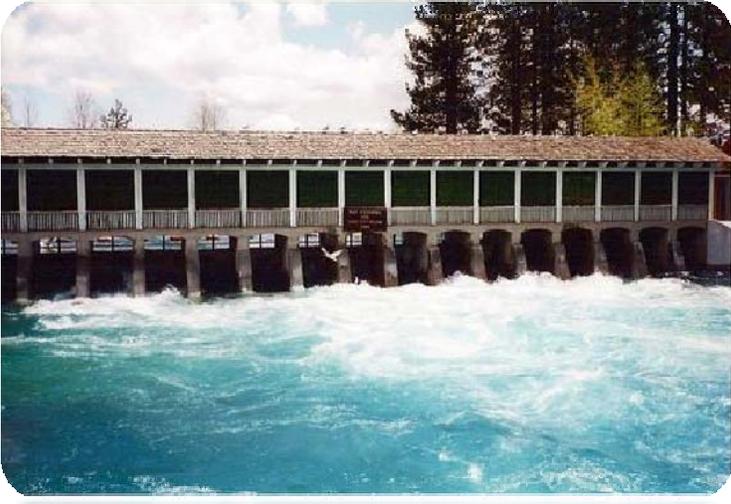


Michigan Credit Union League & Affiliates
Annual Convention and Exposition
Helping Credit Unions Serve, Grow and Remain Strong #mculoce

**Member-Friendly
Noninterest Income**
June 5, 2014 | 10:30 a.m. – 11:30 a.m.
Ben Rogers | Filene Research Institute

 www.mcul.org  www.uniteforgood.org



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Noninterest income?



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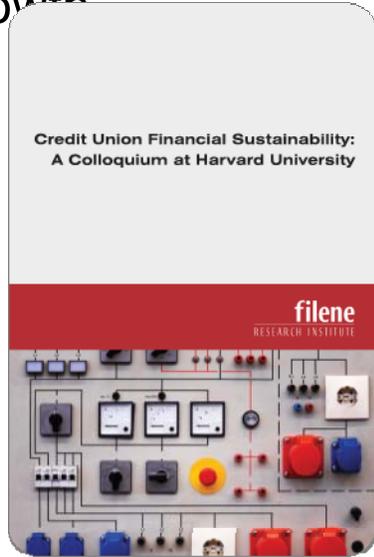
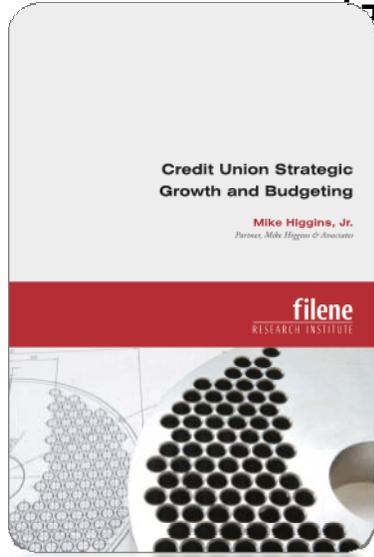
Part 1: Credit Union Sustainable Growth

Part 2: Member-Friendly Noninterest Income

Part 3: Categories and Ideas

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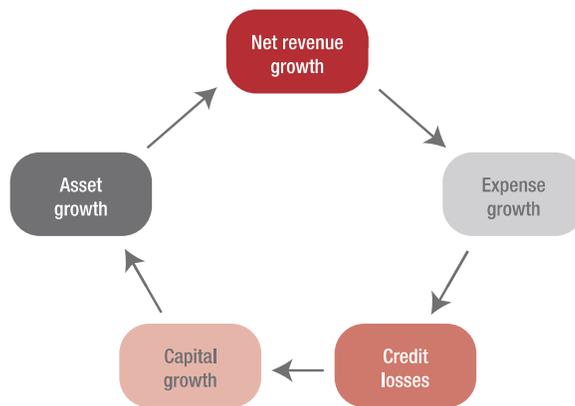
Part 1: Credit Union Sustainable Growth



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Credit Union Sustainable Growth

Figure 1: The Circle of Life



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Figure 8: ROA and ROE Defined

$$\begin{array}{c}
 \text{Profit margin} \qquad \qquad \text{Asset turnover} \qquad \qquad \text{Leverage} \\
 \left[\frac{\text{Net income}}{\text{Revenue}} \right] \times \left[\frac{\text{Revenue}}{\text{Assets}} \right] \times \left[\frac{\text{Assets}}{\text{Capital}} \right] \\
 \underbrace{\hspace{10em}}_{\text{ROA}} \qquad \qquad \qquad \underbrace{\hspace{10em}}_{\text{ROE}}
 \end{array}$$

Sustainable growth

The fastest a credit union can grow assets without affecting its capital ratio

Source: CUNA Mutual Group.

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ROE and the Axiom of Growth

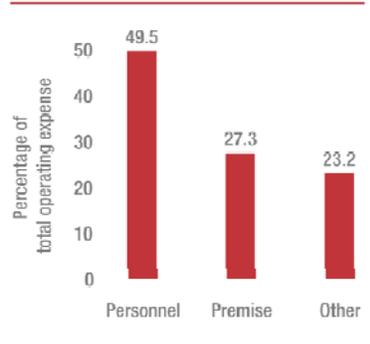
If capital grows by some percentage, assets can grow by up to that same percentage without depleting the capital ratio. For example:

- If capital grows 5% and assets grow 5%, the capital ratio is maintained.
- If capital grows 3% and assets grow 5%, the capital ratio is depleted.
- If capital grows 5% and assets grow 3%, the capital ratio is accreted.

8
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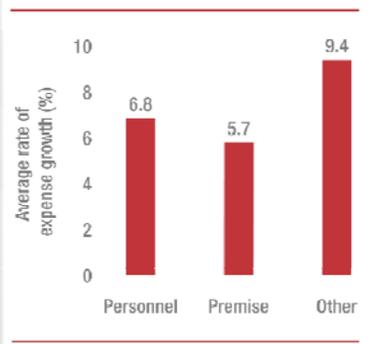
Credit Union Financial Sustainability

Figure 2: Operating Expense Breakout



Source: NCUA 5300 Data 2001-2010.

Figure 3: Annual Operating Expense Growth Rate



Source: NCUA 5300 Data 2001-2010.

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Credit Union Financial Sustainability

“I have to grow. I have a lot of talented people here, and if I don’t make places for *them* to grow, they’re gone.”

--Walter Biernacki



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Credit Union Financial Sustainability

Investments	\$30,000	2.00%	\$600
Money markets	\$30,000	0.50%	(\$150)
Noninterest income	\$1,000		\$1,000
Net revenue			\$4,700
Net revenue ROA			4.70%

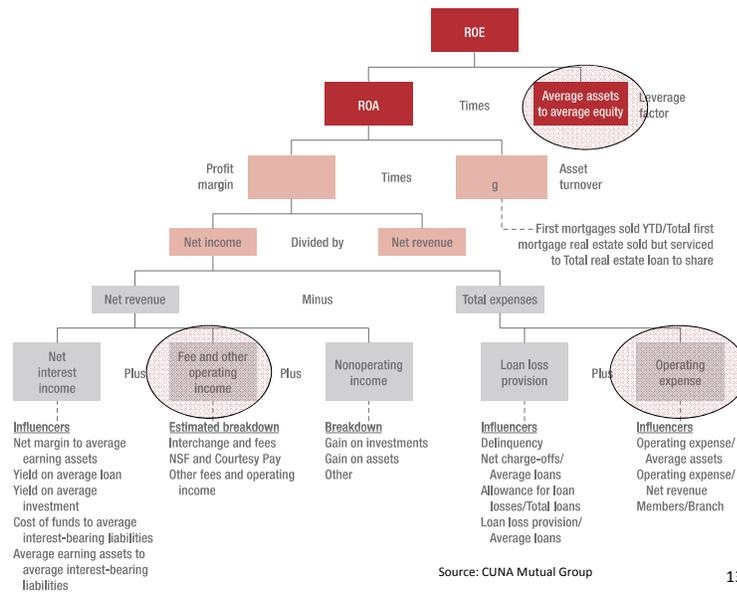
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Credit Union Financial Sustainability

	Balance	Profit margin	Profit
Investments	\$30,000	0.00%	—
Money markets	\$30,000	1.50%	\$450
Noninterest income	\$1,000	100.00%	\$1,000
Net revenue			\$4,700
Net revenue ROA			4.70%

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Figure 9: Credit Union Sustainable Growth Analysis



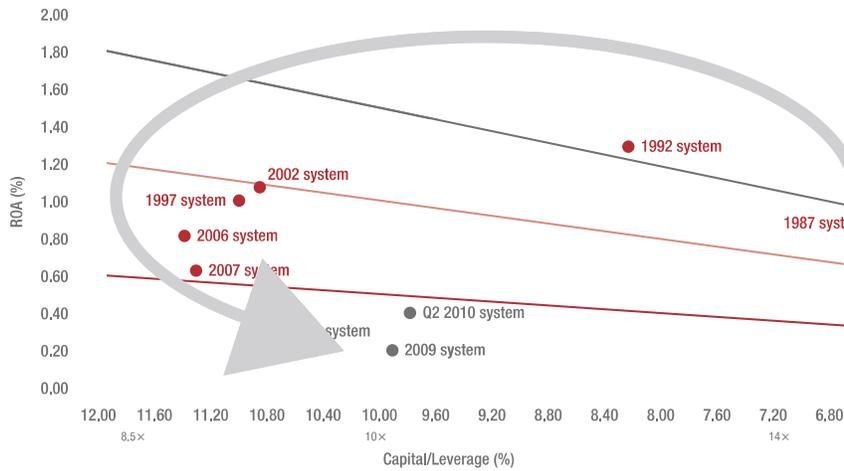
13

Source: CUNA Mutual Group.

Expense Ratio Breakdown

Imminent Failure	>100%
Slow Death	90%-100%
Thin Ice	80%-90%
Surviving	75%-80%
Thriving	70%-75%
Highly Productive	65%-70%
“Approaching Greedy”	<65%

Figure 5: Credit Union System Sustainable Growth History



Source: CUNA Mutual Group

Sustainable growth rate: — 5% — 10% — 15%

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Credit Union Financial Sustainability

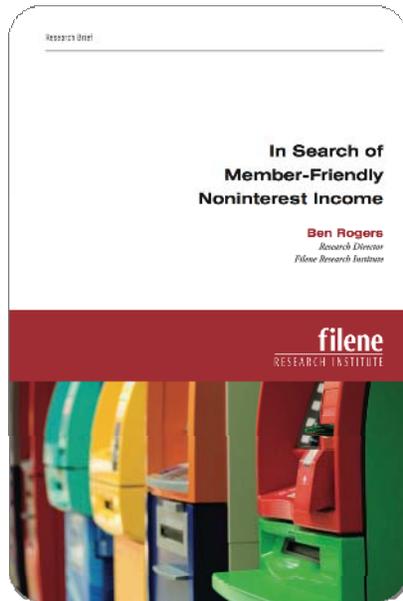
Therefore?

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Credit Union Financial Sustainability

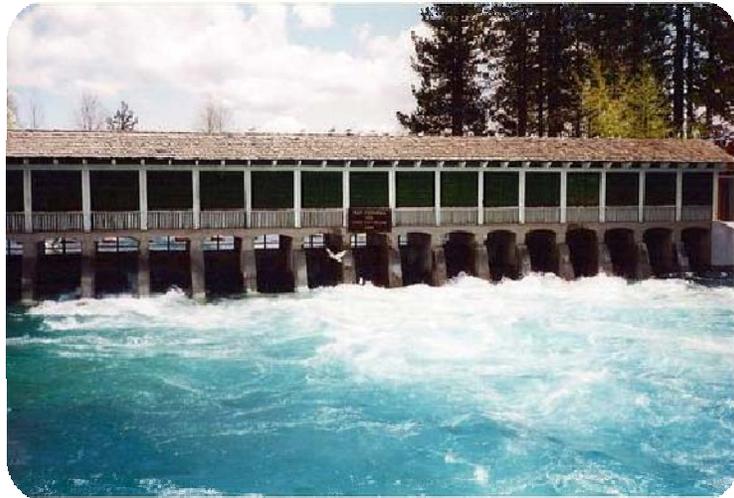
- Measure ROE
- Consider measuring ‘marginal contribution’
- Be mercenary with expenses
- Be responsibly creative with noninterest income

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Part 2: Member-Friendly Noninterest Income

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Noninterest income?



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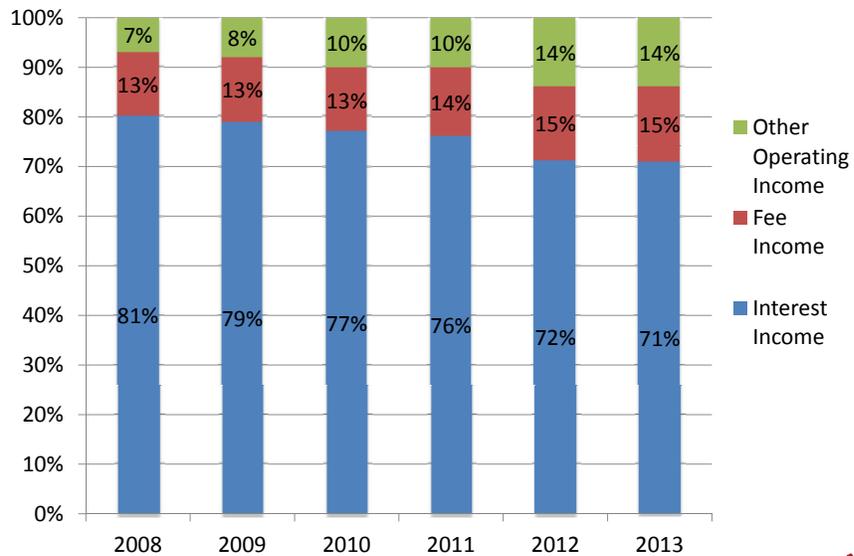
The NII Challenge

Credit Union Historical Data*

	ROA	ROA Less Fees & Other	Fees & Other Income
1990	95	34	61
1995	113	43	70
2000	102	7	95
2005	85	-40	125
2006	82	-47	129
2007	64	-72	136
2008	31	-105	136
2009	18	-143	161
2010	50	-83	133
2011	68	-63	131

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The Decline of Spread Income



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Two Premises

- NII in the form of fees and service charges is essential to the continued health of credit unions.
- Because of their history and their cooperative structure, credit unions should weigh fees and service charges in the context of how transparent and member-friendly they can be.

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Exclude Interchange and Overdraft



Together they comprise about 60% to 70% of all NII

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Searching for:

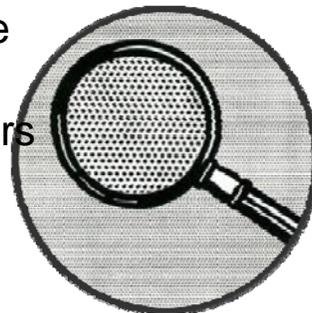
- Validation of and interest in existing sources of NII
- New and creative approaches to NII
- Caveat: Insights are from a small sample



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Respondent Screening

- \$50M to \$2.5B in assets
- Top third of NII in each year between 2008-11
- ROA of at least 0.25% in three of four years
- Net worth above 7% in all years
- Two mailed, two emailed invitations
- 67 respondents (of 194)



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Defining “Member Friendly”

- Transparent
- Freely chosen
- Add value to members



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Respondent Themes

Less expensive = Member-friendly

“Rates are less than competitors but not absurdly low. If the banks are at \$31.00, I can be at \$29.50. I am a better deal but not an absurdly better deal.”

“Fees are member friendly if they are lower than market.”

“We are sure to survey the market twice a year to make sure our fees are remaining within market pricing.”

“If we are not competitive, members will go elsewhere.”

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Respondent Themes

Preventing Member Abuse

“The most member-friendly fees are the fees that they can avoid by changing their behavior.”

“Many of our fees prevent abuse of a service. For example, if we did not charge a fee for foreign ATM usage, members may inquire and get small amounts every day.”

“[We are] attempting to structure fee schedules so [the] member is able to avoid fees by exhibiting behaviors desirable to the cooperative.”

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Respondent Themes

Insurance/Investment Products are Freely Chosen

“Non-commissioned investment advisors [add value because they] don’t have a sell-only mentality.”

“Loan protection products ... are all member friendly in the same way life insurance is member friendly. Term life is far more affordable than credit life, but the process to obtain it is far more difficult.”

“All of these fees are member friendly because they are voluntary. The member has complete control to invest in these services or not.”

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Respondent Themes

Credit Unions Still Committed to Free

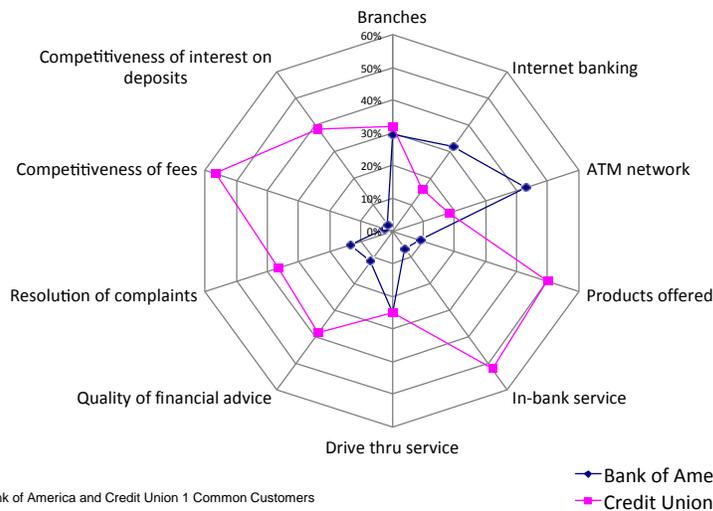
“We believe it is our job to make loans first and foremost. Consumer loan origination fees will never be considered on my watch.”

“Services such as checking, savings, ATMs, daily services, should not cost members a fee.”

“We only charge our members what we are charged on first mortgages. For second mortgages, we absorb the fees.”

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Credit Union 1 and Bank of America — How Customers Who Use Both Institutions View Their Performance



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Texell Credit Union
\$181M - Texas

- 40-45% of all revenue from NII
- Loan protection first: Expectation of 80% penetration on GAP and 65% on warranty
- Most members underinsured
- Members buy down up to 0.50% by buying GAP, warranty.
- Every board report summarizes details from 11 NII categories (NSF, interchange, GAP, ATM, etc.)
- Non-CU ATM fees of \$1.50, same for PIN debit
- Collections fees enough to pay for about 2/3 the cost of collections department



Idaho Central Credit Union \$1.1B - Idaho

- 2010 Net Promoter feedback: "Fees too high"
- Overdraft fee cut from \$25.97 to \$18.79 a 25% drop
- Chance to differentiate at a time when consumers were paying attention
- Also introduced \$2.50 overdraft transfer option
- 21% YOY checking account growth!
- Two years later, 2010 overdraft revenue levels are back

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Texoma Community Credit Union \$98M - Texas

- Free ancillary services:
 - Mobile/text alerts
 - MoneyDesktop
 - *Prewards* debit card rebate program
 - MoneyIsland for kids
- ... paid for with fee services
 - \$10 dormant account fee
 - \$5 paper statement fee

Aim is improving efficiency, not just recouping costs.

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Local Government FCU \$1.2B – North Carolina

- \$1 per month fee on checking gets:
 - Interest-bearing account
 - No minimum balance
 - Free CashPoints ATM (throughout NC)
 - *Compass* PFM tool
- Monthly fee is third largest NII line item (behind interchange and NSF)

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Part 3: Categories And Ideas



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New Study, Two Goals

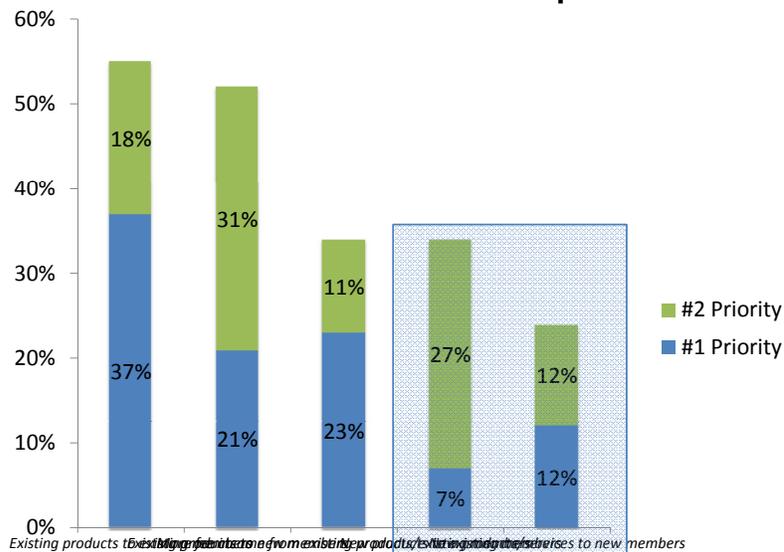
- Quantify credit unions' NII plans
- Principles-based guidance for planning around NII

N=137
 \$200 million: median respondent size

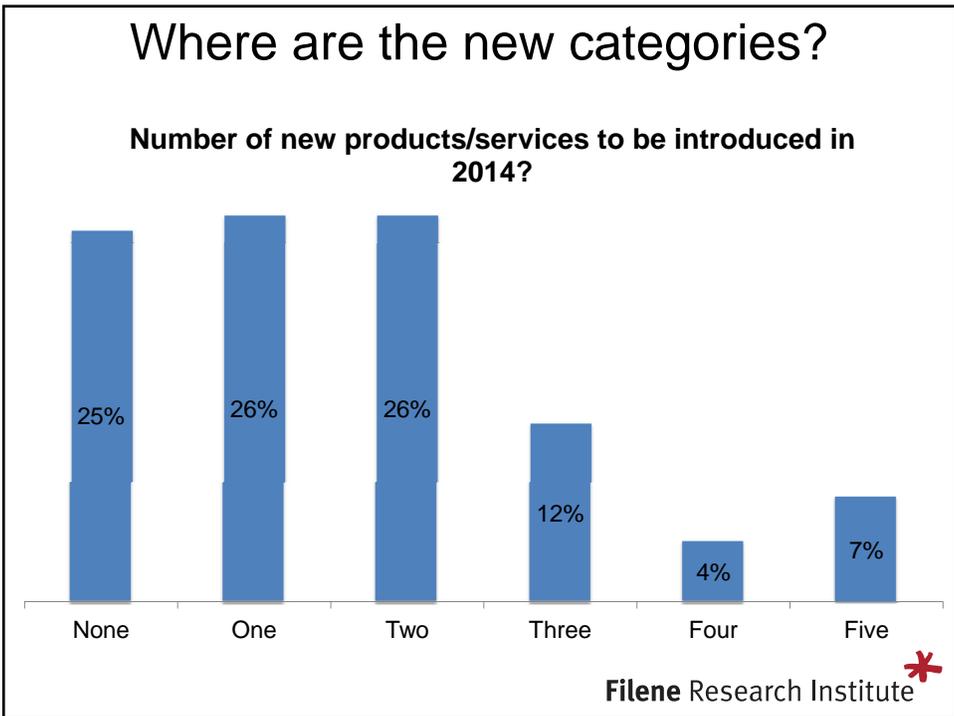
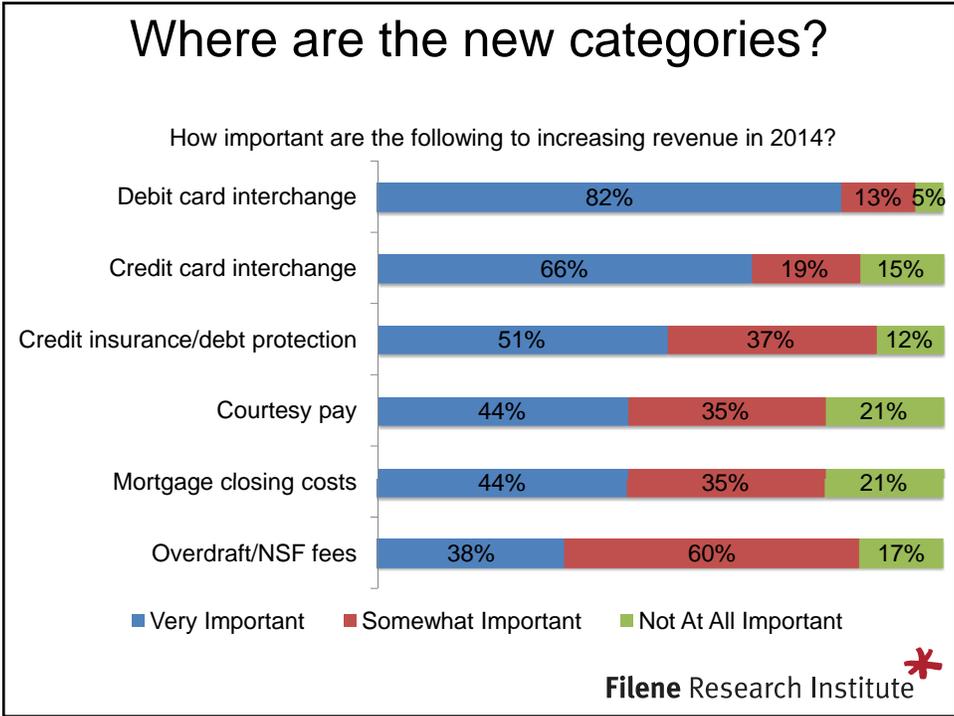


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New Products? Nope



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New Product Revenue Expectations

	% of respondents	Average 2014 expected revenue	Average 2015 expected revenue
Lending (business, HELOC, lifestyle, etc.)	22%	\$116,111	\$242,593
Remote deposit capture	17%	\$3,571	\$11,429
Mortgage	14%	\$95,263	\$124,211
Checking accounts	10%	\$120,357	\$178,929

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Four Focuses for Revenue Growth



Reinvent credit marketing

Deploy/ Strengthen Debit rewards





Develop product design competencies

Revenue-focused PFM

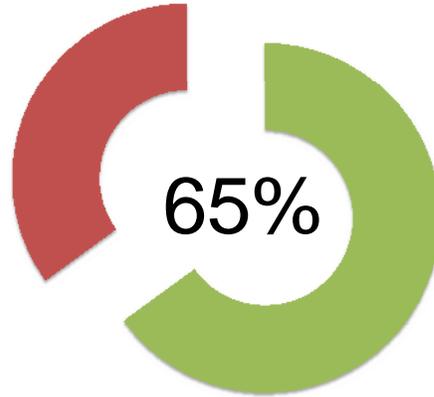


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Strengthen Debit Rewards



How effective was your debit rewards program in driving usage in 2013?



- Somewhat/very effective
- Not very/not at all effective

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Reinvent Credit Marketing



Activity-based marketing:
Marketing within the context of an activity being performed by a member or prospect

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Reinvent Credit Marketing

PENFED Car Buying Service

How the Service Works

HOME NEW CARS USED CARS TRADE-IN FINANCING INSURANCE EXTENDED WARRANTY GAP REPORT YOUR PURCHASE

CAR BUYING MADE EASY
Hassle-free, haggle-free Guaranteed Savings
Search for a new or used car below to get started

FIND A NEW CAR
Select Make: Acura
Zip Code: []
> GET STARTED

FIND A USED CAR
Search area within: 75 miles
Zip Code: []
> GET STARTED

0.49% APR
for up to 36 months on new vehicles

1.49% APR
for up to 36 months on used vehicles

SPECIAL FINANCING OFFER
Online Only

To take advantage of this offer, submit your information through the Car Buying Service first and then purchase your vehicle from one of our dealer partners based on your savings opportunities.

TRUECar Buyer's Bonus Get \$1,000* worth of additional benefits when you use a Certified Dealer. [Learn More](#)

Benefits of the Car Buying Service

- Great Savings:** See what others paid for the car you want and get your Member Price and Guaranteed Savings before even talking to a dealer.*
- TrueCar Price Reports:** In-depth, no-cost, Price Reports give you the information you need to make a

Save up to \$5,000 on select Mercedes-Benz vehicles. Login to access your savings.

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Reinvent Credit Marketing

Chase MyHome Home Buying App

USAA Car Buying App

Chase MyHome Home Buying App

Payment Estimator
Estimated Monthly Payment: \$1,372 / month

1720 South Michigan...
\$350,625

USAA Car Buying App

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Revenue-focused PFM



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Develop Product Design Competencies

1/4



Develop Product Design Competencies



(as a cautionary tale)

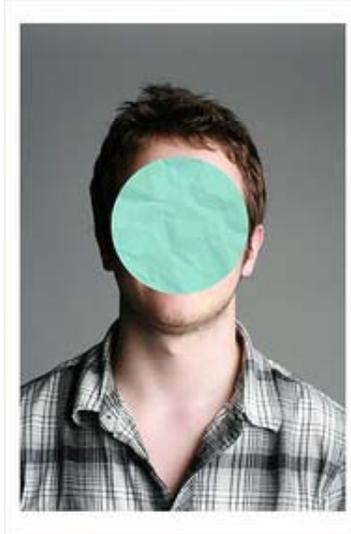
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Products and Areas of Opportunity

- Upgraded checking accounts
- Identity protection
- ATM surcharges
- Skip payment fees
- Collections fees
- Augmented payment options
- Check cashing fees
- Prepaid/reloadable debit
- Paper statements
- Second-chance checking
- Third-party rewards
- Non-compliance charge
- Annual fees
- Concierge service

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Identity protection



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ATM
Surcharges

Skip Payment



Collections fees



Second-chance Checking

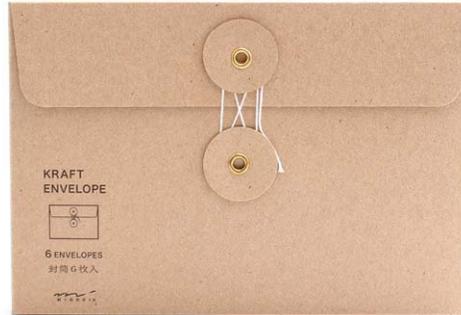


Third-party rewards



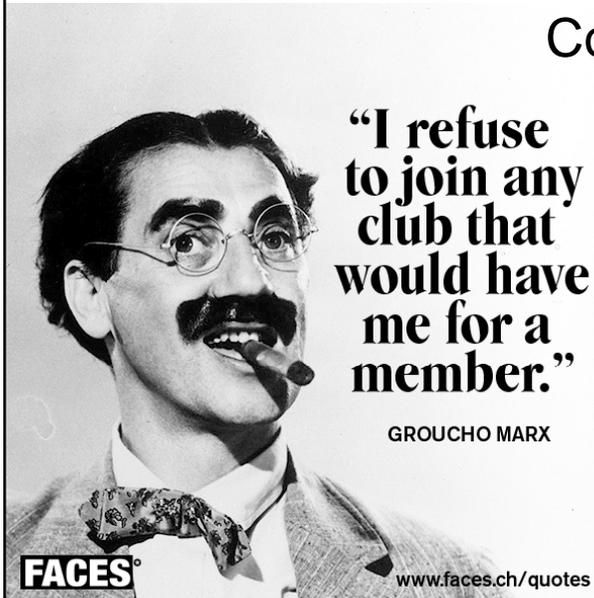
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Paper statements



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Annual fees/
Concierge service



**“I refuse
to join any
club that
would have
me for a
member.”**

GROUCHO MARX

FACES

www.faces.ch/quotes

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Let's talk ...

Ben Rogers
benr@filene.org
@fileneresearch

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