Credit Union Business Plan

I. Introduction

The Board of Directors and Senior Management staff of the Credit Union met to establish goals and a strategy to achieve those goals for the coming years. The purpose of this Strategic Plan is to outline the strategy by which we plan to meet our goals. The Strategic Plan is to be used:

A. To communicate a sense of direction to all parts of our organization;

B. To identify short-term actions needed to prepare the Credit Union to meet its long-term objectives;

C. To help assess the long-term impact of short-term plans;

D. To provide a basis for short-range, one-year planning;

E. To provide a basis for financial strategy; and

F. To provide a control device against which to compare actual progress.

II. Mission

The Credit Union is a member-owned financial institution whose purpose is to promote the financial well-being of its members by providing comprehensive and progressive financial services.

Operating Principles:

A. To provide these services in a professional, personal, and competitive manner.

B. To provide a climate in which the Credit Union volunteers and employees can achieve outstanding performance and personal growth.

C. To support the advancement of our community, the Credit Union philosophy, and in particular our own Credit Union family.
D. To continue the emphasis of the Credit Union strength through growth of capital and surplus.

All of which shall be supported by a program of excellence in product quality and service while maintaining high standards of ethics and integrity.

III. Comparison of 1990 Goals to Results

Following is a comparison of our 1990 goals with our anticipated year-end results:

<table>
<thead>
<tr>
<th>(sample)</th>
<th>1990 Goal</th>
<th>1990 Year-End Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>$37,700,000</td>
<td>$37,400,000</td>
</tr>
<tr>
<td>Reserves to Assets</td>
<td>6.5%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Loans</td>
<td>$32,745,042</td>
<td>$32,900,000</td>
</tr>
<tr>
<td>Delinquency</td>
<td>1.9%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Net Charge-Off Loans</td>
<td>$307,000</td>
<td>$329,000</td>
</tr>
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As indicated above, the Credit Union achieved three of its five goals for 1990. Asset growth was lower than projected due to less growth in certificates than was anticipated.

Our Reserves to Assets goal was met in 1990. This is a very positive sign since it illustrates the Credit Union's growing financial strength.

Our loan goal was also achieved. Total loans outstanding grew by $5,500,000, which represents a growth rate of 20%. By contrast, the average loan growth at credit unions nationally was 6%.

Our delinquency goal was met and surpassed in 1990. Our year-end delinquency of 1.8% is equal to the national average for all credit unions.

The Credit Union did not reach its charge-off goal. Charge-offs as a percentage of total loans did, however, decline for the fourth consecutive year.

IV. Assessment of Current Position

A. Strengths

1. Management Team

Over the past few years the Credit Union has worked to improve the quality of its management team. As we enter 1991, the management team is more professional, more capable, and more experienced than ever before. In addition, changes in compensation, the salary administration plan, and improvements in staff training are beginning to develop potential management
candidates from within the hourly staff.

2. Range of Services

The Credit Unions full range of services must also be considered a strength. Our services match up well against most banks, savings and loan associations, and credit unions.

3. Charter

The Credit Union’s charter provides us with a great deal of flexibility.

B. Weaknesses

1. Member Loyalty

The fact that the Credit Union is a Select Employee Group (SEG) Credit Union, combined with some of the problems a few years ago, has resulted in a less than desirable relationship with our members. Select Employee Group Credit Union typically suffer from less member loyalty than do single sponsor credit unions. Members view SEG credit unions as more like a bank than they do like a credit union in which they have an ownership interest. This problem has been compounded by events such as operational deficiencies and increased service charges. While these problems are behind us, the perceptions of our members have been and will continue to be slow to change.

2. Relationship with Select Employee Groups

The same issue that have affected member loyalty have also affected our relationships with out Employee Groups. Over the past few years several groups have left us in favor of other credit unions. Many of the groups that remained have a "bad taste in their mouth" due to the problems of the past. As a result, there has been a fair amount of animosity and some reluctance on the part of the groups and their representatives to work with the Credit Union.

3. Accessibility

While the Credit Union has made significant gains over the past few years in becoming more accessible, we still lag our competition. Evidence of this problem can be found in the 1988 Member Survey, The Credit Union scored low on convenience of hours, convenience of location, and phone service. Because our membership is spread throughout the metropolitan area, it is difficult to adequately service members with three offices. Our lack of ATM availability and having only minimal evening and no weekend hours certainly contribute to this problem.

C. Market Position

The Credit Union is largely perceived as being something of a "specialty" financial institution. That is, members may use the Credit Union to keep a secondary or checking savings account, or as an inexpensive place to have a VISA account. As indicated by the Member Survey, very few of our members (23%) consider the Credit Union to be their primary financial institution. This is
further evidenced by our low average share balance and our low penetration in money market accounts, certificates, and IRA accounts. Our market penetration figures follow:

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Draft Accounts</td>
<td>18%</td>
<td>16%</td>
</tr>
<tr>
<td>Money Market Accounts</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Christmas Club Accounts</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>IRA Accounts</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Certificates</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>VISA</td>
<td>41%</td>
<td>40%</td>
</tr>
<tr>
<td>Loans (excluding VISA)</td>
<td>22%</td>
<td>23%</td>
</tr>
</tbody>
</table>

V. Assessment of Competition

The Credit Union’s competition includes each of the following:

- Other Credit Unions (All services)
- Banks (All services)
- Savings and Loan Associations (All services)
- Mutual Funds (Savings, IRAs)
- Finance Companies (Loans)
- Department Stores (Credit Cards)
- Insurance Companies (Savings, IRAs, Loans)

Our most notable competition comes from banks and savings and loan associations. For this reason an analysis of their strengths and weaknesses will be undertaken. Both banks and savings and loan associations will be considered together. The reason for this is simple. There is little distinction between the two types of institutions made by the consumer. For example, most people refer to their accounts at savings and loan associations as "bank" accounts.

A. Strengths of Banks and Savings and Loan Associations

1. Accessibility: As a general rule, banks are highly convenient. They are generally in the neighborhood of their customers. Furthermore, banks generally have convenient hours, drive-up windows, and ATMs which further add to their convenience. Savings and loan associations are usually even more convenient since they often have numerous branches.

2. Wide Range of Services: Another strength of the banks and the savings and loan
associations is their wide range of services. The consumer seldom wonders whether his banks offers a particular financial service. It is assumed that if it is a financial service, it is offered by the banks. Banks also have a wide range of peripheral services such as license plates, savings bonds, travel services, and utility bill collection.

3. Financial Resources: Another strength of the banks and the savings and loan associations is their financial resources. Due to the large size of many of these institutions, they have large budgets for marketing, research, and planning that the smaller institutions do not have. They also achieve economies of scale which smaller institutions cannot approach.

4. Perceived Security: Banks and, to a lesser extent, savings and loan associations are perceived as being very secure places to keep money. This perception is reinforced when an individual walks into a bank. He sees armed security, cameras which monitor the lobby, and vaults. This perception goes further, however. When the consumer wants to put his money in a "safe" place, he goes to his bank. It must be noted, however, that the savings and loan crisis has shaken this perception somewhat.

5. Consumer Acceptability: In a somewhat related vein, banks are widely accepted by consumers. When a child begins saving money his parent tell him that it's time to open a bank account. No analysis is done on the relative merits of banks versus savings and loan associations versus credit unions. The bank is where one saves money.

6. Perceived Professionalism: Banks and savings and loan associations are perceived as being very orderly, we run, professional organizations. This notion is reinforced by everything from the architecture of the facility to the manner in which the employees dress.

B. Weaknesses

1. Lack of Personal Service: Banks and savings and loan associations tend to be very impersonal organizations. They are perceived as not being very concerned about the individual. This is particularly true with small depositors. Banks usually do not hide the fact that they are not interested in small accounts because they are unprofitable.

2. Service Charges: Another weakness of these institutions is that they maintain numerous service charges. It is not uncommon for a bank to charge customers for not maintaining a minimum balance, for transferring funds between accounts, for a copy of a previous statement, for missing a loan payment, etc. Many people resent these institutions for these charges, but feel that they have no alternative but to deal with them.

VI. Assessment of Environment

The financial services industry is undergoing a period of rapid change. The savings and loan crisis, deregulation, fluctuating interest rates, new electronic technology and competition from outside the "traditional banking" industry are just a few of the factors that will be effecting the Credit Union. Although the environment is largely uncontrollable and the future difficult to predict, it is possible to analyze current trends and make some assumptions about what our environment
will be like in the future. Following are some of the trends which will undoubtedly have an impact on the Credit Union. Many of these trends are a direct result of the deregulation of the financial service industry.

**The Savings and Loan Crisis**

The savings and loan crisis has serious and far reaching implications for credit unions. Shortly after the 1989 bailout of the FSLIC Funds, it became clear that additional funds would be needed. A second bailout, known as FSLIC II, is expected in early 1991. The banking industry, through its trade associations, has developed a strategic plan to portray credit unions as the next financial crisis. It is working hard through the media and its lobbying efforts to get Congress to "level the playing field."

If the banking industry is successful in its efforts several events could take place which could be detrimental, if not fatal, to credit unions. They include:

1. The elimination of our tax exempt status.
2. The merger of our strong insurance fund into the weaker FDIC fund, and
3. The need to expense our 1% deposit with the National Credit Union Share Insurance Fund (NCUSIF)

It is clear that the credit union movement is in for the fight of its life.

**Rate Consciousness**

There is a growing trend towards rate consciousness. The consumer is becoming aware that he has many alternatives other than depositing money into a passbook account at a bank which earns 5.14% interest. The existence of the money market mutual funds and the deregulation of bank savings rates have contributed to this growing consciousness. When money market rates soared to over 18% in 1981, consumers with large sums of money in banks and savings and loan associations began to realize they could more than triple the return on their savings by moving them into a money market fund.

**Competition Among Credit Unions**

With a growing number of credit unions looking to expand their fields of membership, we cannot ignore the fact that increased competition among credit unions is inevitable. The notion of the common bond is disappearing. What we may eventually be left with is a number of credit unions with community or select employee group charters vying for the same market.

**Increased Competition from "Non-Bank" Sources**

Another effect of deregulation is the formation of financial service networks by organizations
outside traditional banking. Sears, for example, already has a base of 50 million credit card holders. It now owns a bank, a brokerage firm, an insurance company, and a real estate firm. Sears has put tremendous resources into its long-term plan to offer its customers a full range of financial services via a "financial supermarket." Prudential, Merrill Lynch, American Express, and Dreyfus Service Corporation are a few more examples of competitors that plan to offer a full range of financial services.

**Increasing Use of Electronic Funds Transfer Systems (EFTS)**

With the cost of paper based transactions increasing and the cost of electronic transactions decreasing, it is no wonder that industry observers expect more and more transactions to be handled electronically in the foreseeable future. Automatic teller machines (ATMS), point of sale terminals (POS), debit cards, and in-home banking will gain increasing consumer acceptance in the years to come. Furthermore, the distinction between these electronic services is beginning to blur. ATM networks are integrating with POS systems. ATM cards, debit cards, and POS cards are being used in in-home banking experiments.

**Aging of the Population**

Over 10% of the population of the United States is aged 65 or over, and this percentage is expected to grow steadily. This means that the savings market should continue to grow, since older people are typically savers. It also means that services geared towards this growing segment of the population will be needed.

**Increasing Use of Home Equity Loans**

The Tax Reform Act of 1986 began a trend towards loans secured by home equity. 1990 was the last year that any of the interest paid on loans other than those secured by mortgages were deductible. This will have the effect of making traditional loans and credit cards more costly while making home equity loans an attractive alternative.

**Concern Over the Federal Budget Deficit**

In recent years, concern has grown over the size of the federal budget deficit. The budget deficit, together with the FSLIC crisis, have also increased the likelihood of credit union taxation.

**VII. Goals**

Following are the 1991 goals established at the planning seminar:

- **Assets**: $39,600,000
- **Loans**: $34,300,000
- **Reserve to Assets**: 6.83%
- **Delinquency**: 1.6%
In order to bring our financial projections in line with our goals, some of the goals have been modified. The revised goals for 1991 are as follows:

- **Assets**: $40,639,450
- **Loans**: $36,090,000
- **Reserve to Assets**: 7.16%
- **Delinquency**: 1.6%
- **Net Charged-Off Loans**: $330,000

The goals for 1992 are as follows:

- **Assets**: $43,500,000
- **Loans**: $37,600,000
- **Reserve to Assets**: 7.42%
- **Delinquency**: 1.6%
- **Net Charged-Off Loans**: $342,000

**VIII. Strategy**

In order to achieve our financial goals, we must be prepared to address the obstacles and potential obstacles which stand in our way. Specifically, we must work to remedy problem areas while taking advantage of our strengths and the opportunities in the marketplace.

Our strategic objectives for 1991 and the methods by which we will work towards each of these strategic objectives are discussed below.

**A. To Build Capital as a Percentage of Assets**

The stronger a credit union's capital base, the better it is able to service its members in good times and bad. For that reason, we will continue to work to build our capital as a percentage of assets.

In the past few years, we have aggressively promoted loans as our primary means of building our capital ratio. Thus far, we have been extremely successful with this strategy. Last year alone, our loans grew at three times the national average.

We have now reached a point, however, when aggressively promoting loans as our sole means of building capital is no longer feasible. There are two reasons for this. First, we have been so
successful with our loan promotions that our Loan to Share Ratio has increased to well over 90%. Second, it appears that the nation is going into a recession. This will have the effect of weakening loan demand, making a plan which relies on significant loan growth extremely risky.

Our plan to build capital for 1991, theretofore, will focus on moderate loan and share growth, together with vigilant expense control. Several actions to support this effort will take place.

1. We will continue to promote secured credit while tightening our standards for unsecured credit. Specifically, home equity loans and new car loans will be emphasized. Credit standards will be tightened for personal loans and VISA.

2. We will also seek moderate share growth. Share draft accounts will be our primary focus. Money market accounts and certificates of deposit will also be promoted.

3. Expense growth will be 7%. This compares with 14% expense growth in 1990 when compared with 1989. This will help to reduce the Expense to Income Ratio which is significantly higher than that of the average credit union.

B. To Build Member Loyalty

The building of member loyalty is a process which will take place over a number of years. We must work diligently to develop a strong relationship with our members. Four areas will be addressed in 1991:

1. We will work to improve the overall quality of service to our members. While some progress has been made in this area, we must continue to make quality service a priority. One significant change will be made in 1991 is the elimination of balance inquiries over the phone. This action will significantly reduce the number of incoming calls. Waiting on hold for the Member Service Department will be reduced, busy signals and excessive waits for the switchboard will be reduced, and our staff will be freed to provide more important member services.

2. We will work to provide a better trained staff. A well trained, efficient staff will enable us to better serve our membership while building better member relations. For the third year in a row, the budget for staff training has been increased. In addition, the tuition reimbursement program will begin to assist us in this important area.

3. We will continue to work to develop a sales culture. While some progress has been made in this area, we still have a long way to go. In 1991, we will improve our tracking systems and make managers more accountable for sales in their departments. We will also provide sales training to all managers.

4. We will continue to focus on credit union uniqueness. In our publications and communications we will promote the fact that the credit union is a unique type of financial institution which is designed exclusively for the benefit of its members.

C. To Improve Our Relationships with Select Employee Groups
Improvement in the area of SEG relations, as in the member relations area, is not something that will occur overnight. In order to successful, we must work to develop a spirit of cooperation with our groups. Through greater cooperation, we can improve the efficiency of payroll posting and account opening, improve member communications, and increase penetration in each group. Four actions will be taken in 1991 to improve our SEG relations:

1. Our Marketing Director will visit each of our top 25 groups at least once during the year. The purpose of these visits will be to build a rapport and to work with these important groups to increase penetration.

2. A series of inserts will be developed for the SEGs to use in employee paychecks. This will increase the visibility of the Credit Union while it assists the SEG in promoting our services.

3. Periodic seminars will be held as orientation for credit union representatives. These seminars will provide a cost effective means by which we can provide basic information to credit union representatives. They will also help us to build a feeling sponsorship among the SEGS.

4. An information manual will be developed for use at each SEG. The manual will provide basic information about the Credit Union and its services. It will also serve as a "How To" guide for opening accounts, changing deductions, making transactions, etc.

D. To Attract and Retain a More Upscale Member

Several indicators point to the fact that the Credit Union's membership is less affluent and less credit-worthy than the membership of other credit unions. Our low average share balances, our high charge-off rate, and our high loan rejection rate are just a few of these indicators. In order to continue to reduce our loan losses and bring our expenses into line with those of other credit unions, it is necessary to better manage the demographics of our membership. By attracting and retaining members who are good savers and are credit worthy, we will be better able to provide services to all members. Five actions will be taken in 1991 to achieve this objective.

1. A VISA Gold card will be introduced. This program will help to attract a more upscale member by providing a lower rate and the perceived prestige of the gold card. It will also make the Credit Union more attractive to upscale non-members within our SEGS.

2. ATM access will be made available through the Cash Station network. This service will, of course, increase accessibility for all members, but studies have shown that as income increases, ATM usage increases. We, therefore, will be in a much better position to attract and retain the upscale member once this service is available.

3. Two new share draft accounts will replace our existing share draft account. One will be a basic, non-interest bearing account. The other will be designed to attract a more upscale member. It will be packaged with a free Cash Station card and will provide a competitive dividend which compounded daily and paid monthly.

4. Special attention will be paid to those SEGs that have the type of member for which we are
looking. Our Marketing Department will be working with representative of these companies to increase penetration. Membership drives, special sign-ups for ATM cards, paycheck stuffers, and group presentations will be conducted, depending on their feasibility within each group.

5. Members with $5,000 or more in a regular share account, money market account, IRA, or a CD will be exempt from all minimum balance fees. This will help us to avoid "nickel and diming" the member who maintains a significant balance at the Credit Union.

IX. Conclusion

Over the past four years, the Credit Union has made tremendous progress towards its long-term goals. This plan has outlines our strategy for 1991 and beyond. By working vigilantly to achieve our objectives, we will continue to build the Credit Union into a stronger, more competitive financial institution which provides both a top quality service to its members, and a climate in which our volunteers and employees can achieve outstanding performance and personal growth.