REPUTATION RISK A LOT AT STAKE

Feature Story on Page 12

GRR: ‘Financial Literacy Month’ Showcased  |  Page 8
Leagues Launch ‘PowerComment’ for CUs |  Page 16
Social Media, Staff, and the Rules  |  Page 19
Reach your full potential at the California and Nevada Credit Union Leagues’ 2013 Annual Meeting & Convention!
October 28–30
Hyatt Regency San Francisco  |  5 Embarcadero Center  |  San Francisco, California

Visit amc.ccul.org to learn more!
On The Cover:
In our fast-paced, complex digital world where oftentimes “perception is reality,” a credit union’s reputation is certainly at stake as much as any other organization in the community. In this edition, the editors of Credit Union Digest explore three prime examples that credit unions have recently faced, as well as solutions for overcoming these challenges.

What's Inside
leader 2 leader
POPA FCU

shapiro perspective
Insightful Webinar Series Continues

advocacy
GRR: ‘Financial Literacy Month’ Showcased

credit union sactown ten-mile run
Race Raises $182k for CMN Hospitals

economic perspective
A Springtime Credit Thaw

market performance
Lending Plays ‘Catch-Up’ in CA, NV

feature story
Reputation Risk: A Lot at Stake

legal
The CFPB’s Stance on ‘Kickbacks’

asked & answered
NCUA Signage: Getting It Right

research & information
Social Media, Staff, and the Rules

credit union solutions
Taking the Risk Out of Student Loans

closing thoughts
Envisioning 2020: Who Will Lead Us?
Ray Bartus  
President and CEO

Education
I have a Bachelor of Science degree in business administration. I’m also a graduate of Western CUNA Management School.

First Credit Union Experience
I knew nothing about credit unions when I began working as a teller at Industrial League Credit Union after high school. I became connected so deeply with the cooperative nature of credit unions and nonprofit philosophy that I made it a career.

Biggest Challenge as a CEO
My biggest challenge is keeping credit unions relevant in our members’ daily lives, and to effectively communicate what makes credit unions different and special. Also, attracting younger members and connecting with them remains a challenge.

League’s Role in the California CU Movement
The California League plays an integral part in fostering the cooperative spirit of the credit union movement as a whole. It plays a pivotal role in being a concentrated voice on state and federal legislation that impacts credit unions. The League is also a vital partner in helping educate our staff and volunteers on core disciplines and changing regulations.

Leisure Activities
Breakdancing is my life!

Personal Philosophy
Set goals and work tirelessly to achieve those goals. I’ve never been one to shy away from challenges or the risk of failure. You will learn as much from failure as you do from success, and you will be a stronger person and leader as a result. Also, never take yourself too seriously.

Advice for Future Credit Union Leaders
Embrace change, never stop learning, and challenge yourself and others. Don’t shy away from respectfully confronting “standard business practices.” Past performance does not guarantee future results.

Ray Leyva  
Chairman of the Board

Education
I have a Master of Business Administration from Pepperdine University and a Bachelor of Science degree in business administration from Cal State Los Angeles.

First Credit Union Experience
I wanted to purchase a motorcycle from a dealer who wanted an outrageous interest rate to complete the purchase. At my credit union, even though I was a fairly new member, I secured the loan at a much lower rate and remained a loyal member for many years.

Biggest Challenge as a Board Member
The biggest challenge is providing our members with a mixture of products and services that have value while dealing with a myriad of changing rules and regulations, which often unfairly constrain us from being the best we can be for our members.

League’s Role in the California CU Movement
The California League plays a vital role because it serves as an informed resource for our management team and board members. The League provides us timely information on emerging trends in our industry and is an advocate for legislative change that is vital to our industry. It provides a united voice to our legislators on issues that are important to us, proving that a united front is better for all.

Leisure Activities
I enjoy traveling with family and a good book in the evening. I sometimes find myself chasing that “little silly white ball” around a golf course and wonder, “Is this really supposed to be relaxing?”

Personal Philosophy
I believe we should always try to do the best we can in whatever we undertake, and make sure nobody ever has reason to fault you for not doing your job. More importantly, have fun doing it!

Advice for Future Credit Union Leaders
Embrace change, never stop learning, and challenge yourself and others. Don’t shy away from respectfully confronting “standard business practices.” Past performance does not guarantee future results.
Diebold’s deposit automation. The more you put into your ATMs, the more your members put into them.

With Diebold’s deposit automation, Wescom Credit Union dramatically increased deposits, member satisfaction and processing efficiency without giving up the human touch. Featuring an on-screen hostess named “Elizabeth,” members enjoy a humanized ATM experience along with much faster processing. In just nine months, deposit volumes are four times higher than those at older terminals. It’s another advancement towards optimum ATM productivity. And another reason why Diebold has remained a leader for more than 150 years.

For the entire story, visit www.diebold.com/boldinnovation.

1.800.356.9655, x4109 www.diebold.com diebold@cuna.com
Insightful Webinar Series Continues

By Deanne Figueras, Manager of Meetings and Conventions

Shapiro Group credit union leaders are encouraged to sign up for these new and exciting investment strategy webinars, which are part of a unique series designed just for small credit unions:

**Aug. 22: Understanding Investment Options**—
Demystify how to use “callables” and “putables,” laddering, loan participations, bullet investments, and portfolio diversification.

**Sept. 25: Broker-Dealer Selection**—What is your due diligence process? Learn about multiple broker relationships, asset-liability management services (ALM), and investment advisory services.

**Nov. 14: Accounting for Investments**—Discover how to keep accounting for investments simple. This session will cover interest income, capital gains, premium amortization, and discount accretion.

To register for upcoming sessions, visit the California and Nevada Credit Union Leagues’ Education and Training Calendar at [www.ccul.org/education/calendar.cfm](http://www.ccul.org/education/calendar.cfm).

---

**Shapiro CU Webinar Recap**

Did you miss the beginning of this investment strategy webinar series? We’ve got you covered!

To view the “Investment Process and Purpose for Shapiro Credit Unions Overview,” “Policy and Review for Shapiro Credit Unions,” or “Balance Sheet Management Process for Shapiro Credit Unions” webinars, visit [www.ccul.org/education/etrain.cfm](http://www.ccul.org/education/etrain.cfm). You’ll learn about the following topics:

- A self-assessment of your credit union’s current investment process, and a variety of different options available to small credit unions.
- A deeper regulatory perspective on what’s needed within investment policies regarding liquidity, loans, asset liability management, and liquidity contingency.
- The balance sheet management process, beginning with an explanation of what risks are measured and what they mean.

---

**Shapiro Credit Unions: Make the SUMMIT Part of Your SUMMER**

Shapiro Summit | Ontario, CA | Aug. 9–10, 2013

If you work at a Shapiro* credit union, don’t miss this exclusive Shapiro Advisory Group event designed specifically for Shapiro credit unions in California and Nevada!

**Networking Cocktail Reception** at the Holiday Inn Ontario Airport | Ontario, CA
Friday, Aug. 9 from 6:30–9 p.m.

**Shapiro Summit** at the California and Nevada Credit Union Leagues | Ontario, CA
Saturday, Aug. 10 from 8:30 a.m.–4:30 p.m.

Learn more about:
- Policies and tools available to Shapiro credit unions
- New ways to obtain other income
- Legislative updates
- Networking to share solutions and innovative ideas

*Credit unions with $50 million in assets or less.

---

Visit [www.ccul.org](http://www.ccul.org) soon for registration information!
Credit union CEOs, executives, and board directors filled the halls of the California state capitol building during the 2013 California Government Relations Rally (GRR) in late April, impressing upon assembly members and senators the successful financial literacy efforts credit unions are accomplishing within their districts.

With 80 individuals participating, positive educational programs weren’t the only subject in focus, as CEOs also talked about the effort credit unions make to work with members in times of dire financial need. Several lawmakers and legislative aides were receptive to hearing about the cooperative credit union structure.

Additionally, new relationships were forged with freshman members of the legislature, and ongoing relationships with incumbents were strengthened.

California and Nevada Credit Union Leagues President and CEO Diana Dykstra said the Leagues remain committed to the success and survival of the industry.

“Your support on this day is extremely valuable as we build relationships with individuals locally in the state, some of whom may eventually run for Congress and move to Washington, D.C. in the future,” Dykstra said during a briefing with attendees. “Keep up the good work.”

---

(1) L-R: Jeff Napper, CEO of LBS Financial CU; Josh Smith, Advocacy Officer for SchoolsFirst FCU; Sen. Lou Correa, D-Santa Ana and Chairman of the California Senate Banking and Financial Institutions Committee; Joseph Rivera, COO of Fairview Employees FCU; and Gary Rebensdorf, VP of Investment Services for Orange County’s CU

(2) L-R: Pascual Garrido, Director of Business Development for SCE FCU; Assemblyman Ed Chau, D-Alhambra; Frank Ogaz, Supervisory Committee Member for Camino FCU; and Bob Toohey, Board Vice Chairman of SCE FCU

(3) The 2013 Credit Union SacTown Ten-Mile Run legislative team trophy presentation at Senator Steve Knight’s office (L-R): Dykstra; John Pamer, CEO of Diablo Valley FCU; Heidi Jensen, Legislative Director; Scott Chavez, Consultant for the California Senate Governance and Finance Committee; David Orosco, Chief of Staff; and Sen. Steve Knight, R-Antelope Valley

(4) L-R: CoastHills FCU CEO Jeff York; Board Director Shirleen Sladek; Assemblyman Katcho Achadjian, R-San Luis Obispo; Board Director Bill Anders; and Board Chairman Hugh Rafferty

(5) L-R: Esther Klein, Community Relations Officer for Golden 1 CU; Scott Ingram, SVP of Marketing for The Golden 1 CU; Assemblyman Anthony Rendon, D-Bell; Napper; Kara Giano, VP of Internal Audit for Golden 1 CU; Machelle Martin, VP of Human Resources and Training for Golden 1 CU; Andrea Svoboda, Manager of Political Advocacy for the California and Nevada Credit Union Leagues; and Rodney Wilson, State Legislative and Regulatory Lobbyist for the Leagues

---

2013 GRR Photos

To view the entire gallery, visit www.ccul.org/advocacy/galleries/index.cfm
The 2013 Credit Union SacTown Ten-Mile Run on April 7 in Sacramento raised $182,000 for Children’s Miracle Network Hospitals in California and Nevada—an event sponsored by the California and Nevada Credit Union Leagues, CU Miracle Day Inc., and several credit unions and vendors.

The race took place the same day as the 41st Annual Credit Union Cherry Blossom Ten-Mile Run in Washington D.C., followed by the Credit Union Freedom Runs for troops overseas. Combined, the “Family of Races” raised a total of $483,000.

Nearly 1,700 runners—including more than 700 credit union employees and members—registered to participate in the SacTown race. More than 200 credit union staff and members worked the event as volunteers.

Out of the 161 congressional honorary race chairs from 39 states who registered to compete in the “family of races,” 19 were from California and Nevada.

“The difference those who participated helped make for the kids will last long after the banners come down,” said John Pamer, CEO of Diablo Valley FCU and chairman of the 2013 Credit Union SacTown Ten-Mile Run Committee.

L-R: (back row and standing) Andrea Svoboda, Manager of Political Advocacy for the California and Nevada Credit Union Leagues; Kevin Pool, competing runner; John Pamer, CEO of Diablo Valley FCU and Chairman of the 2013 Credit Union SacTown Ten-Mile Run Committee; Tena Lozano, Manager of Consumer Advocacy for the Leagues; Esther Klein, Community Relations Officer for Golden 1 CU; “Goldie” the Golden Retriever, mascot for Golden 1 CU; Diana Dykstra, President and CEO of the Leagues; Shadrack Biwott, competing runner; “T-Bird” the Bald Eagle, mascot for Travis CU; Linda White, CEO of United Health CU; Bob Arnould, SVP of Advocacy for the Leagues; Sarah Canepa-Bang, Chief Strategy Officer of CO-OP Shared Branching and President of FSCC LLC; Sherry Corden-nier, Director of Corporate Relations for Travis CU; Jacquelyn Kay-Mills, Development Officer of Children’s Health for UC Davis Children’s Hospital; (front row, kneeling) Megan Daly, competing runner; Deanne Figueras, Manager of Meetings and Conventions for the Leagues; Lucy Ito, COO and EVP of the Leagues, and Judie Boehner, Assistant Hospital Director for UC Davis Children’s Hospital.

(1) Pamer (left), Assemblyman Roger Dickinson, D-Sacramento, and Dykstra present a check for $483,000 to Children’s Miracle Network Hospitals (CMN). The combined amount was raised from the CMN Family of Races held across the country.

(2) Winning runners pose with representatives from the Credit Union SacTown Ten-Mile Run Committee and UC Davis Children’s Hospital in front of the California State Capitol building.

(3) L-R: James Fleming; Ryan Zilker, Marketing Manager for CO-OP Financial Services; Cassie York, Marketing Manager for SkyOne FCU; and Ileana Ulloa, Retail Services Manager for Kinecta FCU

(4) L-R: The LBS Financial CU team (left)—SVP of Member Services Sean Hardeman, CEO Jeff Napper, and VP of Marketing Heather Summers—with the Valley First CU team (right), including Branch Manager Holly Roberson, VP of Lending Paul Emanuels, and CEO Hank Barrett.

SAVE THE DATE
Prepare NOW for the next Credit Union SacTown Ten-Mile Run on April 6, 2014!

Check www.SacTown10.org in the coming months for more details.
A Springtime Credit Thaw
By Dwight Johnston, Vice President and Chief Economist

Consumer credit conditions are experiencing a spring thaw. The easing of credit has been developing throughout the past year or more, but recently the numbers are beginning to add up to something possibly significant.

New Priorities
The Federal Reserve Bank of St. Louis’ Consumer Distress Index—which is compiled from U.S. data—has improved markedly. This index covers a number of factors, one of which is debt burden (see the accompanying U.S. Household Debt Payments as a Percentage of Disposable Income chart).

In the chart, you can see how consumer debt load is returning to historic norms after the credit binge of the past decade. The better shape of consumers has led lenders to finally ease standards. Credit qualifications are still tight by historic standards for mortgages, but lending in autos and credit cards are as loose as they’ve ever been.

This makes sense given the changing priorities of consumer debt repayment as reported by credit data and reporting firm TransUnion. For decades, consumers paid their mortgages first, car loans second, and credit card bills last. The new order, according to TransUnion’s research, is car payment first, credit cards second, and mortgages last.

Interesting Auto Trends
Lenders have responded to the improved nature of consumer balance sheets and changed preferences:

- Subprime auto lending as a percentage of all auto loans has gone from 25 percent in 2010 to 32 percent currently.
- Auto delinquencies and credit card delinquencies for all levels of borrowers are at or near historic lows.
- Consumers are also borrowing more money to buy cars, as the per-borrower auto debt balance has risen 5 percent.

Another way lenders have responded to borrower demand and higher car prices has been in the terms. Historically, the three-year car loan was the usual deal. That has long since been replaced with the five-year loan as the standard.

But that standard may be threatened. The Wall Street Journal reported statistics from credit reporting company Experian that showed new car loans with terms of 72-84 months now make up 17 percent of loans versus 11 percent four years ago, a percentage that’s expected to increase. Experian reported there were even some loans as long as 97 months.

While extremely low interest rates aren’t staying too tight, too long. Perhaps an even bigger change is taking place in the category of down payments. With the exception of Federal Housing Administration (FHA) loans, buying a home with less than 20 percent down was almost unheard of two years ago. That was due to the complete withdrawal from the market by private mortgage insurers.

Those insurers are now healthy again and insuring almost 25 percent of non-conforming mortgages.

Other lenders are amassing into their portfolios an increasing number of jumbo loans made to high-net-worth individuals who make down payments as low as 5 percent. The rate spread of jumbo loans over conventional was as wide as 150 basis points, but is now roughly 20 basis points.

No Abnormality Here
I could cite a number of other subtle and not-so-subtle examples indicating the credit thaw is not an aberration. A noticeable change has taken place.

I certainly would not be presumptuous enough to suggest that credit unions should loosen their lending standards. The memories of the past few years are probably still too fresh.

However, if you are concerned your credit union’s loan volume is lagging, just make sure your lending standards aren’t staying too tight, too long.
Lending Plays ‘Catch-Up’ in CA, NV
By Dwight Johnston, Vice President and Chief Economist

California and Nevada credit unions had a lot to celebrate in 2012, especially in the areas of non-interest income, declines in delinquencies, and Return on Assets (ROA). We can hope 2013 turns out the same, if not better.

Yes, the 2012 results were heavily biased by larger credit unions which profited from reversing loan loss reserves and refinancing mortgages. But generally speaking, it was a good year for the industry.

After recently speaking with numerous executives representing both small and large credit unions, the biggest concern going forward (excluding regulatory burdens) remains sluggish loan demand.

With the exception of making car loans and refinancing mortgages, there simply has not been much demand. Total loan portfolios in California rose by 1.4 percent, and Nevada credit unions reported a decline of 7.6 percent. Nationally, credit union loans grew by almost 5 percent.

An Achievable Goal
Consumers lost their appetites to borrow after being ravaged by the recession, with California and Nevada residents living in the two hardest-hit states. The economic recovery, which technically began in June 2009, did not reach our states until 2011.

The difference in recovery between our states and the nation helps explain the results in the accompanying chart (Credit Union Loan-to-Share Ratio). The spread between the loan-to-share ratios of all U.S. credit unions versus California and Nevada is at an all-time—and unfavorable—high. Nationally, credit unions are experiencing better loan demand.

While California and Nevada have lagged, there is reason to be hopeful our states can close the gap. Let’s review the Federal Reserve Bank of St. Louis’ Consumer Distress Index, a chart depicting the distress indices of California, Nevada, and the United States. This isn’t one those sentiment or “mood” polls, such as consumer confidence. It is based on actual data.

The St. Louis division of our country’s central bank describes the index in these terms: “It measures five categories of personal finance—employment, housing, credit, household budget, and new worth. These receive equal weightings on a 100-point scale. The St. Louis Fed identifies a reading under 70 as conditions of distress; 70-79 as neutral but at risk; and more than 80 is good. If the score is under 60, it’s an all-out emergency and crisis.”

Take a look at these two charts. California and Nevada were at or above national numbers in the go-go days, then fell below national numbers during the recession, and are now slower to recover.

Now focus on the recovery lines. The Consumer Distress Index in California rose to nearly 70 in fourth quarter 2012, finally catching up with the United States. The Nevada index is lower, but it turned higher and moved out of the crisis zone in 2012.

The similarities in these two charts are not coincidental. When consumers feel better about the five categories in the Consumer Distress Index, they are more willing to borrow and spend. The delayed recoveries in California and Nevada caused the two states to fall behind in many categories, but both are catching up to the national picture.

This should bode well for future loan growth, but it will take a lot of work and innovation on the part of credit unions. Now that the opportunity has been identified, it’s up to your credit union to help make it happen.
How you handle a negative incident can make all the difference in preserving—or damaging—your good reputation. Credit unions have earned a strong consumer-friendly image over many decades. The danger may come in assuming the long-standing goodwill you enjoy with your members will make your credit union’s reputation shatterproof.

“We don’t have a lot of ‘gotcha’ people out there who are waiting to pounce on us when something goes wrong,” said Scott Coe, senior vice president of marketing at CoastHills FCU. “That being said, you have to be careful when you do have issues.”

The following California credit unions have learned first-hand how to maneuver through difficult situations and emerge with reputations intact. Their stories represent a realistic cross-section within the new frontier in managing reputation risk.

Averting Social Media Fallout

In its first year on Facebook, CoastHills FCU already has gained nearly 5,000 followers. Its Facebook page doesn’t aim to promote products and services, but rather shows a behind-the-scenes look at “who we are and what we do,” Coe said. The page features stories about members, employees, community events, and service projects sponsored by the credit union.

“Being on Facebook adds to the overall brand we’re building,” Coe said. “But with that comes instantaneous responses and the ability for people to strike out at us immediately if they feel something happened that’s our fault.”

When a complaint is posted, CoastHills’ response on Facebook asks the individual to call right away so the credit union can take care of the problem. “The key is to handle it on a one-to-one basis rather than airing it publicly,” Coe said.

One lesson learned is to avoid overreacting, he said. The temptation is to post a response presenting the credit union’s side of the story. That usually makes matters worse.

“You have to be careful not to write the Gettysburg Address-type response saying, ‘These are our
policies and procedures, and under no circumstances would we do this;’” Coe said. “You’ll draw more and more attention to the issue. Oftentimes, a quick explanation offline takes care of it.”

A different strategy comes into play when negative comments about the credit union appear on another organization’s Facebook page. Last summer a popular local restaurant had its computer system hacked and customer information stolen. Unfortunately, about 600 CoastHills members were hit with fraudulent transactions on their payment cards.

The credit union closed the accounts and issued those members new cards. It also advised all members to use cash at the restaurant until the computer system vulnerabilities were fixed. Some members complained on the restaurant’s Facebook page about the credit union cancelling their cards. “CoastHills then becomes the bad guy,” Coe said.

However, CoastHills FCU refrains from responding on another business’s Facebook page. Rather, “We just watch it closely,” Coe said. “We’ve been patient because typically those kinds of things work themselves through. Once you dive into the pool and start responding, it becomes a matter of who’s going to have the last word. You add fuel to the fire if you’re not careful.”

Two of Coe’s marketing staff are in charge of monitoring social media, and they keep an eye on other organizations’ Facebook pages when the need arises, such as the restaurant computer-hacking episode.

“If you have a social strategy, then monitoring and response—smart response, as opposed to knee-jerk—have to be part of it.”

—Scott Coe

“Surviving Cyberattacks”

Members trying to enter Patelco CU’s website on the morning of Jan. 24 soon learned they couldn’t gain access. Most members probably assumed it was a temporary technical glitch.

Something much more sinister was at work: A Distributed Denial of Service (DDoS) attack took down the credit union’s website for five hours.

In a second attack a month later, the site went down again, this time for two hours. The countermeasures Patelco CU put in place after the first incident didn’t completely prevent the second takedown, but did succeed in making it less disruptive for members.

“If you’re down for four or five hours, it’s inconvenient, but it’s not something that destroys your reputation,” said Anthony Vitale earlier this year when he held the position of vice president of information technology for Patelco.

“When Patelco got hit the second time, if we’d been down for as long or even longer than in the first attack, members would have thought the credit union made no enhancements for protection,” he said. “That would have damaged the credit union’s reputation.”

Patelco CU learned it was one of the first credit unions among several financial institutions nationwide to become a target of DDoS attacks originating from somewhere in Iran, as evidenced by news reports at the time. No loss of data or theft occurred in either attack, and mobile services were unaffected.

Still, the credit union takes the threat extremely seriously.

The hackers “may be looking for other vulnerabilities within the credit union,” Vitale said. “So part of the picture, in terms of reputation risk on a bigger scale, requires a credit union to take an honest internal look at where there may be vulnerabilities. The
bar truly has been raised with these attacks.”

He said the hackers appeared to be technically sophisticated and well financed. Federal officials reportedly expect the wave of DDoS attacks to continue.

Several members who were denied website access during the first takedown in January called Patelco to ask what was wrong. The credit union fielded those calls, but a formal announcement about the nature of the attack came out a couple of days later after Patelco had a chance to assess the incident and make sure it was under control. Timing of such an announcement is “a judgment call,” Vitale said.

“At the time, we didn’t want to make an announcement only to find out later that we had given out wrong information,” he said. “That certainly would be more damaging in terms of reputation risk. We wanted to make sure our message was accurate.”

Patelco continues working with outside security experts to thwart any future attacks. Overall, Vitale feels the incidents haven’t negatively affected how Patelco members view their credit union.

“Fortunately, Patelco’s reputation wasn’t harmed,” Vitale said. “It may have even been enhanced by the fact that we took specific, quick action. Members know that their credit union looks out for them and does what’s right by them, regardless of the circumstances.”

**Overcoming a Lawsuit**

When a member filed a class-action lawsuit last year, Xceed Financial CU geared up for a rapid response. “Anything that says ‘class action’ can get really, really expensive,” said Teresa Freeborn, president and CEO. “Within 48 hours, we had our response strategy up and ready.”

The lawsuit alleged the credit union re-sequenced debit card transactions in order to maximize overdraft fees. Months later, the parties settled out of court for an undisclosed amount. No other members ever came forward with complaints about overdraft protection services.

Freeborn feels the lawsuit and its aftermath had a “minimal impact”

Making certain types of business decisions—especially those involving innovation—requires going out on a limb to some extent. Troubling questions can arise: What if we try something new and it results in financial loss? Will we look bad in the eyes of members and potential members if this new idea flops? Might we harm our credit union’s reputation?

Faced with such doubts, decision-makers can feel stretched in opposite directions. Do you play it safe and stick with what’s tried and true? Or do you take some risks to attempt something new?

Avoiding such dilemmas means having clarity about what your organization is supposed to be doing, said Matt Davis, director of innovation at Filene Research Institute in Madison, WI.

When organizations have well-defined mission and vision statements, and actually live by them, “they don’t get into this quandary,” Davis said. “It’s very clear what they should and should not be doing. Then something that might seem risky isn’t risky at all.”

Clarity of mission and vision also helps organizations stay consistent in selecting which innovations to adopt and which to reject. “You can spot a risk that’s not worth taking,” Davis said.

Some organizations are wary of taking any risks at all. But that stance overlooks an important factor. “Inaction is risky as well,” Davis said. “Getting stale is risky. If you don’t take risks, you become an organization that’s not solving any new problems for anyone. You become irrelevant.”

He sees signs that credit union decision-makers are ready to shun some of the nervousness of recent years and are more open to trying new ideas.

“I’m starting to see credit union leaders say, ‘Enough is enough. I’m not going to participate in this recession anymore,’” Davis said. “That’s promising to me.”
on current and potential members, primarily because the credit union launched its game plan quickly. “We were upfront early on, with core messages we’d developed,” Freeborn said.

The response took a coordinated effort involving all departments. The first step was to inform staff what happened. Then the credit union’s communications team took the lead in gathering detailed facts from the operational side and writing scripts so all staff could communicate openly when responding to members’ questions. They also prepared a question-and-answer guide to help Freeborn prepare for media inquiries.

In addition, Xceed Financial turned to an outside communications expert specializing in crisis management, who helped assess if messages were on target. The internal legal staff vetted all communications, and outside legal experts gave everything a second look. “We wanted to get the best possible advice,” Freeborn said.

Management also took a step that often gets overlooked in crisis situations, Freeborn said. “We ran drafts of our messages by our front-line associates who deal with member interactions every day,” she said. “This was very useful. Those employees were able to add their perspective.”

As Freeborn sees it, a prepared crisis communications plan is just as critical as an emergency CEO succession plan. “It gives you a checklist,” she said. “You’re fully prepared if something happens.”

Another piece of advice she offers: Be completely honest and straightforward in communications. Also, learn from what happened. Review policies and procedures, and be sure members understand how those affect them. In the case of overdraft protection, it’s the credit union’s responsibility to make sure members understand how you charge fees.

“Make sure that what you tell members you’re doing is in fact what you are doing,” Freeborn said. “You have to constantly review your practices and policies so you can avoid reputation risk.”

Even with such diligence, a crisis can erupt that could hurt your reputation. When that happens, “Be honest, be prepared, and bring in the experts as you need them,” Freeborn said. “Cover all your bases. That’s the best you can do for your credit union and members.”

Corporate America: The ‘Top Ten’ Best Reputations

Oftentimes the financial health and success of an organization can reflect how much value it’s delivering to constituents—or in the case of credit unions, their member-owners.

Perhaps it’s one commonality credit unions share with several private and public businesses that are sometimes lauded for their good reputations. In fact, a glimpse into some of the largest corporations with the highest-rated reputations may prove helpful when assessing how those company cultures and operations are similar or different from credit unions.

Organizations “have recognized the value of reputations, but they are facing new challenges that a majority are not prepared to meet,” states Nicolas Georges Trad, executive partner for Reputation Institute, in a report published by the New York-based reputation management firm in April. “Their number one challenge is the lack of a structured process for integrating reputation-based decision-making into business planning.”

The firm’s 2013 Reputation Leaders Study reveals answers from interviews with more than 300 business leaders across 25 countries on how they manage reputation, what challenges they face, and what they deem as best practices.

Sixty percent of respondents said they see a “direct link” between their company’s reputation and customer loyalty, revenue, and market share. Additionally, 63 percent noted that “reputation management” will be a higher priority over the next two to three years.

The following* are the top 10 companies from the report’s list of “top 100” in best reputations. They are organizations that credit union leaders can research deeper as they review the respective reputations of their own cooperative institutions.

1. BMW (www.BMWusa.com)
2. The Walt Disney Co. (www.TheWaltDisneyCompany.com)
5. Daimler (www.Daimler.com)
7. Microsoft (www.Microsoft.com)
8. Canon (www.Canon.com)

2013 Reputation Leaders Study**

*Source: Reputation Institute (To view the entire list, visit www.ReputationInstitute.com/frames/events/2013_Global_RepTrak_100_Press_Release_April_10_FINAL.pdf)
**Source: Reputation Institute (The 2013 Reputation Leaders Study interviewed 313 business leaders across 25 countries)
Leagues Launch ‘PowerComment’ for CUs

The California and Nevada Credit Union Leagues have launched PowerComment, an innovative and comprehensive online advocacy tool that helps credit unions play an active role in helping shape proposed federal and state regulations.

PowerComment is the Leagues’ response to the uptick in volume, complexity, and frequency of new rules and proposed amendments inundating the credit union industry.

“We’ve been hearing from credit unions about their struggles with regulatory burdens,” said Sharon Lindeman, vice president of regulatory advocacy for the Leagues. “We wanted to get in front of it and give credit unions the tools to successfully manage regulatory change.”

Launched in May, PowerComment consists of three components that bring credit unions face to face with proposed regulations in an easy, digestible format. Credit union CEOs, compliance officers, and executives can:

- Gain access to a running list of up-to-date, pending compliance rules.
- Participate in discussion boards to facilitate conversations between industry members and the Leagues’ staff.
- Write comment letters to regulators and immediately submit them.

Lindeman said the comment letter feature gives credit unions the opportunity to not only voice their concerns or support regarding a rule, but also write personalized letters expressing their credit union’s story.

“Personalized letters are what creates weight and what will make an impact,” Lindeman said. “If regulators hear from a large number of credit unions, they will take those thoughts and opinions into account when making a final rule.”

C-Sun Studios Helps Industry Go Digital

Since its inception in September 2012, C-Sun Studios has completed more than 30 different projects on behalf of a variety of clients, and it anticipates increasing its volume significantly by the year’s end.

“The digital landscape changes every day. YouTube, Vimeo, and others are growing at an astronomical rate,” said Joe Keller, vice president of digital media for C-Sun Studios. “Social media and digital marketing for credit unions are important for the future of the movement.”

Through its state-of-the-art facility and equipment in Ontario, CA, C-Sun Studios designs and develops interactive online videos, webcasts, podcasts, and innovative e-learning solutions for the purpose of corporate marketing, lead generation, business development, and custom-er retention. It also creates lobby videos and on-site event production.

C-Sun Studios has caught the attention of Western Payments Alliance, CU Direct Corp., and Executive Compensation Solutions—all of which have tapped the facility for educational webcasts, event promotions, video conferences, and collaborative digital messages.

“We initially thought of the studio as a conduit for credit unions and credit union service organizations to provide education and training webcasts,” said Tony Kitt, senior vice president of strategic innovation and planning for the California and Nevada Credit Union Leagues. “We are pleasantly surprised that our market is beyond credit unions. Most clients see value in using the studio as their digital communications link to their members and clients.”

For more information visit www.CSun-Studios.com, or call 909.212.6020.
The Consumer Financial Protection Bureau (CFPB) announced enforcement actions on April 4 against four national mortgage insurance companies1 for allegedly engaging in “kickback” arrangements with mortgage lenders in violation of the Real Estate Settlement Procedures Act of 1974 (RESPA).2

The CFPB alleges that, in exchange for valuable business referrals from the mortgage lenders, the mortgage insurers purchased reinsurance from subsidiaries of the mortgage lenders (also known as “captive reinsurance arrangements”). The reinsurance was “essentially worthless,” according to the CFPB, resulting in millions of dollars in profits to the mortgage lenders.

RESPA

RESPA is designed to ensure that borrowers are provided timely and accurate information about the costs associated with the real estate settlement process, and to curb certain abusive practices that can increase costs to consumers.

Section 8 of RESPA prohibits anyone from giving or accepting a fee, kickback, or anything of value in exchange for referrals of settlement service business involving a federally related mortgage loan. It also prohibits fee-splitting and receiving unearned fees for services not actually performed.

In July 2011, RESPA oversight was transferred from the Department of Housing and Urban Development (HUD) to the CFPB.

Enforcement Actions

According to the proposed settlement, the four mortgage insurance companies have agreed to the following:

Prohibition—The mortgage insurers will be prohibited, for a period of 10 years, from entering into any new captive mortgage reinsurance arrangements or from obtaining captive reinsurance on any new mortgages. They will also forfeit any right to funds not directly related to collecting on reinsurance claims under existing arrangements. In addition, they will be prohibited from paying illegal kickbacks or otherwise violating RESPA.

Penalties—The mortgage insurers will pay the CFPB a combined total of $15.4 million in penalties based on factors such as their finances, the pervasiveness of conduct, relative culpability, and cooperation.

Monitoring/Reporting—The mortgage insurers will be subject to CFPB monitoring and required to make reports to the CFPB to ensure ongoing compliance.

Implications for Credit Unions

RESPA does not only prohibit direct or quid pro quo kickback payments. The arrangements at issue were more subtle and involved a product purchased from a separate entity, but the end result was that the lenders ultimately received a profit inconsistent with the product or service actually provided. Any arrangements with third parties involving real estate lending should be carefully scrutinized to ensure RESPA compliance.

It is also interesting to note that these enforcement actions were brought against the mortgage insurance companies that paid the alleged kickbacks, but the lenders who ultimately received them were not named, yet.

The CFPB indicated that the type of kickbacks in this investigation were common in the years leading up to the financial crisis. It said the four mortgage insurance companies were “key players” during that time, but this may have merely been the reason for deciding to pursue them first.

1 The four mortgage insurers named are Genworth Mortgage Insurance Corp., United Guaranty Corp., Radian Guaranty Inc., and Mortgage Guaranty Insurance Corp.

asked & answered

NCUA Signage: Getting It Right

By Clarissa Martin, Research and Information Consultant

asked: When do credit unions need to use the National Credit Union Administration’s (NCUA) official “advertising statement” or display the agency’s official sign?

answered: Knowing when, where, and how to use NCUA’s official statement and sign can be confusing.

“Advertisement,” as used in Part 740, means “a commercial message, in any medium, that is designed to attract public attention or patronage to a product or business.”

In 2011, NCUA amended certain provisions of its official advertising statement rule, housed in Part 740 of its Rules and Regulations. The mandatory compliance date for this rule change went into effect Jan. 1, 2012.

Requirements and Options

The rule requires credit unions to include the official advertising statement in all advertisements, including but not limited to:

- Radio and television ads 15 seconds or longer. Prior to the 2011 rule change, it was 30 seconds or longer.
- Annual reports and statements of condition required to be published by law.
- A credit union’s main web page.
- Credit union supplies, such as stationery (except when used for circular letters), envelopes, deposit slips, checks, drafts, signature cards, account passbooks, and non-insurable certificates.
- Signs or plates in the credit union office, or attached to the building or buildings in which the offices are located.
- Listings in directories.
- Advertisements not setting forth the name of the insured credit union.

Credit unions may choose from three alternatives:

- The official sign
- The long version statement—“This credit union is federally insured by the National Credit Union Administration.”
- The short version statement—“Federally insured by NCUA.” Additionally, the official advertising statement must be “in a size and print that is clearly legible, and may be no smaller than the smallest font size used in other portions of the advertisement.”

Exceptions to the Rule

Regarding exceptions to the official advertising statement rule, the following advertisements need not include that statement:

- Credit union supplies, such as stationery (except when used for circular letters), envelopes, deposit slips, checks, drafts, signature cards, account passbooks, and non-insurable certificates.
- Signs or plates in the credit union office, or attached to the building or buildings in which the offices are located.
- Listings in directories.
- Advertisements not setting forth the name of the insured credit union.
- Display advertisements in credit union directories, provided the name of the credit union is listed on any page in the directory with a symbol or other descriptive matter indicating it is insured.

Regarding exceptions to the rule, the following advertisements need not include that statement:

- Advertisements that do not relate to member accounts, including, but not limited to, advertisements related to loans by the credit union, safekeeping box business or services, traveler’s checks on which the credit union is not primarily liable, and credit life or disability insurance.

Official Sign and Statement Provisions

A federally insured credit union must continuously display the official sign:

- At all teller stations or windows where insured account funds or deposits are normally received.
- On its Internet page, if any, where it accepts deposits or open accounts.

In addition, the NCUA does not mandate a font size requirement for the official advertising statement. However, the official advertising statement—whether it be text in the NCUA logo or one of the “Federally insured by NCUA” statements—must be “in a size and print that is clearly legible and may be no smaller than the smallest font size used in other portions of the advertisement.”

For more information, consult the California and Nevada Credit Union Leagues’ TIPs Bulletin 11-20 by visiting http://members.ccul.org/research/tips/2011/11_20.pdf (“NCUA Finalizes Changes to its Advertising Rules”).

1 12 C.F.R. §740.1(b)
2 12 C.F.R. §740.5
3 12 C.F.R. §740.4(b)
4 12 C.F.R. §740.5(c)
5 12 C.F.R. §740.5(a)
Social Media, Staff, and the Rules
By Arnold Ramirez, Research and Information Consultant

Although an employee’s “harmless” venting via social media could potentially damage the reputation or credibility of an employer, California law now prevents employers from asking to require access to an employee or job applicant’s personal social media accounts.

Social media is still very much in its nascent stage. The rules of etiquette and law have only begun to be established, and it’s anyone’s guess how rights and laws established long before the advent of social media will be applied and what new laws will come forth.

One new law, California Labor Code §980 (www.leginfo.ca.gov/cgi-bin/displaycode?section=lab&group=00001-01000&file=980), came into effect Jan. 1. It prohibits employers in California from asking employees or job applicants to provide access to their personal social media accounts.

Credit unions should review their policies on social media and human resources to make sure they comply with this new law’s provisions.

‘Social Media’ Defined
The new law defined “social media” as an electronic service or account, or electronic content, including but not limited to videos, photographs, blogs, video blogs, podcasts, instant and text messages, email, online services or accounts, or Internet website profiles or locations.

Prohibited Behavior
Employers may not require or request an employee or applicant for employment to:
(1) Disclose a username or password for the purpose of accessing personal social media.
(2) Access personal social media in the presence of the employer.
(3) Divulge any personal social media.

Under this provision, the law not only prohibits requesting the employee’s username and password, but also using methods such as “shoulder surfing” (viewing social media content over a user’s shoulder) or outright asking for a declaration of the employee’s social media content.

Permissible Requests
Nothing in the law affects an employer’s existing rights and obligations to request an employee to divulge personal social media reasonably believed to be relevant to an investigation of allegations of employee misconduct or employee violation of applicable laws and regulations, provided that the social media is used solely for purposes of that investigation or a related proceeding.

Credit unions should seek legal counsel before invoking their right to request an employee to divulge personal social media under this provision, as the law does not elaborate on what is covered under “employee misconduct.”

Employer-Issued Electronic Device
Nothing in the law precludes an employer from requiring or requesting an employee to disclose a username, password, or other method for the purpose of accessing an employer-issued electronic device.

Prohibition of Employer Retaliation
An employer shall not discharge, discipline, threaten to discharge or discipline, or otherwise retaliate against an employee or applicant for not complying with a request or demand by the employer that violates this section.

However, this law does not prohibit an employer from terminating or otherwise taking an adverse action against an employee or applicant if otherwise permitted by law.

While the law primarily provides protection for employees, it does not leave employers completely defenseless against employee conduct on social media that would otherwise be prohibited by law, such as defamation or slander.

Applicability of Consumer Laws
Both the Federal Trade Commission (FTC) and Federal Financial Institutions Examination Council (FFIEC) recently issued information on the applicability of consumer protection and compliance laws and regulations in relation to social media:

- To view FTC-updated guidance for mobile and other online advertisers, including credit unions, that explains how to make disclosures clear and conspicuous to avoid deception, read the “.com Disclosures Guidance” document by visiting www.ftc.gov/opa/2013/03/dotcom.shtm.
Taking the Risk Out of Student Loans

A combination of the struggling economy, surging college enrollment, and increasing tuition has resulted in significant student loan originations in recent years, of which 92 percent are federally backed. In fact, federal loan balances increased 97 percent and private loan balances rose 4 percent between 2007 and 2012.

However, despite the government’s proactive efforts to provide access to education to America’s youth, most of its loans bear little to no underwriting, resulting in increased defaults. Federal student loan delinquencies rose 27 percent in five years, settling to an overall 90-day delinquency rate of 12.31 percent as of March 2012.

Coupled with higher defaults, federal loan limits make it more difficult for students to secure the full financing they need to keep up with escalating tuition costs. This provides a tremendous upside for private lenders, such as credit unions.

CU Student Choice helps credit unions build a private lending program that manages risk and returns strong value to borrowers:

• **Borrower Education**—Stress the importance of low-cost funding options, such as grants, scholarships, and federal student loans, before turning to more expensive private lending.

• **Underwriting Matters**—Implement sensible underwriting criteria that factors in credit score and history, and encourages use of a co-borrower.

• **Certification**—School certification engages the college financial aid office to verify enrollment, validate the loan amount, and determine fund disbursement.

• **School Quality**—Factor in the quality of the school based on historical default rates.

• **Repayment Help**—Offer longer and graduated repayment options to assist students entering the workforce and who may be underemployed for a period of time.

• **Relationships**—Lending to students and families within an existing footprint leads to a genuine opportunity for long-term relationships.

By offering fair-value education financing solutions, smart and disciplined lenders such as credit unions can help families achieve their dream of higher education at a much lower risk.
Is your credit union looking for a new and effective way to grow its core services? The membership enhancement program Invest in America can help with its exclusive member discounts:

- **Increase auto loans** and member loyalty with the Credit Union Member Discount from GM®
- **Enhance member value** with discounts from Sprint®, TurboTax® and Dell®
- **Earn non-interest income** from opportunities through the Sprint® Credit Union Member Discount and Credit Union Auto Club
- **Increase debit/credit card usage** by offering discounts from Shop America and other Invest in America partners

Some 2013 Invest in America results:

- Over three million credit union members have saved money
- More than 532,000 U.S. vehicles have been sold
- 46 leagues and nearly 3,500 credit unions are participating
- Members have saved over $272 million with Sprint®

Discover for yourself how Invest in America can help grow revenue, loan volume and debit/credit card usage for your credit union. Plus, we have the support team and free marketing materials to help make it all happen.

Call 800.262.6285, email info@cusolutionsgroup.com or visit LoveMyCreditUnion.org to learn more.

---

Credit Union Digest | June/July 2013 | Members First
Envisioning 2020: Who Will Lead Us?

Imagine it is Jan. 1, 2020. Across several areas of California and Nevada, the skies are clearing for another beautiful morning. It’s also the first day of a new legal and operating environment for credit unions. Beginning today, credit unions become mutually owned bank cooperatives with federal deposit insurance from the Federal Deposit Insurance Corp. (FDIC) and are subject to the regulatory environment of the Office of the Comptroller of the Currency (OCC).

Now all American consumers can join the credit union of their choice (just like they could a bank) and receive all financial services available at too-big-to-fail banks and the limited number of community banks remaining. Today is also the beginning of a new authority for credit unions to obtain additional sources of capital to meet Basel V standards (global regulatory capital standards). Basel III and Basel IV blew by years ago.

Another consequence of becoming mutually owned bank cooperatives is that credit unions will now pay the same federal corporate taxes the seven remaining too-big-to-fail banks are required to pay. However, when Congress passed the new law, it exempted credit unions with fewer than 25,000 members.

“It took a really long time, but now credit unions are on the same tax footing as banks,” said Keith Leggett in an article that credit union leaders from both states are poring over. By now, Leggett has transitioned from vice president and senior economist for the American Bankers Association to president and CEO. “However,” he said, “the ABA is disappointed that these banking cooperatives received all of the powers of the seven largest banks and remaining 1,500 community banks.”

“We’re still daydreaming, right? Perhaps, but it’s a scenario credit union leaders should really start pondering. We all need to be thinking about the environment our credit unions will be operating in by the end of this decade. Many of us are guilty of looking at the short-term effects of regulations, regulators, and potential Congressional actions. But where is the real planning to gain consensus for our future?

This is where our national and state trade associations should begin their focus. Where will credit unions be in seven to 10 years? Who will lead the credit union industry into this century? Who will lead our individual credit unions?

We are in difficult, yet improving, financial times. Our income statements are looking better, and real estate values appear to be improving.

But credit unions no longer have any independent pricing power on the deposit or loan side. Consumers find it easy to change and select financial service providers. This pricing power is being taken away by well-intentioned—but “one-size-fits-all”—regulatory fiats in Congress, state legislatures, and regulatory agencies.

The Dodd-Frank Wall Street Reform and Consumer Protection Act is not finished with its intrusions into credit union (and community bank) operations and services provided to consumers. Many of the “special” services we provide are being taken away by federal regulators and innovations through the Internet.

Here’s a sports analogy. The great thing about a baseball season is that it is long (162 games at the major league level). Managers do not worry about a specific inning or an individual game. They are looking at the overall six-month season. If they are not successful early, the team has a lot of ground to make up late in the season. That doesn’t always happen. Time runs out, and post-season performance may not be reached. Managers are fired.

We, as the current holders of the credit union movement, owe it to our successors to prepare for the long-term future of credit unions. Our next leaders are demanding it. Our member-owners deserve it.
For more than half a century, Western CUNA Management School (WCMS) has helped up-and-coming staff members become highly productive leaders at their credit unions.

The school’s challenging curriculum gives your staff the depth of knowledge and breadth of experience they need to drive your organization to greater success.

WCMS graduates will return with a full understanding of your entire operation—and the motivation and commitment to contribute perhaps even more than you thought they could.

July 14–26, 2013
Pomona College—Claremont, California

Western CUNA Management School
Building the Future Through Credit Union Education

- Highly concentrated academic training over three yearly two-week terms
- The American Council on Education’s College Recommendation Service (ACE Credit) has evaluated and recommended college credit for all of Western CUNA Management School courses
- Located at Pomona College, perennially ranked as one of the nation’s premier liberal arts colleges

For more information, visit www.wcmspomona.org or call 800.472.1702, ext. 6059
Be there with the tools and support to stop fraud when it happens. How do you protect your members from an ever-evolving array of sophisticated tricks and schemes? With real-time evaluations before authorizations occur, 24/7 monitoring, and the personal expertise of CO-OP’s Card Member Security specialists. Save time. Save money. Save members. Find out how at co-opfs.org. Be more.