	**13,999,339**	-13.90%

			% CHG
Total Number Of Credit Unions	**5,097**	**4,917**	-3.53%
# FCUs	3,122	3,015	-3.43%
# SCUs – Federally Insured	1,868	1,798	-3.75%
# SCUs – Cooperatively Insured	107	104	-2.80%
Members	130,028,088	135,654,038	4.33%
Employees (FTE)	324,301	340,704	5.06%
Average Loan Balance	16,099	16,888	4.90%
Average Share Balance	13,517	13,719	1.49%

SOURCE: CALLAHAN & ASSOCIATES

STATE IN THE SPOTLIGHT



SOUTH CAROLINA

POPULATION:	**5.2 MILLION**
UNEMPLOYMENT RATE:	**3.2%**
NUMBER OF CREDIT UNIONS:	**49**
NUMBER OF BANKS:	**44**

STATE CU QUICK FACTS

DATA AS OF 09.30.22

$22,067,903,984
TOTAL ASSETS

$18,798,834,252
TOTAL SHARES

1,688,618
TOTAL MEMBERS

$14,680,181,758
TOTAL LOANS

0.45%
AVERAGE DELINQUENCY

$2,339,540,734
TOTAL CAPITAL

$841,776,817
TOTAL YTD REVENUE

3.62%
AVERAGE OPERATING EXPENSE RATIO

Loans

TOTAL LOANS OUTSTANDING for South Carolina credit unions grew 17.6% year-over-year, the highest rate reported by the state industry in decades. Balances for first mortgages and other residential real estate were up 11.2% and 25.2%, respectively, year-over-year. Auto loans expanded 19.4%, bolstered by 38.3% growth in indirect loans.

Strong lending and slowing savings rates pushed up the state's **LOAN-TO-SHARE RATIO** slightly, rising more than 6 percentage points year-over-year to 78.1%. South Carolina credit unions trail the nationwide average by 22 basis points.

Amid the increase in loan balances and the volatile macroeconomic environment, **TOTAL DELINQUENCY** increased 7 basis points year-over-year to 0.45%. The Palmetto State remains below the national average the national average of 0.53%.

Shares

The **AVERAGE SHARE BALANCE PER MEMBER** grew 5.2% year-over-year, outpacing the nationwide average of 1.5%. On a percentage basis, average share balance growth for South Carolina cooperatives has outpaced the national average for nearly five years; however, the state remains well below the national average in terms of dollar balance. The average credit union member in the state holds $10,967; the national average is $13,719.

TOTAL SHARE BALANCES were up 8.2% year-over-year in South Carolina, over 2 percentage points greater than the national average. Core deposits — drafts, regular shares, and money markets — grew 9.7%.

SHARE CERTIFICATE BALANCES in the Palmetto State decreased 4.9% year-over-year; nationwide, they increased 2.5%. The state's average cost of funds was 0.47% — that's down 5 basis points year-over-year but up 3 basis points since June.

Members

South Carolina credit unions added 30,896 **MEMBERS** in the past 12 months. The state's 1.9% member growth rate is below the national growth rate of 4.3%.

AUTO LOAN PENETRATION increased from 17.5% to 18.1% in the past 12 months. By contrast, auto penetration nationwide jumped nearly 4 percentage points to 27.1%. Although the state's indirect loan balances have grown, they comprised 26.7% of outstanding auto loans compared to 54.2% for credit unions nationally.

With average loan growth of 14.5% leading the way, the **AVERAGE MEMBER RELATIONSHIP** at South Carolina credit unions grew 9.0% year-over-year. The growth in this metric — which adds the average loan balance per member and the average share balance per member — bested the national average of 6.2%. Overall, the average member relationship in South Carolina was $19,268 in the third quarter.

Earnings

RETURN ON ASSETS continued to rebound from pandemic lows and was 1.03% in the third quarter. That's 15 basis points higher than the nationwide average. South Carolina has the sixth-highest average ROA in the United States; its 11.4% net worth ratio is the eighth-highest of any state.

The **NET INTEREST MARGIN** continued to climb, increasing 20 basis points in the past year. With an expanding loan-to-share ratio, more assets are earning 4.79% loan yield versus 0.96% investment yield.

TOTAL REVENUE at South Carolina credit unions increased 11.6% year-over-year, far outpacing the 8.2% growth nationwide. Interest income grew 16.1%, while income from fees increased 12.3%. On the expense side, operational costs grew 9.2% year-over-year.

The Bottom Line

South Carolina credit unions report healthy financials as more members increase their deposit and lending activity. Cooperatives there are making more loans per each dollar of deposits, as well as keeping loans on balance sheets, which boosts revenue, net interest margins, and ROA. All told, growing balance sheets combined with strong earnings and capitalization have credit unions in the state well-positioned to invest in members and communities.

SOURCE: CALLAHAN & ASSOCIATES DATA AS OF 09.30.22

ANATOMY OF A CREDIT UNION

CAROLINA FOOTHILLS FEDERAL CREDIT UNION

LOW INCOME, BIG OPPORTUNITY

A diverse board, $4.5 million in CDFI grants, and deep community partnerships enable Carolina Foothills to thrive in its Upstate South Carolina market.

BY E.C. HARRISON

In 1960, a group of U.S. Postal Service employees formed a credit union in a basement closet of a South Carolina post office. The credit union became Carolina Foothills Federal Credit Union ($188.5M, Spartanburg, SC) in the 1990s and expanded its presence in the Appalachian foothills with locations in Greenville and Gaffney.

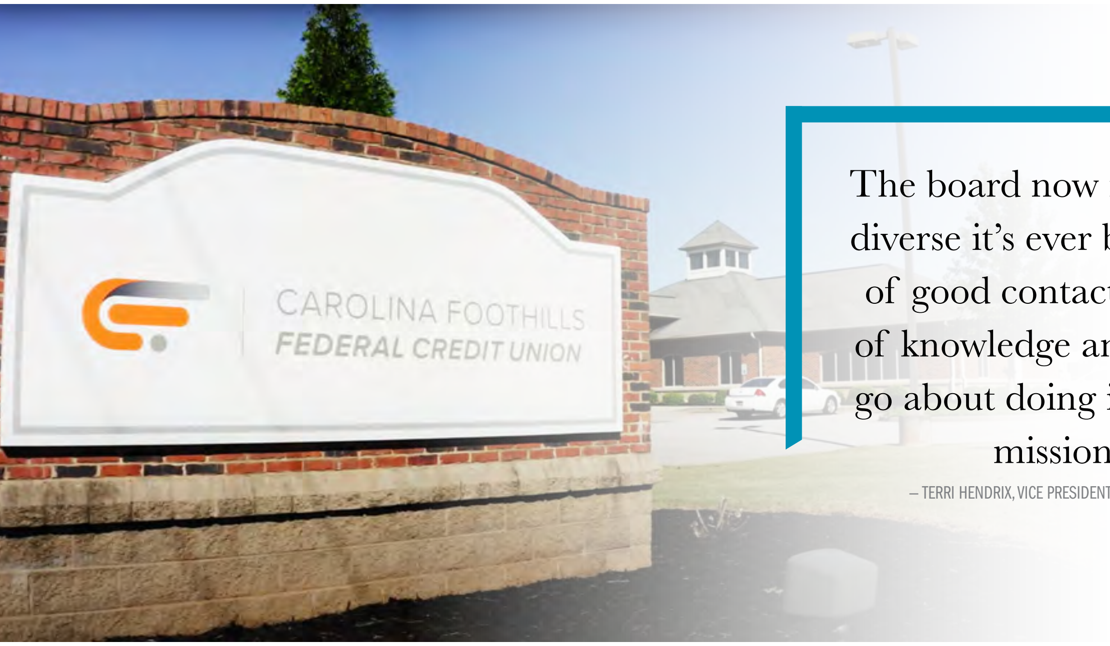
During the past decade, new businesses and people have moved to the Upstate region, which is perhaps best known for its high-tech BMW automotive plant situated on Interstate 85 between Atlanta and Charlotte. The growth has attracted nearly 30 banks and 20 credit unions, including national players JPMorgan Chase, Bank of America, and TD Bank.

"The growth has been phenomenal in the Upstate and the counties we're in," says CEO Scott Weaver. "About 20 people a day are moving to Greenville and almost as many are moving into Spartanburg every day. It's a dynamic area."

Weaver joined the credit union in 2007, replacing a CEO with 25 years of service. At the time, Carolina Foothills had $34 million in assets. Since then, the cooperative has grown nearly sixfold, and despite the increased competition, it topped $190 million in total assets in October 2022.

Surprisingly, much of the growth at Carolina Foothills didn't come from well-to-do newcomers or trendy neighborhoods. Years ago, Carolina Foothills made a conscious decision to focus on low-income families who were not benefiting from the region's upward economic trajectory.

A highly diverse board, millions in federal grant funding, financial planning services, and deep partnerships with the community have enabled the credit union to deliver services to more than 125 partner companies and 17,992 members. Its branch network helps, too. While many banks have



> The board now is probably the most diverse it's ever been. I had made lots of good contacts and gathered a lot of knowledge and data about how to go about doing it and how to live the mission of a CDFI.
>
> – TERRI HENDRIX, VICE PRESIDENT OF ENGAGEMENT, CAROLINA FOOTHILLS FCU

consolidated their footprints, Carolina Foothills has added three branches in the past decade, bringing the total to six.

"Our branch network is a little bit more extensive than most credit unions our size," Weaver says. "I guess it's an expensive way to do business, but we are a low-income designated credit union. We deal with a lot of folks who are cash-dependent. They like to come into the branch and get cash to use around town. They're also dependent upon us for financial advice."

DIVERSITY IN THE REGION. DIVERSITY IN THE BOARD.

More than a decade ago, Carolina Foothills' board of directors was like that of many other credit unions — mostly white men at retirement age or beyond. The exception was Isaac B. Dickson, the first African American elected to the board. Dickson joined the board 31 years ago and has served as chairman since 2004.

A former chairman of the South Carolina Credit Union League's Diversity Committee, Dickson was a founding member of the African-American Credit Union Coalition and instrumental in building a board at Carolina Foothills that represents the diversity of the membership — including age, race, and gender. The demographics of the region have changed, with growing communities of people with African American and Latin American heritage, and the credit union wants its board to reflect that.

Today, Carolina Foothills' board is composed of four women and three men. It includes three African Americans and one Latina member, and ages stretch from the 30s into the 60s. To ensure the credit union is connecting with the community, the board even has a principal of a local elementary school.

Of course, ensuring this kind of representation requires ongoing intent.

"It's a concerted effort to see who we can recruit to help us make sure we are serving the people we need to be serving," says Terri Hendrix, vice president of engagement at Carolina Foothills. "Sometimes we'll bring in board members through the supervisory committee. They'll serve there for a number of years, and then board members will interview them and make sure it's going to be a good fit for the board."

Hendrix joined Carolina Foothills in 2014 after the board decided to apply to become a certified Community Development Financial Institution through the U.S. Department of Treasury. Hendrix was working for SC Telco Federal Credit Union, now Spero Financial Federal Credit Union ($594.8M, Greenville, SC), where she crossed career paths with Weaver before he joined Carolina Foothills.

When Weaver took over as CEO, he asked Hendrix to move to Carolina Foothills, and the pair started talking seriously about how CDFI certification could carve out a niche for Carolina Foothills, Hendrix recalls.

"It made sense," the VP says. "The board now is probably the most diverse it's ever been. I had made lots of good contacts and gathered a lot of knowledge and data about how to go about doing it and how to live the mission of a CDFI."

TRANSFORMED LENDING THROUGH CDFI FUNDING

CDFI certification has made a major impact on the staff and lending practices at Carolina Foothills.

The funding helped train nearly half of the cooperative's 60 employees as certified financial coaches located across all of its branches.

"That's actually a job requirement," Weaver says. "Branch and collections staff have a development track, and the last step is to become certified financial coaches. When they get that certification, they're able to coach our members, help them budget, and help them improve their credit scores."

Since obtaining certification in 2015, the credit union has received more than $4.5 million in grants from the program. Four rounds of funding helped fuel loan loss reserves for mortgages, car loans, and small businesses loans that would have been turned down by most banks and credit unions.

Initially, Carolina Foothills focused on its consumer lending program, backing millions in car loans, personal loans, and consolidation loans. But Weaver said the credit union also wanted to make an impact on the area's business community.

"The second grant we had was specifically for small business lending," the CEO says. "In that grant, we had money available to hire someone to help us with small business loans."

Those loans — which Carolina Foothills calls micro loans — are anything that's $15,000 or less. According to Weaver, they typically go to startup businesses or businesses that haven't been operating long enough or have good enough financials for normal lending channels.

During the pandemic, Carolina Foothills also went above and beyond in funding loans through the U.S. Small Business Administration's Paycheck Protection Program. The credit union initially estimated it could support $500,000 in loans but ended up lending more than $2 million.

CU QUICK FACTS

CAROLINA FOOTHILLS FEDERAL CREDIT UNION
DATA AS OF 09.30.22
SPARTANBURG, SC

$188.5M
ASSETS

18,397
MEMBERS

6
BRANCHES

57
EMPLOYEES

9.82%
12-MO SHARE GROWTH

15.32%
12-MO LOAN GROWTH

1.54%
ROA

As a result, the credit union helped 132 Upstate women entrepreneurs — 92 of them women of color — keep their small businesses open during the shutdown and economic downturn. Nearly half of the 276 PPP loans went to women-owned businesses, with an average loan amount of $16,403.

FIRST-TIME HOMEBUYERS

Through its CDFI funding, Carolina Foothills also is focusing on home ownership.

"We've reached a critical point where even middle-income folks are having a hard time finding affordable homes," says Weaver, adding that high inflation and a slower economy should push down real estate prices or at least hold them steady.

Under the Carolina Foothills first-time homebuyers program, qualified borrowers can take out a 30-year mortgage with a 97% loan-to-value maximum and no requirement for private mortgage insurance. The credit union prices the loan at just 50 basis points above the market rate. Underwriting guidelines require a maximum 30% housing ratio and 45% maximum debt-to-income ratio, a minimum credit score of 600, with compensating factors, and two years of verifiable income. *(See related story, page 28.)*

Carolina Foothills partners with various local agencies to identify potential borrowers and has created an in-house financial education coaching program. According to Weaver, the credit union previously hadn't been an aggressive mortgage lender, but that has changed. Within the first year, the credit union made 20 loans to first-time homebuyers for

WHO? WHAT? WHERE? WHEN? WHY?

WHO?

South Carolina produced some of the biggest musical sensations of the 20th century. Though they may not have spent their entire lives in the Palmetto State, James Brown, Chubby Checker, Dizzy Gillespie, and Darius Rucker were all born there.

WHAT?

Agribusiness is South Carolina's No. 1 industry, making up more than a quarter-million jobs and over $46 billion in economic impact. Some of the state's largest commodities include turkey, soybeans, tobacco, and corn.

WHEN?

During the Revolutionary War, more fighting took place in South Carolina than any other state, with about 30% of all combat occurring within its borders.

WHERE?

Despite being one of the nation's smallest states in terms of land area, South Carolina has a wide variety of geographic features, including the over 70 miles of Atlantic coast, the Appalachian Mountains, the 400-foot plunge of Raven Cliff Falls , and a temperate climate.

WHY?

South Carolina made history in 1860 as the first state to secede from the Union and join the confederacy. The Civil War began the following year at Fort Sumter, near Charleston, though South Carolina was not readmitted to the Union until 1868.

SOURCES: SC DEPT. OF AGRICULTURE, SCIWAY.NET, WIKIPEDIA

$3.2 million, with 74% of the loans going to low-income borrowers.

"The first-time homebuyer loan has been very successful for us," Weaver says. "It's usually about half of our mortgage loan volume every month."

The Carolina Foothills executive team includes (from left): Terri Hendrix, vice president of engagement; CEO Scott Weaver; and Christine Cooper, executive vice president of operations.

HEALTHIER PROGRAMS, HEALHIER POLICIES, AND HEALTHIER MEMBERS

Carolina Foothills has had no foreclosures and reports a delinquency rate of just 0.12% as of Sept. 30, 2022 — lower than the national average. Christine Cooper, vice president of operations, credits the success of the lending program to the collections department.

"We have a seasoned collection manager, and she and her team really work with our members," Cooper says. "It's not like a hardcore collection company. They work with our members to find out what's going on. Did they lose a job? Can we help lower their payment or combine loans? She's probably the only collector I've seen in nearly 30 years of working in this industry that gets thank you cards from the membership."

In response to high inflation, the credit union raised the threshold for non-sufficient funds in checking accounts from a $10 overdraft to $100.

"We don't have as much fee income," Weaver says. "If our member is healthy, we're a better credit union. I would rather that we have a low fee income and folks are healthier in their checking accounts."

Checking accounts provide vital deposits for the Carolina Foothills' lending program, and in many cases, checking provides a path back into banking. In 2021, the credit union opened 274 second-chance checking accounts, called Refresh Checking. It includes a $9.99 monthly service charge — which the credit union recently lowered from $15 a month — and a direct deposit requirement; however, there is no minimum balance and identity protection is free.

"One of the reasons we've had success in growing deposits is because of our checking accounts," Weaver says. "We put an emphasis on getting the direct deposit. We've grown checking accounts more than 10% this year and double-digits almost every year that I can remember."

Although Carolina Foothills has invested in its branch network, the credit union went live in 2022 with an upgraded online banking platform, making both loan applications and account opening accessible through mobile devices. Future upgrades will allow electronic loan disbursements, so members can complete the whole process of taking out a loan without visiting a branch.

Another planned upgrade will send members a notice 23 hours in advance of an overdraft. This will give members time to re-order the way checks and ACH transactions post to their account and make a deposit by PayPal, Venmo, credit card, or account transfer to cover the payments.

"Eventually, they will be able to get a micro loan, which would be a 60-second decision to fund the account," Cooper says.

That would allow members to avoid fees from the credit union as well as fees from the party that is set to receive the payment.

Weaver says Carolina Foothills might not be able to keep pace with large competitors, but technology is an important tool for growth. However, it's not the only tool.

"Technology is a double-edged sword," Weaver says. "Sometimes, the more technology you introduce, the less you know your members. It's probably more expensive, but we try to be available to our members in the ways they want to do business with us. We want to be relevant to our membership."

Under the credit union's business model, the branch network enables front-line employees and financial coaches to have conversations with members about their needs. In fact, Carolina Foothills has a bilingual employee in every branch to assist Spanish-speaking members, a fast-growing segment of the membership.

"Looking ahead for us is to just keep doing what we're doing and try to serve our member the best we can," Weaver says. "We don't like to turn people down."

INCLUSIVE LENDING FOR FIRST-TIME HOMEBUYERS TURNS DREAMS INTO REALITY

A program at Carolina Foothills FCU targets low-income borrowers with flexible underwriting practices, financial education, and partnerships with public, private, and nonprofit groups.

BY E.C. HARRISON

With housing prices hitting double-digit growth in recent years, the dream of home ownership is harder than ever for first-time homebuyers to achieve in Upstate South Carolina.

CHIANNON PAULEY
MARKETING STRATEGIST, CAROLINA FOOTHILLS FEDERAL CREDIT UNION

To give low-income borrowers and people of color a chance of owning their first home, Carolina Foothills Federal Credit Union ($188.5M, Spartanburg, SC), launched its Financial Inclusion Mortgage for First-Time Homebuyers program in 2019. The initiative offers flexible underwriting practices, financial education, and partnerships with public, private, and nonprofit groups.

"This is a program with special offers and incentives designed to help borrowers stop dreaming and start living in their own homes," says Chiannon Pauley, marketing strategist at CFFCU. "The program provides reasonable requirements for approval, and financial literacy is required to help the member understand the mortgage process, what to expect, how to plan for expenses, how to find a contractor, and more."

FLEXIBLE UNDERWRITING PRACTICES

First-time homebuyers can qualify for a 30-year term with a 97% loan-to-value maximum. What's more, the credit union does not require private mortgage insurance. With a down payment of as little as 3%, borrowers can get an interest rate priced at just 50 basis points above the market rate. Underwriting guidelines require a maximum 30% housing ratio and 45% maximum debt-to-income ratio, a minimum credit score of 600 with compensating factors, and two years of verifiable income.

Borrowers are allowed to count gifted money and down payment assistance toward income. And when evaluating credit, loan officers can take into account 12 months of rental history from landlords; two to 12 months of satisfactorily paid utility bills; renters, auto, or life insurance premiums paid satisfactorily; and receipts for childcare, school tuition, or medical bills.

"We also allow completed financial homeownership instruction to mitigate less-than-stellar credit history," Pauley says. "We have a flat-fee origination and lower closing costs than most other financial institutions."

SECRETS TO SUCCESS

CFFCU, which serves nearly 18,000 members across six branches, has been focusing on low-to-moderate income borrowers for years. But the credit union began ramping up its efforts in 2015 when it became a certified Community Development Financial Institution (CDFI) and began

Carolina Foothills FCU staffers take part in a Habitat For Humanity home-building event.

> "While we might not be able to approve every application we receive, we use a 'not yet' approach to those who are not quite ready"
> – CHIANNON PAULEY, MARKETING STRATEGIST, CAROLINA FOOTHILLS FEDERAL CREDIT UNION

applying for, and receiving, grants for loan loss and capital from the CDFI Fund.

According to Pauley, this gave CFFCU more latitude to lend deeper into the community without fearing regulators clamp-down.

"To date, we do not have any delinquency or charge-offs for first-time homeowners' mortgages," the marketing strategist says.

Financial education is a key part of the credit union's success. In addition to a required class on homeownership, the staff provides coaching and an in-house designed workbook that walks borrowers through the process and allows them to take notes as well as store receipts and paperwork. The workbook serves as a useful reference guide after the purchase.

The credit union also works with several partners – such as the Federal Home Loan Bank of Atlanta, Northside Development Corporation, and the City of Spartanburg – that provide crucial down payment assistance.

From April 2020 to April 2021, the credit union made 20 loans to first-time homebuyers for $3.2 million, with an average loan amount of $160,593. Approximately one-third of these members received a total of $34,917 in down payment assistance from the credit union's partners, for an average of $5,819 per loan.

At CFFCU, low-income borrowers account for approximately 74% of the credit union's home loans. At other local financial institutions, that number is closer to 25%.

"NOT YET" INSTEAD OF "NO"

In today's housing market of soaring prices and short supply, it can be difficult for would-be homeowners to find the right home, at the right price point, in the right location.

"While we might not be able to approve every application we receive, we use a 'not yet' approach to those who are not quite ready," Pauley says. "We refer these members to one of the certified financial coaches we have on staff."

The coaches begin working with those members to help them make lifelong habitual changes that will improve their economic mobility and help them achieve an approval on their next application.

HABITAT FOR HUMANITY — AND BEYOND

CFFCU also works closely with local Habitat for Humanity organizations, providing some loans to Greenville Habitat for Humanity and helping some families in the program clean up their credit.

In 2022, Carolina Foothills purchased lots in a Spartanburg neighborhood and invited members to apply for a new program focused on building affordable homes. So far, three families are in the program and the credit union soon hopes to break ground and complete the first homes in 2023.

Weaver says the lack of affordable housing in the area is frustrating because investors are snatching up inventories for cash, making it difficult for first-time homebuyers to close on a property.

"We felt like the only way to do this would be to take care of all facets of it," Weaver says.

SUPPORTING SMALL BUSINESS ONE MICRO LOAN AT A TIME

Thanks to a boost from its participation in the Paycheck Protection Program, Carolina Foothills FCU is adding to the economic book in South Carolina's Upstate region.

BY E.C. HARRISON

Through the first nine months of 2022, Spartanburg County, SC, witnessed nearly $1.6 billion in new commercial investment and the creation of 1,700 jobs — part of an economic boom that has been expanding for years.

Accompanying that growth are the dreams of hundreds of small proprietors and new businesses, from restaurants to landscaping services. But most of these small businesses don't have the access to traditional sources of capital. According to Scott Whelchel, micro lending officer at Carolina Foothills Federal Credit Union ($188.5M, Spartanburg, SC), the sources of funding are usually fintech or high-risk/high-rate lenders.

"We are actively fighting against the status quo — challenging the member, and ourselves, to do something different, to trust, to learn, and to do whatever it takes," says Whelchel, who joined the credit union in 2018.

In 2021, the credit union made 249 small business loans and is on track for another banner year in 2022. CFFCU created its micro lending program, as well as Whelchel's role, with funding from a grant through the Community Development Financial Institution Fund, provided by the U.S. Department of Treasury. Micro loans range from $1,000 to $15,000.

"Typically our micro loans are in the $5,000 to $15,000 range and go to finance business equipment, sometimes upfit or furniture for a first location, sometimes a vehicle, sometimes marketing or start-up costs such as insurance or lease deposits," Whelchel says. "Typically, we have some type of collateral in place, and we are able to work with a term of 24 to 48 months."

The Hub City Farmer's Market received a $2,500 micro loan from CFFCU.

Most new business, however, doesn't just walk through the door. The program did get a big boost through the credit union's participation in the Paycheck Protection Program during the pandemic. Many borrowers also learn about Carolina Foothills through word of mouth and organizations with whom the credit union partners, including women's business centers, SCORE mentors, small business development centers, city and county initiatives, and chambers of commerce — entities working to build capacity through education, training, and mentoring, which studies have shown improve success, Whelchel says.

"We like to participate with them through training sessions, usually on financial or funding topics, and then come along to offer a potential funding option following completion of the program," the micro lending officer says. "Most traditional FIs aren't excited about lending to businesses without several years of history, so when you start working with some of these folks, the word gets around."

Carolina Foothills also supports minority-owned businesses, including those that have emerged through Amplify, the city of Spartanburg's African American Business Accelerator program. Recently, the credit union helped a graduate of the program who operates a transportation service that specializes in taking children to and from school, afterschool activities, and other appointments.

"She had purchased a passenger van but had to finance it at a car dealership at a 14% interest rate," Whelchel says. "Her primary FI would not finance it because it was a commercial vehicle, but Carolina Foothills refinanced it at a much lower rate. Our goal is to find the folks who already have a product or service and need a little capital to scale it up to profitability."

Carolina Foothill's CEO, Scott Weaver, notes that most startup businesses fail, but the credit union's micro loan program has been successful because of the amount of work lenders pour into each loan.

"That segment of our business lending is very relational," Weaver says. "It's a long process with a lot of coaching and a lot of helping them prepare for success. It has led to a lot of successful loans — we have a low default ratio on those micro loans."

BY THE NUMBERS
CAROLINA FOOTHILLS CREDIT UNION

Nine figures offer a wide view of how Carolina Foothills makes an impact and boosts its bottom line.

BY E.C. HARRISON

$125.4M

Carolina Foothills held more than $125 million in loans at the close of the third quarter, fueled by car loans, commercial loans, and mortgages.

3

Families to receive loans for new houses Carolina Foothills is building to provide more affordable housing options on lots it purchased in a Spartanburg neighborhood.

4.9

The average Google review star rating for Carolina Foothills' six branches. The branches also have 200 reviews, on average, for each location. The high rating and numerous reviews are the result of the credit union's online reputation management program.

$4.5M+

Total amount of grant money Carolina Foothills has received from the Community Development Financial Institution Fund since 2015. The money has supported lending, financial education, and first-time mortgage programs.

$164M

Shares at the Palmetto State cooperative have climbed steadily to nearly $164 million. Checking and savings accounts — primarily from low-income members — have fueled growth.

182

Hours of financial literacy training provided by the credit union and its team of certified financial coaches.

249

The number of small business loans closed in 2021. These loans include micro loans, which typically range from $5,000 to $15,000 and support new or startup businesses.

274

Number of second-chance checking accounts opened in 2021 at Carolina Foothills. The account includes a $9.00 monthly service charge and requires a direct deposit; however, it has no other fees and no minimum balance.

$100,000+

Amount saved so far through My First Budget, a program that accepts deposits from elementary school children at four area schools.

4 TIPS TO HELP SMALL CREDIT UNIONS COMPETE

From reputation management to ingraining the executive team in the community and more, here's how Carolina Foothills is making itself stand out.

BY E.C. HARRISON

More than 50 banks and credit unions do business in the Upstate region of South Carolina; several even have headquarters there. Most of school ballfields and scoreboards within the three counties around Greenville and Spartanburg are plastered with advertising from financial institutions. It's a hotbed of competition for Carolina Foothills Federal Credit Union ($188.5M, Spartanburg, SC).

"There's a lot of messaging out there — that's how they get new members," says Terri Hendrix, vice president of engagement at Carolina Foothills. "For us, it's a grassroots effort. It's not radio; it's not TV. It's being there with the members of the community and trying to make it better."

The Palmetto State cooperative has reported double-digit asset growth in recent years and reached $190 million in assets in 2022. So, how does this small credit union grow in such a saturated market? These four tips are a solid start.

1. HAVE CLEAR MESSAGING THAT ARTICULATES THE CREDIT UNION MISSION.

Carolina Foothills recently modernized its logo and added a new tagline for members and prospects: "Helping to move members forward through the power of cooperatives."

Chiannon Pauley, marketing manager at Carolina Foothills, says the messaging is aimed at people who are unhappy with their banks.

"People are growing increasingly tired of standard banking," Pauley says. "It's pretty easy to stand out when your mission is to help people rather than just make as much money as possible."

2. ACTIVELY MANAGE THE CREDIT UNION'S ONLINE REPUTATION.

With so many newcomers moving into the area – an average of 20 people per day, according to the Greenville Chamber of Commerce – many people choose their financial institution by Googling "find nearest bank."

That's why Pauley, who moved to the area in 2017 to lead marketing at Carolina Foothills, immediately focused on the credit union's online customer rating. Today, all new members and borrowers receive a text message with a link to Google reviews for the appropriate branch. The credit union also offers incentives for each positive review employees receive.

SCOTT WEAVER
CEO,
CAROLINA FOOTHILLS
FEDERAL CREDIT UNION

As a result, the credit union's six branches have an average rating of 4.9 out of 5 stars and an average of 200 reviews for each location. By comparison, the average rating of six nearby Bank of America locations is 2.4, with an average of only 26 reviews per location.

"We ask and make the process to leave a review frictionless," Pauley says. "The banks have not put a strong emphasis on their online reputation."

Although most of Carolina Foothills' new members come from referrals, 17% find the credit union online.

3. MAKE THE MANAGEMENT TEAM THE TIP OF THE SPEAR IN THE COMMUNITY.

CEO Scott Weaver says he and the members of the senior team spend a lot of time at meetings for local government, economic development groups, and other support agencies to promote Carolina Foothills and make connections in the community. Such civic involvement has helped the credit union become a key player for organizations that support small businesses, affordable housing, and commercial lending.

"Once we establish those relationships, we do the warm handoff to the experts in the department," Weaver says.

4. INSTILL AN ENTREPRENEURIAL SPIRIT WITHIN THE ORGANIZATION.

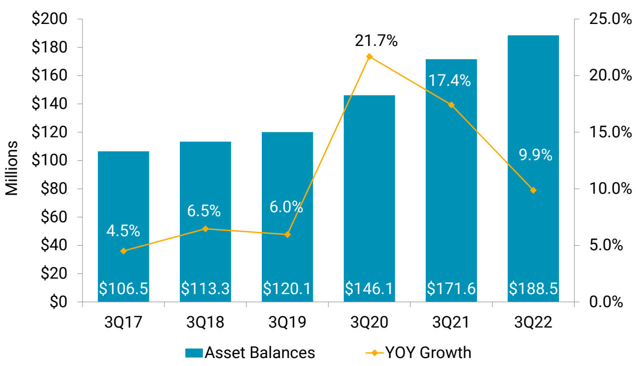
The credit union has a three-member senior leadership team, and a team of managers oversee branches, lending, finance, and other functions. Weaver says he's not afraid to restructure roles to find the best fit for individuals.

"Any successful leader — whether it's a leader of the organization, a department, or a branch — has to have an entrepreneurial spirit," Weaver says. "You have to have a mindset that this is not a job, this is your organization. You want to take ownership in the things that make the biggest difference."

ASSET GROWTH

FOR CAROLINA FOOTHILLS FEDERAL CREDIT UNION | DATA AS OF 09.30.22

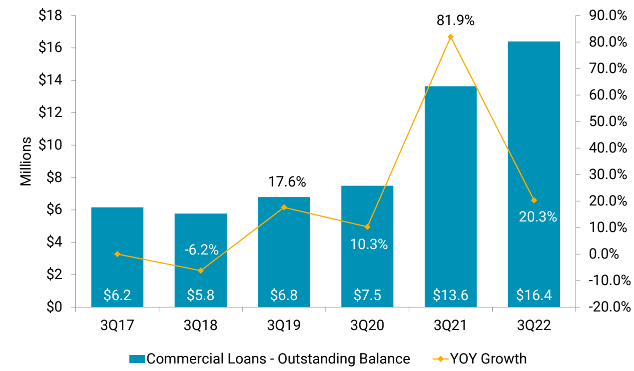
Assets at Carolina Foothills have risen steadily in recent years even as year-over-year growth has fluctuated.



COMMERCIAL LOAN GROWTH

FOR CAROLINA FOOTHILLS FEDERAL CREDIT UNION | DATA AS OF 09.30.22

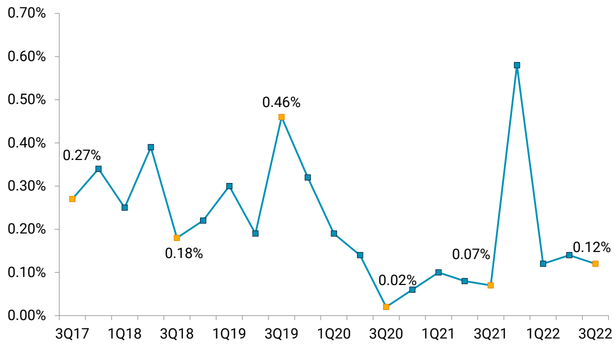
Commercial lending at Carolina Foothills has risen substantially in recent years, thanks in part to participation in the Paycheck Protection Program.



DELINQUENCY RATIO

FOR CAROLINA FOOTHILLS FEDERAL CREDIT UNION | DATA AS OF 09.30.22

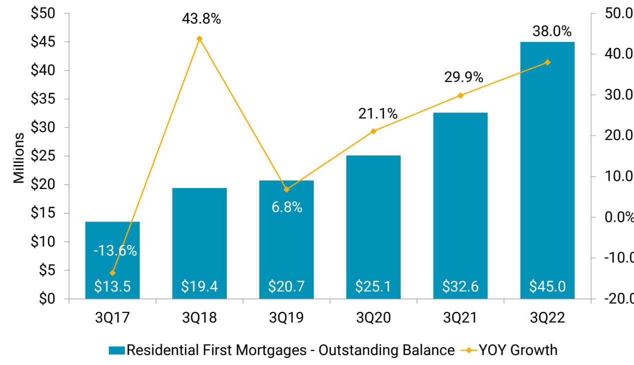
Despite a few spikes, delinquencies at Carolina Foothills remain low and have generally been on a downward trend in recent years.



FIRST MORTGAGE BALANCES AND GROWTH

FOR CAROLINA FOOTHILLS FEDERAL CREDIT UNION | DATA AS OF 09.30.22

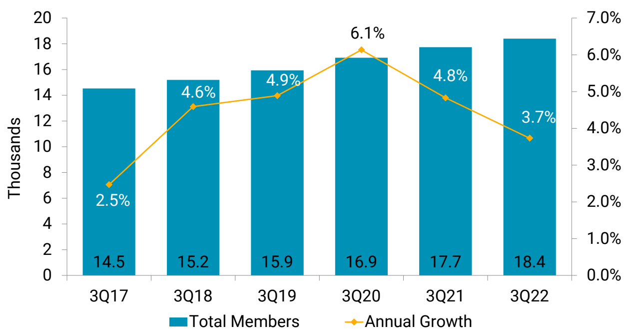
First mortgages at Carolina Foothills have risen steadily in recent years, helped in part by the credit union's efforts to make homeownership achievable for everyone.



MEMBERSHIP GROWTH

FOR CAROLINA FOOTHILLS FEDERAL CREDIT UNION | DATA AS OF 09.30.22

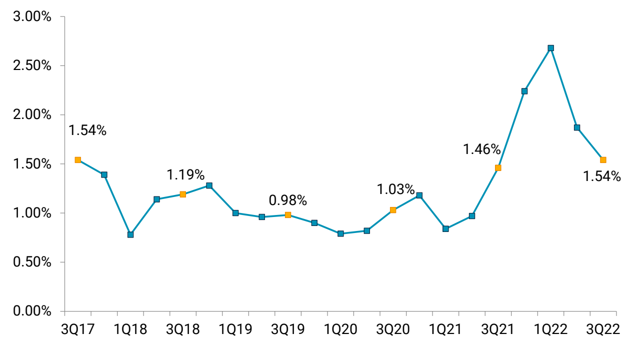
Carolina Foothills has seen continued membership growth thanks to both intense community involvement and strong population growth in the region.



ROA

FOR CAROLINA FOOTHILLS FEDERAL CREDIT UNION | DATA AS OF 09.30.22

ROA at Carolina Foothills has seen a few bumps but remained relatively steady for the last several years.



SOURCE: CALLAHAN & ASSOCIATES

MY FIRST BUDGET – IN FIFTH GRADE!

A student branching program for elementary schoolers is so successful that some are pushing to expand it into middle school.

BY E.C. HARRISON

TERRI HENDRIX
VICE PRESIDENT OF ENGAGEMENT, CAROLINA FOOTHILLS FEDERAL CREDIT UNION

One of the common concerns of lenders and financial planners alike is that school kids today never learn how to balance a budget. Consequently, they make poor financial decisions as adults.

Many credit unions offer financial education programs to high school students, but Carolina Foothills Federal Credit Union ($188.5M, Spartanburg, SC) is starting even younger.

"Not a whole lot of credit unions want to spend a lot of time on elementary school children," says Terri Hendrix, vice president of engagement at Carolina Foothills. "In our area, we have a lot of generational poverty, a lot of Title I schools that we felt we could have an impact on and make a difference."

Title I schools in South Carolina receive special funding and services because most students are living at or below the poverty line. Those services now include CFFCU's My First Budget program, which offers "branches" at four area schools.

The credit union has outfitted a special cart with a tablecloth and envelops co-branded with the school colors. Older students accept deposits, and one day a week, a Carolina Foothills representative stops by each school to pick up the deposits and transport them to the local branch.

"We have a student manager who wears a little manager badge and a couple of tellers," Hendrix says. "They get to act as if they are credit union professionals on the morning that we do deposits."

The program – which was inspired by the team at Alternatives Federal Credit Union ($167.4M, Ithaca, NY) and received a financial education award from CUNA in 2019 – has accepted more than $100,000 in student savings in slightly more than four years. That's money savers can use for college or other purchases after they turn 18. The program has been so popular, some parents are lobbying to keep it going through middle school.

> "Not a whole lot of credit unions want to spend a lot of time on elementary school children. In our area, we have a lot of generational poverty, a lot of Title I schools that we felt we could have an impact on and make a difference."
>
> – TERRI HENDRIX, VP OF ENGAGEMENT, CAROLINA FOOTHILLS FCU

My First Budget also includes a simulation for fifth- and sixth-graders wherein students receive a monthly budget of paper money and then have to walk around to various booths to pay bills and watch their money disappear.

"They ask questions like, 'Why do I have to pay for electricity?'" Hendrix says.

The credit union also sponsors a high-school version of the simulation called The Reality of Money. It reminds high schoolers of the realities of choosing a career, raising a family, buying a car, and paying down student debt – all while trying to live on a budget.

"It leaves them with one thing: They should be thankful to their parents or grandparents, whoever they're living with, for providing a lot of the luxury items that they have and need," Hendrix says.

WITH GRATITUDE

Callahan & Associates thanks the following individuals for their time and insights for this "Anatomy Of A Credit Union" feature. These senior leaders and the team at Carolina Foothills Federal Credit Union embody the credit union spirit of people helping people, and they're committed to helping the people of Upstate South Carolina move forward. We hope readers will find value and take inspiration from Carolina Foothills' accomplishments.

SCOTT WEAVER
CEO

CHRISTINE COOPER
VICE PRESIDENT OF OPERATIONS

TERRI HENDRIX
VICE PRESIDENT OF ENGAGEMENT

ISAAC DICKSON
CHAIRMAN, BOARD OF DIRECTORS

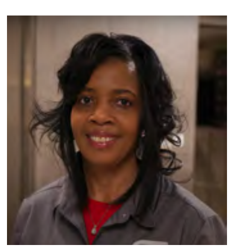
ALEEN DANIELS
HEAD OF COLLECTIONS

CANDY FRANKLIN
RISK AND FACILITIES MANAGER

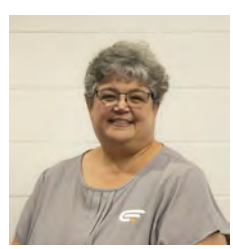
AMY GAO
DIRECTOR OF FINANCE

LEE HARRIS
DIRECTOR OF HUMAN RESOURCES

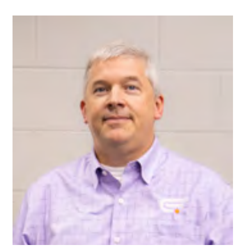
CHIANNON PAULEY
MARKETING STRATEGIST



TELETA STEVENSON
DIRECTOR OF LENDING



LISA VANDYS
COMPLIANCE OFFICER

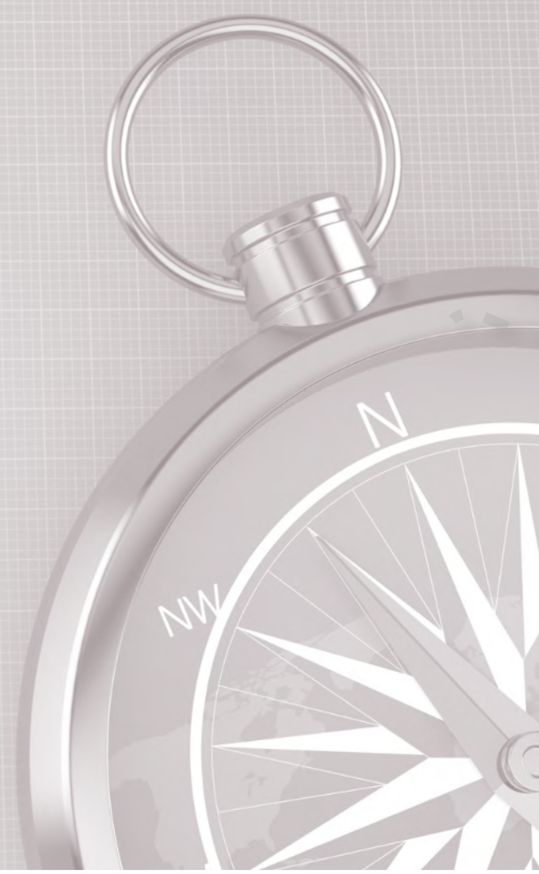


SCOTT WHELCHEL
MICRO-BUSINESS LENDER

YOUR GUIDE TO EMBRACING IMPACT

From simple steps for getting started to strategies for embracing DEI, mentorship, and more, here's how credit unions across the country are turning good intentions into action.

BY AARON PASSMAN



As credit unions of all sizes embrace the concept of leading with purpose and measuring impact, Callahan & Associates continues to showcase how institutions across the country are standing out and making a difference.

With that in mind, this edition of Strategy Lab highlights stories featured on CreditUnions.com throughout 2022 that can help your organization identify opportunities, determine new strategies for impact, and do well while doing good.

THREE STEPS TO GET STARTED

Unsure of where and how to start on your institution's impact journey? All it takes is three simple steps: reframing your mindset, identifying community needs in order to maximize impact, and finding partners who can support you (and vice versa) along the way.

"Just as no two credit unions are exactly alike, no two impact strategies will be alike," says Phylicia Atkins, Callahan's learning & instructional design manager. "There are countless ways your institution can make a difference — the important thing is to just get started. As the old saying goes, 'there's only one way to eat an elephant — one bite at a time!'"

Scan the QR code to learn more.

EMBRACING DEI

Diversity, equity, and inclusion have been among the biggest buzzwords in the credit union movement and nearly every other industry in recent years, but many shops have struggled to turn good intentions into action. Thankfully, a handful of institutions have been more than willing to share their own DEI road maps.

- For Affinity Plus FCU ($3.9B, St. Paul, MN), that process started with simply listening in order to understand what those concepts meant for everyone involved – from board members to staff, members and the wider community – and then working to ensure policies, processes, and procedures reflected those values. And credit union leaders acknowledge that in some instances there have been missteps, but the important thing is to keep moving forward.
- At TDECU ($4.7B, Lake Jackson, TX), the goal is to make DEI part of every business decision. In late 2021, the cooperative hired a director to ensure its DEI efforts are continually moving forward and that staff and board members remain committed to the process.
- "No one person can own this; it needs to be a shared responsibility," says Heather McKissick, executive vice president of community impact, communications, and marketing at University FCU ($3.9B, Austin, TX). As such, she partners with HR as dual executive sponsors for DEI at the credit union and within the community. UFCU began its DEI journey in earnest in 2020, and leadership established a 12-step plan with a list of tactical steps for the first 18 months, all while working alongside a consultant and bringing together a DEI council to focus on broader, more strategic goals.

HELP A COLLEAGUE, HELP YOURSELF

Of course, making an impact doesn't have to extend all the way to members and the community at large – in some cases, credit union professionals are choosing to make an impact on those working within the movement. That's the idea behind the 1-to-1 Women Mentoring Program, which pairs young African American women professionals with more seasoned mentors for an experience that touches the lives of both participants.

For the mentorship experience to meet its full potential, however, it's crucial that participants on both sides of the experience are clear on what they're getting into. That means understanding the experiences of those you're working with, as well as recognizing that biases exist, and that steps need to be taken to overcome them.

HOW SC FEDERAL GETS CHARITABLE

Many credit unions have their own foundations, but South Carolina FCU ($2.6B, North Charleston, SC) has succeeded by working to ensure credit union staff are actively engaged with the foundation. That includes the creation of charity liaisons, a group of credit union employees tasked with staying on top of charity partners' needs and advocating for the nonprofit with their coworkers. Those staffers also communicate about those organizations on employee social media pages by publicizing upcoming events, recruiting other employees to volunteer with the organization, and more.

EDUCATE YOUR WAY TO LOWER DELINQUENCIES

One of the biggest ways credit unions can positively impact their members is by helping improve money-management skills. For many consumers, that means helping ensure loan payments are made on time and that loans don't become delinquent.

Data from the National Credit Union Administration shows that credit unions offering one or more financial education options report lower total loan delinquency rates than their peers that do not, with recent data showing a gap as wide as 21 basis points. And those educational offerings can range from financial counseling to financial literacy education, first-time homebuyer education, and beyond. It's a relatively easy way for credit unions of any size to make a big difference.

GOING THE EXTRA MILE FOR MILITARY MEMBERS

Credit unions across the country place a high emphasis on serving the military and first responders, but AmeriCU ($2.7B, Rome, NY) goes the extra mile. The cooperative's Enhanced Military Benefits program not only provides early access to direct deposits and ATM fee rebates, but also pre-approvals on multiple loan products, fraud alerts, discounts, and more. However, the program goes well beyond banking by sending its team from Fort Drum to attend middle-of-the-night homecomings for troops returning from deployment, and assists the families of active-duty service members by acting as a support system during deployments.

While AmeriCU was originally chartered to serve military members, its field of membership has since broadened to the entire community. Maintaining this focus on those who serve is a sign that credit unions of all stripes can find unique ways to serve that market even if they don't directly have ties to the military.

MICHAEL POULOS EXIT INTERVIEW

After three decades of building positive impact on members' lives, the CEO leaves his cooperative in trusted hands.

BY MARC RAPPORT

MICHAEL POULOS
RETIRED PRESIDENT AND CEO, MICHIGAN FIRST CREDIT UNION

Exit Interview is a series from CreditUnions.com that shares the insight and experience of credit union executives who are retiring after many years of service to the movement.

More than 30 years ago, when credit unions were a dramatically different industry, Michael Poulos was working as an account supervisor at a post office in Syracuse, NY. One day, his boss asked him to manage their credit union.

"I said, 'What's a credit union? What do I have to do?" Poulos recalls. "It was six doors down the hall, but I'd never been in there."

At the time, Poulos was told his role would consist mainly of signing checks and going to the quarterly dinner. Eighteen months into the role, Poulos says he realized running a credit union gave him the opportunity to improve people's lives.

So, he moved on to take the CEO job at what was then Utica Teachers Credit Union — now First Source FCU ($866.7M, New Hartford, NY). After eight years it was off to Michigan First Credit Union ($1.5B, Lathrup Village, MI) where Poulos recently retired after 22 years at the helm of the suburban Detroit cooperative.

Poulos took time during his last day on the job — Oct. 14, 2022 — to reflect on his career and offer insights gleaned from decades in the industry.

DESCRIBE YOUR CAREER PATH TO CEO. HOW DO YOU FEEL TODAY?

Michael Poulos: Well, that's all I've been since I've been in the credit union business. Especially at smaller credit unions, you have to know how to do everything, so I learned a lot along the way. It's a bittersweet day for me, but, honestly, it's been a delightful journey.

WHAT ARE SOME OF YOUR PROUDEST ACCOMPLISHMENTS?

MP: First, the culture we built here. There was a time when our member service culture wasn't that strong, but we rebuilt everything. Our highest value at Michigan First is that we're human beings serving fellow human beings. We have an organization that has been transformed to believe that and practice that, and that's what I'm most proud of here.

WHAT ONE THING DID YOU DO MOST RIGHT DURING YOUR CEO TENURE?

MP: Hiring the right people. If I could package how to do that into a neat and easy formula, I'd be on to something. I can tell you

CU QUICK FACTS

MICHIGAN FIRST CREDIT UNION
DATA AS OF 09.30.22
LATHRUP VILLAGE, MI

$1.5B
ASSETS

187,923
MEMBERS

29
BRANCHES

-6.84%
12-MO SHARE GROWTH

18.71%
12-MO LOAN GROWTH

1.03%
ROA

> We built something that makes a difference in people's lives, that has an impact, and we have a team that has the desire to carry that on. It doesn't get better than that.
>
> – MICHAEL POULOS, RETIRED PRESIDENT/CEO, MICHIGAN FIRST CREDIT UNION

it begins with being clear about your values and finding people who align with those values. It's much like the guy who wrote "Good to Great" explains: You find the people with the right values and the right skill sets, and you don't have to do a lot of training.

WHAT ONE THING MIGHT YOU HAVE DONE WRONG? WHAT DID YOU LEARN FROM IT?

MP: I'd say those moments in time when I was less patient than I should have been while we were going through transformational change. When you believe something, when you know it so well in your own mind, it's easy to expect others will embrace it immediately, too. There were some frustrating moments where things didn't move as fast as I would have liked.

HOW HAS THE INDUSTRY CHANGED DURING YOUR TENURE? HOW HAS YOUR CREDIT UNION RESPONDED?

MP: There were about 24,000 credit unions in America when I started. Now there's, what, about 5,000? There's long been a divide between those who are willing to compete, innovate, and expand and those who aren't, and it just keeps getting wider as our numbers become fewer.

At Michigan First, we've been on the right side of the divide for a long time, doing things that other credit unions weren't doing then and a lot of things that most still aren't doing now. For example, our ATMs have accepted cash and checks directly, without deposit envelopes, since 2004. And all our ATMs are stocked with $1, $5, $20, and $50 bills.

There's more that sets us apart. We have a 24-hour call center at our main building. We never close. You can get a check notarized or a new debit card there anytime. There are eight ATMs and two coin machines there. The coin machines have always allowed you to deposit the cash directly into your account, without messing with a paper receipt. Those are just a few things that help create an impactful member experience.

WHAT IS THE BIGGEST LESSON YOU WOULD LIKE TO SHARE WITH OTHER CREDIT UNION EXECUTIVES WHO FIND THEMSELVES MOVING INTO THE CEO ROLE?

MP: Your relationship with your board members is probably the most important relationship of all. They have to be aligned with your vision, and it's really important they support you. I've been blessed and fortunate to have board members that have done that for my entire 22 years here.

WHAT ARE YOUR PLANS NOW?

MP: My wife and I are moving to Lynchburg, VA. That's where she grew up, and she still has a lot of family there. We have three grown children — in California, Pennsylvania, and Michigan — and my wife has three grown children in Virginia. Between us, we have seven grandchildren. Being a credit union CEO means you're never off the job. Now I'm looking forward to a little peace and quiet, at least for a while.

FOR WHAT WOULD YOU LIKE TO BE REMEMBERED?

MP: We've built an extraordinarily talented and committed leadership team that is both broad and deep. Our new CEO is Jennifer Borowy, whom we brought up from Ohio about four years ago. She was our chief member experience officer and then our COO and I know she's going to be outstanding in her new role.

We've built a culture that's focused on member service. We built something that makes a difference in people's lives, that has an impact, and we have a team that has the desire to carry that on. It doesn't get better than that..

This interview has been edited and condensed.