Sharing the American Dream

Credit Union Perspecives on Leadership

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Credit Union Executives Society Credit Union Executives Society Foundation
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Editor's Note

Had you asked me prior to this assignment what elements make up a good credit union executive, I probably would have said things like training, education, market awareness and management professionalism. While that list is good as it stands, it doesn't begin to tell half the story. I found that out as I began working with the manuscripts for this volume.

All of those things I mentioned, along with the abilities to motivate employees, interact with board members, master the new technologies and devise brilliant strategies, are becoming more important as the days go by. But they're just elements, asides, "frosting on the cake," if you prefer my mother's favorite expression. At the heart of the matter lies a genuine concern for human beings and the commitment and desire to serve. That's what really separates credit union executives from the other financial professionals, what sets them apart and, in my opinion, a little ahead of the rest. It's their sensitivity to human need, coupled with their professional ability to serve those needs, that makes them more than just another moneylender.

I knew that element of caring was present before I started this project. What I didn't know was exactly how much of a driving force it was in the life of each and every contributor. No matter what the subject or specialty, each one of the authors you're about to read stresses the importance of member service and, more importantly, compassion for people's needs. I admire that in them. It made the editorial task much easier, and instead of a time-consuming assignment, I feel I've had the pleasure of making 14 new friends.

Thanks to each and every one of you for showing once again that the principles behind credit unions are indeed alive and well.

— Michael Muckian

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Dedicated to all credit union executives who over the years have helped their members share the dream of personal financial independence.

John F. Buddle is chairman of the Credit Union Executives Society and CEO of CUNA of Ontario Credit Union Ltd. First elected to the Society board in 1977, he became chairman in November 1984. During his years on the board, he has been involved with the creation of the Financial Marketing Association, the Financial Operations Association and the Society Foundation. He is the first chairman of the Society from District 5 (Canada, Australia, Ireland, New Zealand and Puerto Rico).

Forward

by John F. Buddle

It's a privilege for me as chairman of the Credit Union Executives Society, in its 25th anniversary year, to participate in the production of *Sharing the American Dream*. I have been a part of the credit union industry for 29 years, and it's a pleasure to acknowledge and celebrate the Society's quarter century and to look forward to even brighter and bolder horizons for the future.

I believe that effective communication is of paramount importance to the success and continued growth of any industry. That is particularly true of credit union people. They have always been recognized for their sharing of ideas and innovations for the benefit of all. Others compete while credit unions cooperate. Our philosophy has been "people helping people," and that unique approach in the financial services field has long been a factor in our favor.

This volume is a lasting way to celebrate our renewed commitment to professionalism in the credit union industry as part of the Society's "Year of the Credit Union Professional." It documents our history and offers future perspectives gathered from a wide-ranging cross section of today's most knowledgeable people. Their insights and experiences will benefit others in the pursuit of increased expertise.

It seems quite in keeping with our philosophy that this book should be multi-authored. Collectively, our group of authors have hundreds of years of firsthand credit union experience. In the following pages, they share their views in a pragmatic way about a host of vital issues. All topics of interest or concern could never be covered in a single volume, of course, but this book is far more than simply a "potpourri" of ideas and techniques. It deals effectively with today's current issues and tackles future directions head-on.

I am very proud to contribute the forward to *Sharing* *the American Dream.* As a Canadian, I share much with my friends to the South. In addition to our common borders and language, we have the same roots and democratic ideals that have kept our nations intertwined in friendly harmony throughout our histories.

My association with the Credit Union Executives Society has also been a sharing experience for me of over 20 years. Through conferences, seminars and a variety of publications, and especially through personal contact with my peers, I have learned much and kept abreast of the developments both inside and outside my profession. In the next 25 years, I know that the Society will strive to meet the needs of even greater numbers of members, and will broaden the scope of credit union professionals beyond their local peer groups toward a more global community.

As credit union professionals, our primary interest will always be to help our members in their pursuit of financial growth and independence. To that end, the Society is dedicated to improving the professionalism of its members. A book such as this is yet another way we share our skills with both volunteers and professionals, inside as well as outside our industry. The fact that it's co-sponsored by the Credit Union Executives Society Foundation shows the concern that not only members, but the public at large, become aware of the tremendous advantages of credit unions.

I believe that *Sharing the American Dream* will prove invaluable as it draws on a broad spectrum of talents, and will give its readers a very complete picture of the credit union movement; past, present and future. The Society feels a special responsibility to the credit union community. This work is but one more means of meeting that essential responsibility. But books don't write themselves. "Who casts to write a living line, must sweat, " wrote Ben Jonson. For this book, many people have sweated. I'd like to thank them, one and all.

What is "the American dream" and who shares it? In its broadest sense, the dream was verbalized by Abraham Lincoln in his Gettysburg address in 1863. "It is for us . . . to be dedicated here to the unfinished work which they who fought here have thus far so nobly advanced . . . that government of the people, by the people, for the people, shall not perish from the earth!" Of the people, by the people, for the people — just what credit unions are all about. All Americans, and by extension, all democratic people throughout the world, share in the belief that everyone, regardless of race, color, creed or any other difference, has an equal opportunity to advance him or herself. To me, Lincoln is the embodiment of that dream.

The credit union dream is much the same. Our members share equally the opportunities provided for them by their credit unions to grow and prosper in financial independence and security. Some dreams are, however, only so much unattainable pie-in-the-sky. But other dreams, spawned by dissatisfaction with existing conditions and taken up by men and women who truly cared and believed in their cause, who thought futuristically for the benefit of all, have transformed those dreams into reality.

The credit union dream is also being realized. With a cooperative spirit and democratic principles entrenched in our philosophy, the credit union movement is now worldwide. It has grown from a handful of members at its beginnings to over 108 million members today. Our concentration on the needs of our members, rather than on the outright pursuit of profit, has taken us from relative insignificance to an enviable place of prominence.

Credit unions around the world are prospering like never before. In North America, credit unions are enjoying a period of overwhelming growth and success. The special secret to our success bears repeating. Our member orientation is what gives us our strength. The understanding of member needs and desires is what sets us apart from the rest of the financial services industry. A recent survey in the *American Banker* ranked credit unions number one in consumer satisfaction and applauded credit unions for a 39 percent increase in consumer confidence. Member loyalty is more important than ever to the stability and success of our industry.

The future of our industry is going to be an active one filled with changes and growth potential unparalleled in even our most recent past. From all that I've seen, read and experienced, I can safely say that credit unions are high on the list of trail blazers. We have progressed with the times. Many credit unions have done an excellent job of keeping pace with and, in some cases, even outdistancing other financial industry leaders.

What lies ahead for our industry? The words that have been gathered for this book are intended not only as a record of where we have been, but also as a map to the future. Our new financial environment has all the elements of an untamed frontier filled with danger as well as opportunity, with new market segments to discover and new technologies to tame. There will be no shortage of new and exotic options facing our credit unions. It is an understatement to say that this is not the same industry we knew 25 years ago and that it will not be the same industry 25 years from today. Where we will be, even five years from now, is anybody's guess. But according to most experts, one thing is certain: there will continually be more sophisticated consumers who will be more selective in their choice of financial services and financial service providers. We will have to prove our worth on an almost daily basis.

Our members are looking for high-yielding vehicles and good investment strategies just like everyone else. But they are also looking to be treated like people and individuals, not merely account numbers. Where would our credit unions be if our member confidence disappeared tomorrow? It's not something we can afford to take for granted. We can look to past experience for guidance, but to rely solely on what has gone before has been the folly of many a traditionalist. In the face of rapidly changing scenarios, credit union professionals are needed to lead the way into the 21st century.

In his recent *American Banker* article, Jack -Whittle defined the very essence of what it means to be that professional. He said a professional is conscientious of time, and complete and thorough in his follow-through. A professional is organized, works in specifics, assigns priorities and, above all, is a good communicator. A professional is an eternal optimist who delights in tackling and resolving problems and never a procrastinator who avoids dealing with issues. To these, I would add two more points.

In these days of increasing competition and greater consumer awareness, a credit union professional must continue his or her education. We must always strive to improve our knowledge in new directions and expand our horizons to incorporate new areas of expertise. With the growing focus on meeting consumer needs, one of the hallmarks of credit union professionalism must be an increasing commitment through service to members and, through them, to the credit union and the community it serves.

We have built on our traditions. We understand the past and the philosophical roots of the credit union movement. We must carry those ideals into the future, adjust our approach cautiously and in the interest of the continued development and success of each credit union.

Dreams do come true. To assure our future success, we must guide our credit unions with a strong, educated hand. A dedicated professional must lead the march. Hard work alone is no longer enough to create the type of institution that will be able to provide a full range of services to our members, while withstanding often crushing opposition from without. The first line from the Credit Union Executives Society's own Code of Ethics pinpoints the type of leadership necessary to keep the credit union dream alive.

"A credit union professional makes honor, integrity and unselfishness a basic standard of conduct." That must be a personal commitment as well as a professional goal. Credit unions have come a long way, but we still have a long way to go. It's reassuring to know after reading the following chapters, that we'll be traveling in such good company.

Chapter 1

More than any other financial institutions, credit unions have contributed most heavily to the American dream of personal financial independence. That's the way it's been from the start, explains Jack Mitchell, and that's the way it will always be.

Responsibility for that success is due to the compassion credit union executives and directors have had toward members. Credit unions are administrated through both the head and heart, and that's an integral part of what makes them successful. Professional skills, aided by compassion, give management a level of understanding unparalleled in the business world.

But such compassion must be cultivated, and such skills subjected to continuous, on-going education through reading, meeting and professional memberships. That's what contributed to Mr. Mitchell's level of management excellence when he served Dallas Teachers' Credit Union, and that's a position advocates for any level of credit union management.

Jack A. Mitchell, a Lancaster, Texas native, served as the first chairman of the board for the Credit Union Executives Society in 1962-63. Mr. Mitchell is also the former treasurer/manager of Dallas Teachers Credit Union and has served as chairman for the Dallas Chapter of Credit Unions, the Texas Credit Union League and the National Education Association Committee on Credit Unions.

Credit Unions-
A Working Definition, A Philosophical Perspective

by Jack A. Mitchell

There's more than one way to look at an American dream, which is certainly a very appropriate title for this admirable effort by the Credit Union Executives Society. The purpose of this "American Dream" book is to try and capture the spirit of management that has played such an important part in making credit unions what they are today. My way of looking at the American dream is to state simply that when I first became involved with credit unions, never did I dream that they would become such an important part of my life and the lives of those I was so fortunate to come in contact with and become good friends with over the years.

I knew from the very beginning that credit unions were an excellent idea. I knew that the dreams of many of us, myself included, would be fulfilled because of our involvement with credit unions. But I really didn't dream that my involvement would go so far as to become a major part of my very existence.

From the day I became a credit union treasurer and volunteer until the day I retired as the chief executive officer of Dallas Teachers Credit Union, my hours were filled with credit union involvement at all levels.

My happiest moments were spent working with credit union people. At the risk of oversimplifying my heart-felt feelings toward credit unions, let me say I believed from the very beginning, throughout my professional career, and even more so now, that among the many things that make credit unions unique, most important is the dedication of people to their fellow man. This is something I've never lost sight of and, to this day, I look back with many fond memories of all the people I was involved with.

The fulfillment of my American dream is that I have been able to experience this unique movement firsthand. I have been able to watch credit unions grow from a modest idea in the brains of great credit union leaders to the successful industry of today. I have watched the idea involve millions more people than I ever dreamed possible. And I have watched a movement grow and mature until it has become well-established, meaningful and a dream fulfilled in countless ways.

The role of the professional

The story of credit unions has been told many times, in many ways, by many people who are in a better position than I to explain the details of our combined success. But perhaps a story that hasn't been told is the role that the professional manager has played in the growth of credit unions. Credit union managers have come to depend on and continually support their own organizations. This allows them to improve and enhance their own professional development and, in so doing, make an even greater contribution to the success of all credit unions everywhere. Of course, I'm talking about the Credit Union Executives Society.

I can still remember one afternoon when I stood with about a half dozen of my colleagues outside the old Loraine Hotel in Madison, Wisconsin, talking to credit union pioneer Roy F. Bergengren. We earnestly discussed how credit unions were helping people help themselves. But we also discussed how we needed to do so much more and involve what we thought at the time were thousands, and turned out to be millions more people.

The role of chapters, leagues

With great enthusiasm, we discussed the importance of supporting enactment of favorable legislation. We talked about the types of organizational structures that would be needed to accomplish our lofty goals. We discussed at length the roles of chapters, leagues and a variety of national organizations, some already in existence and some just a vision in our minds.

The challenges presented by this great credit union pioneer left gleams in the eyes of all the younger men who participated in the conversations. It was clear that Bergengren was talking about an American dream of his own. Bergengren's dream was — more than any of us knew at the time — quite a brilliant dream: helping our fellow man in a very down-to-earth, practical way.

Today, we still refer to this as the credit union philosophy, a philosophy that has stood the test of time. It's a philosophy that still sets credit unions apart as unique financial institutions. It's a philosophy that has never been more challenged in the years since. It's philosophy that must be upheld if credit unions are to compete successfully, and not only maintain their special position in the financial well-being of credit union members, but create a growing appeal for potential members to "get in on" the good thing we still call credit unions.

Update or be left behind

I feel so strongly about credit unions personally and they have meant so much to me over the years, that it is tempting to use this opportunity in discussing the American dream to preach. But I'm determined not to do that. Rather, I want to talk about one small segment of the credit union world with which I have intimate knowledge and which has been, and will always be, a major source of pride as I look back on my personal contributions to the movement.

Early on, many of us recognized that if credit unions were going to succeed, they needed to have a lot of volunteers who were dedicated, talented, able and willing to put in the time to get the job done. We knew we basically had a good product, but we also knew that, like a Model T Ford, we had to continually find ways to update it so that we didn't get left behind and find ourselves one day obsolete. The automobile is basic transportation, yet there are ways it has been, and still can be, improved. The same holds true for credit unions. The basic idea has held strong and met the test of time over the years, even though early pioneers might not recognize today's credit unions.

That is not a criticism but rather a fact of life, and a compliment to those who have helped credit unions keep pace.

In 1960, we had the structure. We had the volunteers. We had the idea. We had the credit union philosophy. But what became apparent to some of us was that we needed stronger professional management. Full-time managers who were meeting the challenges of growing in progressive credit unions needed all the help they could get. They were the first to admit it.

Sharing the wisdom

Rather than complain, however, they decided to get together and talk about it. That's something credit union people have always been willing to do. When they have a problem, they sit down and talk about it. I am not so naive, even after all these years, to think that from these discussions come simple and unanimous decisions. However, they do manage to get a sense of direction, and that's what happened when professional credit union managers decided that they were unique within a very unique field. But where could they go for help?

As today, they quickly came to the conclusion that one of the best sources of information was the exchange of ideas among themselves. If a credit union in Maine had a problem and found a way to solve it, why not share the solution with a credit union in California? Early on, this group decided that there was no reason to re-invent the wheel.

But there was no structure for professional managers, neither in person nor as the popular term is used today, a "networking" system of some kind.

There were a lot of politics involved, but neither can I nor do I care to remember the details. Suffice it to say that there were enough people who felt strongly about the value of professional development for full-time credit union professionals that they worked out a program. To some of the older readers of this book, the names Mildred Boyd, Rod Glenn and Elmer Johnson will sound familiar. They and others involved in the organizational efforts of what is today the Credit Union Executives Society established early on that the purpose of the organization would be to provide special services to credit union managers and to provide opportunities for them to share ideas with other successful credit union executives.

Staying true to course

As I review what the Society is doing today, I am proud to see that it has never lost sight of its purpose. While other organizations have come and gone and have changed their goals and priorities, to quote another credit union pioneer, "the Society has remained constant to its original purpose."

The needs of professional credit union executives have changed for sure. None of us ever dreamed of the kinds of subjects, types of speakers, and variety of programs and services that the Credit Union Executives Society offers today. But today's needs are different.

Looking back, running a credit union in those days, as we've all heard so often since, was a pretty simple task. We took in the money and we made loans primarily to help tide people over until payday or for major appliances or automobiles.

When we talked about our American dream for credit unions, I wish I could say that we had so much foresight that we knew it would someday involve impressive, practical and convenient facilities, on-line real-time computers, services ranging from mortgages to adjustable-rate loans and share drafts. As for delivery systems, all they meant to us back then was that a member would come in and sit down with us and, after a suitable amount of time and committee meetings, would walk out with a loan, sometimes even in cash. Today's delivery systems, of course, include ATMs, credit cards, pay-by-phone and a lot of other products and services just coming off the drawing board.

The future of the organization

Just as credit unions were simple in those early days, so was the Credit Union Executives Society. The Society really didn't do a lot by today's standards. But there wasn't a need. To be sure, we held conferences and had some publications. But a lot of our time was spent simply discussing how we were going to survive and how to handle the political turmoil that always seemed to surround professional managers and their organization, the Credit Union Executives Society.

Budget considerations were dealt with as a permanent agenda item. So was staffing and the future of the organization.

In those early years, we fulfilled a very important function. We provided a forum for the professional credit union executive through assembly conferences, through our publications, and through correspondence and the telephone. We provided an early opportunity to exchange ideas and learn together. It worked and it is still working. Despite political problems and what have turned out to be unjustified fears of some state organizations and trade association politicians, the Credit Union Executives Society has maintained its purpose as a unique organization designed to assist professional credit union executives in their jobs. To be sure, that assistance took a lot of different paths. Sometimes, it involved helping the executive understand the complexities of management. Sometimes it meant providing very technical information. Other times it meant assisting Society members in working with their elected officials. Coping with already-passed regulations and legislation became another high priority item.

Assuming leadership

Looking back to that first organizational meeting in Denver, Colorado, June 3-7, 1962, I probably should have been frightened away from taking the leadership role that was bestowed on me at that time. I'll never forget when my wife Elizabeth and I walked into the hotel and were met by a rather large group of executives who informed us that they wanted me to not only run for the board of directors of the Society, but also to become its very first president (chairman). While I was not really sure what I was getting into, and was overwhelmed by the idea that they wanted me to be the first elected leader of this unique organization, I agreed to serve if elected. And I was elected.

We were fortunate even back then to have an outstanding board of directors. As I look back over the years and continue to look at the elected leadership of the Society today, I can honestly say that has been one of the real strengths of the organization. With so many good people from the growing ranks of the Credit Union Executives Society to draw from, it seems to me that the challenge has been in trying to determine which of the many capable people should be elected to carry on the important work of the Society. But this has been done very consistently.

Those early meetings were good meetings. They were small, but by today's standards, credit unions collectively were quite small. There were a lot more credit unions, but based on the number of members and assets, they were not big organizations. As a matter of fact, a group of managers who put together a similar organization prior to the formation of the Credit Union Executives Society, the National Credit Union Management Association (NCUMA), quickly earned the nickname, "The Cadillac Club." That simply meant that those credit unions had reached the astronomical heights of $1 million or more in assets.

$1 billion *and over*

It should come as no surprise to anyone that neither NCUMA nor the Society in their wildest dreams ever thought that someday there would be a credit union with over $1 billion in assets, let alone $2 billion. And probably before the end of this century, there'll be a credit union of $6 billion, $7 billion or even $8 billion in assets. You see, as far as I'm concerned, when you've come up with a good idea, no matter how long ago or how small it is at the start, you just can't hold it back. Today I feel more strongly than ever — or should I say I dream more than ever — that there is no outer limit on where credit unions can and will go in terms of asset size, the number of members served and the influence on the American dream itself.

Over the years as credit unions grew, the Credit Union Executives Society grew right with it. Sometimes, credit unions outpaced the Society. Sometimes, the Society grew faster than credit unions. Over the years, the Society has always tried to be in the forefront; to be a risk-taker; to try and be on the leading edge of management, both in theory and in practical application. The Society has remained a flexible organization and with some due pride, I think it's because those of us involved in its early formation set an early course for it that is still valid today. That isn't to say there haven't been changes. There have been dozens of changes; good changes, and changes that have resulted in a stronger organization that is even more responsive to the needs of its members, if that's possible.

Many of these changes were brought on by necessity. The movement was changing. The needs of professional managers were changing.

Many of the changes, however, were very politically controversial. Over the years, the leaders of the Society decided that in order to function effectively, provide the maximum amount of service to members, and justify its very existence and dues dollar, that it was going to have to become a non-political, self-supporting organization, capable of standing on its own two feet.

To accomplish this, the Society set out to hire a full-time professional staff of association executives, individuals who could look beyond the politics and keep as their top priority, (as the elected leadership had done before them), the purpose of the organization, namely to serve its growing membership.

Meeting management's needs

The idea worked. From a few hundred members, a small conference and a mimeographed newsletter and directory, the Society began earning a reputation for educational conferences that were not only the biggest, but were highly regarded as the best. The Society provided a greater number of educational program hours and more high-level speakers than any other group. And all were aimed to meet the specific needs of professional credit union managers rather than to satisfy the politicians.

To gain strength, the Society incorporated and adopted its own bylaws, sought and received its own tax-exempt status, handled all its own administrative details and added to its own professional staff in order to practice what it was preaching to its members.

It was a thrill to watch this dream unfold. Credit unions were growing rapidly. More members were receiving more services. The assets of the industry were doubling and tripling. The number of services to meet the needs of members and face competition from other sources head-on grew like crazy.

I was so pleased to see that the Society was doing the same. The number of members went from several hundred to 1,000 to 1,500 to 2,000 to today, well over 3,000. The budget went from less than $100,000 to a figure approaching $3 million. The staff went from one part-timer subsidized by CUNA to a full-time staff of professionals, well-trained in the techniques of association management, and highly regarded specialists in their individual fields.

Under the capable direction of a constantly changing group of elected leaders, the Society remained consistent with staff members who themselves became experts in conference management, publications and programs and services.

Changing roles

Today, the Credit Union Executives Society is not the same organization it was back in those early days when we wrestled with whether or not to even form such an organization and, once organized, whether or not we could sustain it. But credit unions aren't the same either. And that's as it should be.

One of the many strengths of the Credit Union Executives Society, as I look back, has been its flexibility, its willingness to change, its unique structure and its ability to stick with its purpose. The programs changed, the conference themes, locations, speakers, topics and all the rest changed. But that, too, is as it should be if the organization is going to continue to meet the professional development needs of credit union executives.

It is astonishing to me to look back some 30 years or more and recall that the topics we discussed in the very beginning are the same topics that professional credit union executives are discussing now. For example, service to members, record keeping, marketing, support organizations, cost control and more. The names have changed and the approaches are much more sophisticated. But basically, the job that credit unions have set out to do and the job that the Credit Union Executives Society has set out to do remain constant and unique.

Complexities of the future

Even the wisdom of Roy F. Bergengren, however, was not keen enough to look into the future and comprehend the complexities of individual credit unions and the movement as it exists today. So as we dream about the future of professional executives, we become aware very quickly that the must have a working knowledge of many more complex problems than any of us ever dreamed of. They must have specialized professional training, appealing marketing programs, good building location, equipment for storage and retrieval of all types of information, excellent control over expenses and greater productivity from a smaller group of employees. They must use every tool available, of course, but I believe their professional society, the Credit Union Executives Society, will continue to be one of their greatest resources as they face the challenge of the future. And as they dream on, not only am I going to continue to share this American dream, but I know eveyone involved with the Society, past, present and future, will also share and become an important part of this dream as well.

Chapter 2

Unless we learn from our past, we are doomed to relive it, say historians. While the growth of credit unions has been tremendous, the movement has been steeped in a past full of courage, energy and commitment. As the tradition presses on, it's important to know where we've been in order to know where we are going.

Credit union pioneer Louise McCarren Herring's personal involvement with the movement is living history, setting the stage for the tremendous levels of growth to come. Through her account, you can almost see the commitment of Edward Filene and feel the efforts of Roy Bergengren, joining hands with our forebearers to forge a new movement in financial services, designed to help, not hinder the working people of the world.

Louise McCarren Herring is president of Communicating Arts Credit Union and treasurer of Cincinnati Central Credit Union, both in Cincinnati, Ohio. She is considered one of the pioneers of the credit union movement and is responsible for having established credit unions throughout the entire United States. Her personal correspondence with Edward A. Filene and Roy F. Bergengren contributed directly to the organization of 13 credit unions for the Kroger Company, by whom she was employed during the 1930s.

In 1934, she attended a meeting in Estes Park, Colorado, of people interested in the credit union movement. That meeting led to the establishment of the Credit Union National Association (CUNA) and she is the only person who attended the meeting who is still alive and active in the movement. In 1975, the Federal Credit Union Administration named her "Outstanding Credit Unionist of the Year" and the General Assembly of the Ohio Legislature commended her as "the mother of credit unions." In 1983, she was elected to the Cooperative League of the U.S.A. Hall of Fame in Washington, D.C.

Sharing the American Dream

by *Louise McCarren Herring*

At the turn of the century, the industrial revolution was in its infancy. Society was moving from an agrarian economy to an industrial economy, and that meant people were dependent upon jobs that developed with the growth of those industries. In the beginning, industrial leaders did not accept any social responsibility, and in many cases took advantage of their position to maximize their profits.

Edward A. Filene was a Boston merchant who was born of Russian-Jewish immigrant parents. When he was young, Filene's parents could not afford to send him to college, so he worked in the small establishment owned by his parents. Through hard work, they were eventually able to build their small store into the now famous Filene Department Store. Yet all during that time, Filene agonized over the problems associated with minority groups and industrial leaders that never had a formal education.

His business practices were very innovative for his day. He was the first to establish a "bargain basement." When an item did not sell at the first-assigned retail price, he would put it in the basement and mark it down each week until it sold. This became a very lucrative program for him, and shoppers stopped by daily to check prices and determine if an item could be bought at an even lower cost. As the customers came in each day to study the "loss leader," they also looked at other things they needed, and his business grew. In spite of Filene's success, the problems of the people rarely left his mind.

Filene always considered himself a student and kept a bookshelf by his bed. When he awakened in the middle of the night, he made notes about his dreams for the future.

Filene was very interested in political democracy, but felt it would not succeed unless it was buttressed by economic democracy. He also felt that his being a millionaire gave him more power than any one person should have. He constantly studied the economies of all the world's countries, many of which he visited personally. During one trip around the world, Filene met a British civil servant in India by the name of Edward Gourlay, who was working to set up cooperative credit societies in that country. Filene was so taken by the worth of the idea, that he cancelled the remainder of his trip and returned to Boston to bring such cooperative credit societies, now known as credit unions, to the working people of the United States.

People's banks

Filene found that Alphonse Desjardins, a Frenchman living in the Canadian province of Quebec, had started cooperative credit societies under the name of Le Caisse Populaire (people's banks). As the members of these societies migrated down to the United States, they brought the cooperative credit society with them. Thus, the first credit union in the United States was organized in 1908 in St. Mary's Parish in Manchester, New Hampshire.

With his vision, Filene felt that if he really wanted to bring cooperative credit to the people of the United States, it would need legislative backing. He enlisted the help of Massachusetts Attorney General Calvin Coolidge. Pierre Jay, then bank commissioner of Massachusetts, had been in touch with Desjardins, since he also wanted to find some instrument to take industrial workers out of the clutches of the loan sharks and eliminate the exploitation of workers. Workers were exploited through "salary buying," a method by which workers could sell their upcoming paychecks for cash at a discount if they ran short of funds. With the help of Jay, Desjardins and other industrialists, Filene finally succeeded in having the first credit union law enacted in Massachusetts in 1909 to legally authorize the organization of credit unions.

The stigma of usury

Filene not only wanted to relieve the average working person of the misery and exploitation resulting from the lack of available credit, but also wanted to remove the stigma of usury that surrounded the practice of extending credit. Since it was mostly Jewish people who had the money to loan and were willing to take the risks, an onus was attached to Jews as usurious money lenders.

It was fortunate for the credit union movement that Filene met a young lawyer by the name of Roy F. Bergengren. Bergengren did not enjoy practicing law and was deeply moved by the suffering of railroad employees, factory workers and even farmers who struggled to make ends meet. He was appalled by the hardship of working people who could not feed and clothe their children, or provide them with adequate medical care or even a rudimentary education.

Though Filene and Bergengren had very different motives for their interest in the credit union concept, they did not disagree on the need for credit unions to be organized throughout the United States. Filene's motivation was due largely to the fear he felt for minority groups' place in society.

One of the last conversations I had with Filene left an indelible impression on me. "We are both members of a minority group," he said. "I am a Jew and you are a Catholic. Minority groups cannot exist under any other form of government than a democracy. A political democracy cannot survive unless it is buttressed by an economic democracy. The economic democracy cannot succeed unless the people who make the products can buy them. The people cannot buy the products if they dissipate their wages on the long price of installment buying or the high cost of credit. The aim of the credit union is to enable the average working person to exchange his paycheck for the maximum amount of goods and services." Thus, Filene's motivation was to make democracy work.

The high cost of credit

Bergengren, on the other hand, thought the pain and suffering he saw was due to the high cost of credit and the high cost of goods and services. He wanted to make the paycheck of those who worked for a living more efficient, and he believed everyone who worked ought to be able to save money. He knew average people would not have an effective savings account unless they could save regularly in small amounts and without embarrassment. He thought that when the members owned their savings, they ought to be able to use savings to meet their own legitimate credit needs. Bergengren saw in the credit union a vehicle that could solve these problems of working people.

Partnership for the two was inevitable. But that partnership, under the name of the Credit Union National Extension Bureau, was not all sweetness and light. Filene agreed to furnish the money to keep the Bureau in existence. Bergengren agreed to work for passage of legislation and to provide samples of credit unions. But one of Bergengren's most difficult tasks was to keep Filene paying. Filene contributed to many worthwhile causes, but wanted credit for everything he did. He helped organize the Chamber of Commerce and the International Chamber of Commerce, he invented the simultaneous translation system for the League of Nations, and he organized the 20th Century Fund that helped finance many reform movements in our society. Filene was very active in the "Town Meetings of the Air" and used his money to debate and discuss various political issues of the day. He defended Franklin D. Roosevelt when he was accused of packing the Supreme Court.

Filene did not hesitate in buying enough radio time to advance the many social issues of the day. He would give thousands of dollars to a project but, in contrast, came home and raised Cain with his cook for paying a penny a pound more for spinach than he thought was necessary. He lived in a small frame house on the Charles River. He never married and never owned a car. He devoted his money and energy in his later years to the advancement of democracy and the betterment of his fellow citizens.

Borrower's need, lender's greed

I think it's important that today's credit union members and leaders understand the different social and economic climates into which the credit union idea was introduced. In those early days, we had only an infant labor movement. We had no Social Security, no health insurance, no worker compensation laws, no usury laws. The rates of interest, or the amount of money charged on loans, were set only by the borrower's need and the lender's greed. When slack times came in factory work, older people were laid off first because they were considered the least efficient. Instead of having seniority rights as we do today, allowing the last hired to be the first laid off, it was the sick, the disabled and the older people who were the first let go, never to be called back.

Together Filene and Bergengren had great dreams for the credit union movement. Bergengren was a great believer that it could promote world peace. He felt that if the working people in one country knew the working people in other countries, they would be less likely to go to war with each other. Bergengren used to say that if a tram conductor in London knew the street car conductor in New York, they would find out that they had more on which to agree than to disagree. Bergengren wrote a booklet called CUMET (Credit Union Members Mass European Tours) which he hoped would promote travel in other countries so the citizens would get to know each other.

Even though credit unions did much to eliminate prejudice, discrimination and "second-class citizen," we still had our share of this kind of thing. That was in the 1930s, when anyone who did not agree with popular thinking was labeled a "communist." I was preaching a very radical doctrine which said that working people are honest, have brains and have rights to work together for the common good. I was so often accused of being a communist that I thought I ought to wear my rosary around my neck. Nevertheless, it did not keep me from attending and participating in the street corner rallies or the meetings held in public parks where speeches were made advocating changes to improve the lot of working men and women.

At most of the meetings I attended, there was only one woman present — me. It never occurred to me to let men dominate the gatherings or criticize me for being a woman. I knew that some of the "leaders" of the credit union movement wanted me out just because I was a woman, but I never let it bother me. I had met Eleanor Roosevelt and the first female Secretary of Labor, Mrs. Frances Perkins, the first female cabinet officer and the only one to serve through all of Franklin Roosevelt's administration. But I can honestly say there were very few of us who let the dominating factor in choosing leaders be their gender.

Battling prejudice, meeting in the washroom

We found prejudice of another kind. Some people wanted us to change the name of the organizations we were promoting to eliminate the word "union." The labor union movement was gaining success in its organizational attempts and industrial leaders were growing more and more afraid of them. I remember one time I had an appointment to organize a credit union in a foundry. The owner of the foundry learned about the meeting and said that no meeting would be held on his property for purposes of organizing a union. I said to the workers, "Well, let's move outside and talk about it." As the meeting progressed, it began to rain. I said that I would return when the weather cleared up. Those listening to my story wanted to continue the meeting and decided that the only safe place where we could not be thrown out was the men's washroom. In we went, and I took enough signatures to present an application for a charter to the government. As a result, a credit union was organized.

One of Bergengren's first tasks was to obtain passage of legislation authorizing credit unions. The stage had already been set by several European countries trying to solve problems associated with working people securing credit. William Howard Taft, who was president at the time, was familiar with these experiments and wrote a letter to each of the state governors urging them to do whatever was possible to help solve the problem of credit for the average working American.

Balancing the inequity

The need for fair credit has been apparent ever since man came out of the cave and entered into a social contract with others. The weak were exploited by the strong and the poor were made poorer as the rich got richer, which helped to create peaks and valleys in the economic system. The leaders of the new credit union movement were working feverishly to balance that inequity.

A young gentleman farmer from upstate New York, who was a member of the New York Legislature, recognized the plight of New York farmers and their need for good credit. He introduced a bill in the Legislature to permit the organization of credit unions to serve the farmers of the state. The young legislator's name was Franklin Delano Roosevelt. At the same time, other legislators in New York were trying to get legislation to help meet the credit needs of the urban workers. The two groups got together and wrote one bill that provided for the organization of credit unions with all types of fields of membership. It was passed in 1913.

North Carolina also passed legislation and promoted the development of credit unions. Bergengren's plan was to select certain states each year, go into those selected states to secure legislation and, of course, organize some sample credit unions under the law.

Some states took their own initiative, however. Bergengren did not have Michigan on his list until he received a letter from the personnel director at General Motors asking him to come to Lansing and help pass a law authorizing credit unions in that state. This kind of help was a great plus in Bergengren's opinion, so he quickly revised his schedule and prepared the legislation. When the bill was set for a hearing, Bergengren stopped in Detroit to ask the man from GM to help lobby the bill through. He found that the man had been fired and that they now planned to fight the bill.

That angered Bergengren so much that he was determined to stop at nothing to get the law enacted. The bill was passed, and he selected the Detroit teachers as one of the first sample groups. Bergengren liked to tell the story about that organizational meeting. He recalled that the superintendent of schools agreed to call a meeting, even though he was not enthusiastic about the prospect. He introduced Bergengren to the group of assembled teachers by saying, "Here's a man who wants to talk to you about organizing a teacher's credit union. I think it's a sad day when people have to organize a union to get college credits. Besides, the idea won't work because there are no teachers who are smart enough to manage their own money and they ought not receive help in getting college credits." A teacher by the name of John Howell joined with Mr. Bergengren to organize the credit union.

Rougher roads

Other legislative battles were rough ones. In Ohio, it took eight years to get a law; the legislator who pushed the law through later became a Supreme Court justice, Harold Burton. Bergengren was fortunate in meeting a young lawyer from Cleveland who worked for the Legal Aid Society and represented many railroad workers caught up in the salary buying scheme. The young attorney's name was Claude E. Clarke, a gentle, kind man who had much concern for others. Clarke fell in love with the credit union idea and worked in and for the credit union movement as long as he lived. He helped solve existing problems and prevented other ones from arising. Sometimes he was paid for his efforts, but much of his work was done as most of us did it — as a volunteer.

Establishing laws was only part of the procedure. We also had to make sure they were kept on the books. A credit union law was passed in West Virginia, but a relatively small number of credit unions were operating under it. The governor appointed a committee to codify the laws, which, of course, was not meant to change, delete or add to the existing laws. The job of the committee was only to rearrange the laws so they could be more easily understood and used more effectively and efficiently.

Clipping the law

The chairman of the committee was a small loan lender; he neatly clipped the credit union law from his report. The report was presented to the legislature and adopted by it just before the legislature adjourned and went home. Shortly thereafter, each credit union in the state received a notice to liquidate, since they were now operating illegally. Bergengren had to go back to the governor to get a stay of execution until the Legislature came back into session so the credit union law could be re-enacted.

Constant guard had to be maintained to prevent cancellations or changes in the credit union laws that would reduce their effectiveness. We also had to go through the process of amending the laws already on the books, since many amendments were made to the original laws in order to secure passage. We had to keep working to bring back the original laws as they were originally introduced. We had to constantly update the laws so they would conform to a rapidly changing economy.

In 1934, Bergengren knew Filene was getting tired of paying, though there were still a few states in which we had not yet succeeded in getting credit union legislation. Bergengren decided to try for a federal law. This would enable us to organize credit unions anywhere the American flag flew and act as a secondary line of defense against unfriendly legislation or administrators. His efforts made it very easy for a state-chartered credit union to switch to a federal charter and a federal charter to switch to a state charter. Filene strongly opposed Bergengren's attempts to secure a federal law because he thought he would not be successful. Bergengren, however, went ahead with his plans.

He was able to enlist the help of Senator Morris Sheppard and Congressman Wright Patman, both from Texas. Much time and effort was spent enlisting the support of legislators, until finally the credit union act passed through Congress and was signed into law by President Roosevelt. Congress also appropriated funds to set up a department with the Farm Credit Administration and hired staff not only to supervise credit unions but also to organize them.

Poor legislation, unfriendly supervision

Bergengren believed there should be as many state-chartered credit unions as there were federally chartered. Bergengren wanted us to use the federal law primarily as a lever in those states where we had never been able to get a state law or where the state law was so weak that it was impractical to operate under. Even though there was a state law in Pennsylvania, for example, very few credit unions existed under it because of poor legislation and unfriendly supervision of the law from time to time. Bergengren impressed upon me that we should not let federally chartered credit unions dominate the credit union movement.

The federal government accepted Bergengren's recommendation for the administrator of the federal law, Claude Orchard. Orchard was working in the personnel department of Armour and Company in Omaha, Nebraska, and had organized credit unions within Armour and other organizations. He was a great help in the legislation process. He hired Jimmy Dacus and Harry Culbertson and sent them out to organize federal credit unions. Orchard later hired Claude Luce, a postal worker from Youngstown, Ohio, who had credit union experience.

Orchard also hired a protestant minister by the name of Claude Oldham, who worked mostly in Indiana, but occasionally in Ohio. I was always asking for help in Ohio because there were so many groups interested in credit unions and so few people who were willing to spend their own time organizing them.

Organizational balances

The story of the development of credit unions under the federal law requires a book in itself to be adequately covered, but I am happy to have had a part in it. I made a pact with Bergengren that for every federal credit union I organized, I would also organize a state chartered one. I tried desperately to keep a balance in the states where I organized. At that time, there were some people in the credit union movement who thought all credit unions should be organized under a federal charter. History has proven how wrong they were.

In those days, there was no data processing and only a few mechanical bookkeeping machines. As a result, industry leaders felt the ideal credit union should consist of no more than 300-500 potential members. When we attempted to organize credit unions in large corporations, for instance, we organized enough groups so that the limit of membership in each group would be approximately 300 to 500. Often we organized more than one credit union per floor of a large corporation. Thus the volunteer treasurer, or even a paid one, could keep the records up-to-date and service the members.

In the early organizing days, we believed that if we had a group of 50 people, we could organize a credit union. We have to remember that the average worker did not own, nor was even anxious to own, an automobile. The loans were usually remedial, going for doctor bills or to help young couples set up housekeeping. We made unsecured loans for $50 and secured loans for $300 and occasionally $500. I've often been asked why Bergengren set the maximum rate of interest at 1 percent per month on the unpaid balance, or 6 percent per annum discounted. Bergengren's answer was that it was the easiest way to figure interest and generate enough income to pay expenses and develop capital. He was an ardent capitalist and believed that, "if you live in my house, you should pay me rent. If you use my money, you should pay me interest."

In the beginning, we had very restrictive rules. For example, elected officers, directors or committee members could not borrow from their own credit union. We were trying to avoid the problem of official family members taking advantage and getting the largest and most loans. I remember in one instance when I organized a credit union, people in the audience wanted to be sure that a certain person was elected. One man stood up and said, "Everybody knows that he never pays what he owes. So if we elect him a director, he won't be able to borrow."

No one should pay for a credit union

I almost always organized credit unions at a change of a shift or before or after working hours. One night, I went to a meeting of teachers in Columbus, Ohio. The meeting ended about 9:00 p.m., and since I had scheduled a meeting with the Dayton, Ohio police for early the next morning when the late shift went off and the first shift came on, I decided to drive the 70 miles to Dayton that night. Even though it was snowing and most people would have said in those days that it was foolish to drive at night, I started out. I got to the outskirts of Columbus and saw a street car parked at what I thought was the end of the line. I passed the street car and was immediately stopped by the police for passing a street car that was loading and unloading. An officer took me back to headquarters downtown where I was told I either had to pay a fine, post bond or go to jail. Because of the snowy night, many officers were sitting around either coming off duty or waiting to go on. They listened as I explained that I could do none of these things because I had to be in Dayton early the next morning to organize a credit union for the police force there.

As I explained what a credit union was and the good it could do for working people, the officers sitting around started to pitch money up on the table to pay my fine. I made each person who contributed to my fine give me his name and address so I could repay him. Finally enough money came in to pay the fine and I was dismissed, with a date to return to organize a credit union for them. They thought the idea was so good they were willing to pay to have a credit union organized. It gave me the opportunity to tell them, as I have told so many groups, that no one should pay to get a credit union. Bergengren and Filene had secured the laws and organized the credit unions as a public service. Those who received this service without cost or obligation had a responsibility to see to it that anybody who wanted a credit union should get it just as they did — without cost or obligation. Bergengren often paid lawyers and other local people to organize credit unions. He never paid me because I felt it was a great privilege to organize credit unions in the hours I was not working on a full-time job.

The first credit union I organized was for the members of the Brotherhood of Railway Clerks. I knew nothing about organizing credit unions so I spent the entire meeting reading aloud the bylaws and explaining the brief but exciting history of the credit union movement. Later on, I was able to cut down the time it took to organize a credit union.

Beating the "bucket shop"

The biggest problem to overcome, though, was the operation of what was popularly termed a "bucket shop," called such because in any group of working people, I could always find one person who was getting rich on small loans in the shop. A person could borrow $5 that he needed to get through until the next payday. However, when he paid back the $5, that was only interest and he owed the usurious money lender for many paydays to come. I used to say that if I tried hard enough, I could find in any group of wage earners the man who was buying a new car each year with the interest he collected from these small loans.

One has to realize that, at the time, there was no small loan legislation, nor Russell Sage Foundation, to promote small loan companies providing the credit needed at a fixed rate of interest. The legal loans were made at a rate of between 42 and 60 percent. Even after passage of the small loan law setting the legal maximum amount of interest to be charged on loans, usurious money lenders still operated. These illegal loans were made by loan sharks who would physically harm those who could not make the exorbitant payments. We have documented many loans made at 120 percent, 240 percent and higher.

A weakness in the credit union movement

In 1934, Bergengren and Filene decided that the greatest weakness in the credit union movement was its subsidy. Even though Filene was a millionaire, the combined assets of the credit unions then in existence were greater than his wealth. They agreed that the people who benefited from credit unions should bear the burden of seeing that anybody who wanted or needed credit union service should get it in the same way they had received it — without cost or obligation. They also thought that the exising credit unions should work with each other to help protect and improve the laws and find better ways to operate as time progressed.

A call went out to 50 groups who had benefited from credit union service inviting them to attend a meeting in Estes Park, Colorado, to discuss and take action on the formation of a national association of credit unions. I was employed in the personnel department of the Kroger Grocery and Baking Company headquartered in Cincinnati, a vantage point from which I had organized several credit unions. Paul Mooney and Paul Bell of the personnel department told me about the invitation. They went on to say that the Kroger Company did not feel it should pay the expenses for anyone to go to Colorado to attend the credit union meeting. I told them that I would go at my own expense if they would give me the time off. They gladly consented to this arrangement and from their mature point of view told me many things to look out for. I was to particularly watch out for any opportunists, they said, who wanted to personally profit from the development of the credit union movement. I was 25 years old at the time.

The road to Estes Park

I wrote to Mr. Bergengren and told him I would be representing the Kroger Company and the 13 credit unions that were in existence in the company at the time. I really felt that I was an old friend of Bergengren and Filene as I had had so much correspondence with them. Arrangements were made for everyone in the East and Midwest to meet in Chicago and take the same train to Denver. From there we were to go to Estes Park, to the YMCA campground.

I left Cincinnati on Saturday, spent the evening with some college friends, and on Sunday morning boarded the train and went to my seat. I was reading an interesting book, when it got so hot in the pullman coach that I went to the observation car, the only air-conditioned car on the train. I saw a middle-aged woman talking to a very harried man. I listened to their rather loud conversation. The woman, who turned out to be Agnes Gartland, Bergengren's secretary, said to the man, "I have asked every woman on this train if she is Louise McCarren except that kid over there reading a book." At that point, I approached the two and said, "I am Louise McCarren, are you looking for me?" Needless to say, both of them were very nonplused, and Bergengren confessed to me later that he had never been so mad in his life that the great Kroger Company would send a mere "kid" to represent them at such an important meeting. Filene came along, however, and saved the day by inviting me to have a drink of scotch whiskey with him.

The only other person from Ohio on that train was Claude Clark from Cleveland. Bergengren passed me off on him and showed his disgust with the whole situation. We arrived in Denver two days and one night later where we all boarded a bus for Estes Park in the Rocky Mountains. This was my first experience with the West.

Bergengren felt that I had to be protected, so he saw to it that I had a cabin right next to his and near the compound where we were to meet and eat during our stay in Colorado.

The meeting started out on a friendly note, but it wasn't long before it deteriorated into two or three groups. An Illinois league had already been organized since they had one of the earlier laws, and they were represented by a group that arrived with a set of bylaws for the new organization. A set of bylaws was also presented by a group from the East, mostly New York and Massachusetts.

The birth of CUNA

The biggest point of contention involved discussions about financing the new organization. Bergengren thought it ought to be financed by dues collected from the members. We all knew that we would have to develop common services, and some thought the profit on this was adequate to finance the movement. There was another wrinkle to the issue of financial administration. As the state laws were passed, credit unions were organized under them into state leagues. The conclusion was easily reached that the national association would be called Credit Union National Association (CUNA). Individual credit unions would join the state leagues and pay dues. Dues to the national association would be paid by the leagues at the rate of 10 cents per member. State leagues would have educational arms called chapters, to be organized where there was more than one credit union in a given area. They would meet on a monthly basis and discuss common problems. In that manner, credit unions could assist each other.

Final resolution of financing the whole project proved difficult. Bergengren was a skilled communicator, and when the argument got too heated and tempers flared, he would call for a recess and send us all outside. When we looked at the mountains, we tended to forget our pettiness and resolved to try to work together. I learned later that Claude Orchard chose Estes Park as the place for the meeting largely because of the majestic mountains. It was difficult to be small and petty in that kind of environment.

He picked the YMCA camp because it was inexpensive and within the reach of the average person who worked for a living. The camp was run by Herbert Evans, assistant football coach at Cornell under Lou Little. Filene was so taken with him that he hired him to work for the 20th Century Fund, one of Filene's projects.

Those of us who wanted to finance the credit union movement from dues instead of profit from services finally crept back into the movement and now we have come full circle. The movement is significantly financed by rebates from those who render services to it. It seems to me that in 1986, we have to go back and rethink what we are doing and hopefully get back on track. I would like to see the credit union movement financed by dues, and the first obligation would be for us to bring credit union service to everyone who needs it in the same manner we received it — without cost or obligation. This is particularly true of Third World countries.

When we adjourned the meeting, several of us went back to Madison, Wisconsin, to plan for the future. Madison was chosen because of the liberal government in Wisconsin which had sympathetic tendencies toward consumer cooperatives. Governor Lafollette was very helpful in the early days of the national organization. Madison was also close to the center of the U.S. population, which at that time was between St. Louis and Kansas City, and had a favorable social and economic climate.

Organizing leagues

Bergengren had written and directed a play which we planned to put on to help preserve the history of the meeting. Unfortunately, a fire in Madison destroyed the entire project. The tragedy did little to dampen our spirits, however, and our first job was to get members for CUNA. That meant organizing leagues in states that had a few credit unions but no leagues. Bergengren presented the standard bylaws for all the leagues. Each time a league met, the meeting would be opened with two reports, first the names and number of credit unions organized since the last meeting, and then all other business.

In the beginning, the leagues were only paper organizations since they had no money to put towards staffs. They did, however, have boards of directors who met quarterly. State Chapters met monthly to exchange ideas, organize credit unions and help each credit union with its operating problems.

Bergengren, in fact, discouraged Leagues from establishing offices and hiring unnecessary staff support. In a letter to Hubert Rhodes of North Carolina written in January, 1942, Bergengren says, *"I notice an inclination on the part of managing directors to do two things almost automatically as soon as they are appointed: (1) hire an office; and (2) write for a stock of credit union accounting forms. I hope very much that Mr. Webster (MD) will be dissuaded from taking either one of these* *steps.* A *league which* is *hiring a full-time managing director for the first time can be built most rapidly by contact.*

Keeping office in his hat

I think the managing director should keep his office in his hat for a considerable period so that he can devote his energies to (1) contacting old credit unions and bringing them into the league and improving their services, and (2) *organizing new credit unions--*

The forms are also a nuisance for a state league. As you know, the Ohio Credit Union League has a managing director, a field staff of three and an office of two, and after handling forms for a while, they tossed them back in our lap because they found that handling forms took so much time and bother that the whole process was a dead loss. As Louise McCarren wrote me, it is much better for an employee to be working on a constructive credit union program than it is for him to be doing up bundles . . .

. . . There is something almost fatal about an office. A man in an office can find innumerable reasons for staying there and what we need in the credit union right now is men in the field."

Filene gave a declining subsidy to the movement, enabling Bergengren to hire Earl Renfro from Missouri and establish headquarters in an old house on Washington Avenue in Madison.

CUNA Mutual

Bergengren also started a magazine called *The Bridge, (A Way to Economic Betterment).* It sold for $1 a year for 12 monthly issues. The idea was that it would be self-sufficient and paid for out of advertising revenue. With a subsidy from Filene, Bergengren also organized CUNA Mutual Insurance Society. As the movement grew, it attracted the attention of many people and organizations that wanted to sell it goods and services. Bergengren always said that we organized to prevent exploitation of the working people from without, and that we also must protect them from exploitation from within. Insurance companies constantly tried selling loan protection insurance to members so that if they died, those remaining would not have to pay off existing loans. Usually the treasurer or the credit committee would get a commission from the sale of this insurance. Corruption crept in and, in some credit unions, it became necessary to take out the insurance if you wanted to get a loan. The premiums were high and when a member wanted a $50 loan, he was encouraged to take more money than he needed, thus increasing the income of the treasurer or credit committee.

CUNA Mutual was designed to curb such corruption. At first, it sold only loan protection insurance. A slogan: "the debt should die with the debtor" developed very rapidly. Still, the majority of citizens had never heard of a credit union and did not know its purpose, how it was formed or how it operated. One day a young man turned up at CUNA's Washington Avenue headquarters to apply for a job. He was a recent graduate of the University of Wisconsin and had learned about a credit union there. He talked to Earl Renfro, and when Renfro found out that he had an applicant who knew what a credit union was, he shouted to Bergengren, "Chief, there's a man looking for a job who knows what a credit union is." Bergengren's reply was, "Hire him." That man was Thomas Benson, who later became a senior vice president of CUNA Mutual Insurance Society.

One of the provisions of the original bylaws of CUNA Mutual was that the manager of CUNA should also be manager of CUNA Mutual. Bergengren felt that the movement should not be split by those who wanted the credit union financed by profits and those who wanted it financed by dues. It did not work that way and the split occurred.

The profit-oriented group won, resulting eventually in the firing of Bergengren, and CUNA Mutual's moving out of headquarters to start their own program on the outskirts of Madison. The group tried very hard to control the entire credit union movement, but in that they never fully succeeded.

In the meantime, the Ohio League voted to hire me as managing director. I took the job on the belief that the credit union movement would grow. I made a contract with Filene and Bergengren that I would work six months in Ohio and the remaining six months wherever the American flag flew.

When we ran out of money in Ohio, I convinced the Division of Securities of the State of Ohio, (the department that was administering the Ohio credit union law), that the state should hire me to train examiners. I also wanted to write descriptive pamphlets that could be sent out to answer inquiries about the new law and, more importantly, to continue to organize credit unions. I also helped to organize state leagues, among them Kentucky and Michigan. I was able to continue to do what I had started out to do, except my salary came from the State of Ohio instead of the Ohio Credit Union League.

One of Bergengren's last accomplishments before being fired was to establish an international movement that included all the countries of the world. One of the big battles that we fought was over whether or not we were a cooperative movement. Many credit union leaders who wanted to be tied into big business tried to prove that we were not a cooperative, and that took much of our time and energy. Many so-called leaders thought that we ought to be like banks. I used to say that if you want to be a bank, take out a bank charter, but do not try to operate a bank under a credit union chapter.

Credit union missionaries

The international aspect of the credit union movement was taken on mostly by Catholic missionaries. Father Ganey, a Chicago Jesuit priest, carried on his missionary work by organizing credit unions in the South Pacific. He used to compare the credit union to the economy. I heard him say many times that if you give a person a fish to eat, he will eat for a day; teach him *how* to fish and he will eat for a lifetime.

The Maryknoll Sisters, Priests and Brothers carried the credit union idea to the Philippine Islands and other islands in the Pacific. A Protestant missionary did much to promote credit unions in Hawaii before it became a state. Father Sullivan, a Jesuit from Boston, carried the idea with his missionary work to Jamaica and the West Indies. One of his students, Paddy Bailey, became the leader of the World Council of Credit Unions. He organized groups in Africa and other countries in the Middle East. The World Council is now led by Al Charbonneau, who wrote me in a recent letter which said in part, *"1 have just finished reading your article in the `Management Profile' section of* Credit Union Management *and was once again fully taken by it. Frankly, I wish more of us had the ability to put the credit union philosophy into such plain, everyday meaning as you do. It continues for me to be a constant source of inspiration and encouragement, and certainly I can draw from this additional strength to continue on the work of credit union development in the international field. Please continue to be who you are and what you are, because to those of us in leadership positions, it is important to continue to hear from the great pioneers such as yourself. While many of the new credit unionists would quickly quarrel with you, I maintain that, nevertheless, everything you say must continue to be said over and over. Hopefully, the new people coming into the movement will understand that it is more than just a business."*

More than a business

We face many problems today that I thought we had solved 50 years ago. Many of our leaders no longer look upon us as a reform movement, but as an industry. But I still think that if we ever become just a business and not a reform movement, we have lost our way. We constantly promote bigness. Almost all of the lists of credit unions that I see rank the credit unions based upon their assets, and those assets are constantly diverted into speculative ventures so we can pay a higher dividend. Why not judge credit unions by the way they serve their members?

An industry or reform movement?

Do we operate as our members would have us operate? Do we tell our members how to use the credit union and do we make every effort to see that their use is productive? Did you ever hear of any *industry* that is a reform movement?

It is said that there have been more changes in our society in the last 75 years than there have been in all of recorded history. The great challenge to the credit union movement is to adapt to change. The computer alone has made it necessary for us to make many changes in our way of doing business. Records are no longer being kept by hand or even by bookkeeping machines in credit unions that want to serve their large numbers of members effectively and efficiently. We can electronically transfer funds immediately so that a person can belong to a credit union in another state and lose nothing because of the distance involved. So now there is no limitation to the size of a credit union. We can serve a large number of members better perhaps than a small number as size becomes more cost efficient. However, we have to remember never to lose the personal touch or the willingness to help our members. We have to learn how to find out what our members want from their credit unions and how to economically and efficiently give it to them.

We still need to keep in mind our objective — to help each member convert his or her paycheck into the maximum of goods and services.

We have to compete with all of those institutions that would provide credit for members at a profit to the institution. We have to encourage our members to save money, to plan their retirement and their financial security. We must remember what we started out to do and then find ways to do it with the modern techniques available.

Our brother's brother

We used to say that we are our brother's keeper. I think that is wrong. We are our brother's brother. If we are to have peace and security and decrease the problems of poverty, we must all work together to help each other.

Congressman Wright Patman used to say that after the church, the credit union did more to help the working person than any other organization. A properly operated and motivated credit union can achieve this goal.

Chapter 3

Are credit unions a movement or an industry? That's one of the major questions facing executives today and it's a question not easily resolved. If we're a movement, will we forego the necessary professionalism, business accumen and competitiveness that describes the marketplace today? And if we're an industry, will member service and managerial compassion suffer in favor of greater profits?

According to Perry Dawson, it's not a matter of such easy polarities. Credit unions are still a movement, but perhaps may best be described as a movement within an "industry" of service. That's an environment every bit as professional as any of the for-profit competitors, but much more compassionate in its dedication to the people it serves.

But what is in danger, Mr. Dawson feels, is the human element, the high-touch, if you will, of today's highly technical environment. Credit union executives may bow to the competitive persuasion, sacrificing too much member service for too little market advantage. A delicate balance must be maintained. Credit unions are indeed a movement, operating within an "industry" of member service. Anything less is a disservice to both member and executive.

Perry M. Dawson is president and chief executive officer of Suncoast Schools Federal Credit Union in Tampa, Florida. A native of Texas, Mr. Dawson taught high school business courses before joining the staff of Dallas Teachers Credit Union, where he served as assistant general manager.

He is past president of the Society's Florida Council and past president and executive committee member of the Tampa Chapter of Credit Unions. He currently serves as a member of the Financial Institutions Advisory Committee of the Federal Reserve Bank of Atlanta and as a director of the Education Credit Union Council, Inc.

The Heart of the Credit Union Philosophy

by Perry M. Dawson

If history is to be our guide, and it always is, then I stand convinced that the driving force behind the success of the credit union movement and the glue that keeps it together has been its philosophy. The credit union concept of people helping people is a simple one.

Its simplicity is easily understood by those of all economic and educational levels. Its basic humanism formed the basis of the first cooperative credit societies in Europe and helped millions of people support and boost the credit union movement with a missionary's fervor and zeal.

To better understand the strengths of those philosophical concepts and the role of the credit union movement, you must first understand the degree to which those philosophical concepts motivated the pioneers of both the 19th and 20th centuries, both in Europe and the New World.

Cooperative societies of all sorts were common to the European continent during the 1800s, but it was two Germans who refined the philosophical concepts of the modern day credit union movement. In the 1840s, Herman Schulze-Delitzsch developed the first cooperative credit society in Germany in an effort to aid urban craftsmen and proprietors, while Frederich Wilhelm Raiffeisen attempted to help starving farmers around him who were victims of heartbreaking crop failures and unbearably high interest rates charged by unscrupulous money lenders. Motivated by a very strong desire to help their fellow man, both men spent many years refining and promoting their versions of the cooperative credit society.

The person generally considered the father of the credit union movement in North America, Alphonse Desjardins, a French-Canadian journalist from the province of Quebec, believed all men have a social duty, what he referred to as an "everlasting duty" to serve their fellow man.

During his efforts in the early 1900s to help Canadians break the yoke of usury and high interest rates charged by money lenders, Desjardins learned of the efforts being put forth in Europe and how the credit societies functioned there as a means for people to help each other. He was a good student and learned and applied all he could in his own country.

The original idea or concept that made up the basic early philosophy of the credit societies in Europe revolved around people pooling their resources or savings in order to lend to each other. Credit unions have always encouraged members to save and otherwise practice thrift, in addition to providing credit at favorable interest rates. The credit union pioneers in Europe placed major emphasis on the character and worth of individuals in the granting of credit.

Edward A. Filene, a wealthy Boston merchant, was one of the first Americans to become interested in the credit societies in other countries. He observed such organizations while traveling in India in 1907 and was intrigued by the way such organizations provided the means for people to help themselves to a better standard of living. Filene learned all he could about the organizations and, in 1908, participated in a conference in Massachusetts which led to the formation of the first credit union act in the United States.

Pierre Jay, the banking commissioner of Massachusetts, also saw the potential good credit unions could provide and wanted to establish laws that would make such institutions legal. Jay was responsible, with the help of Desjardins of Canada, for the passage of the first general state credit union act in Massachusetts in 1909.

A model philosophy

Models of what credit unions should be like, including their philosophy, were developed by Filene and others following the legislation, but the actual formation of credit unions proceeded slowly at first. Finally, in 1916, the Massachusetts Credit Union Association was formed, providing assistance in the organization of credit unions.

Filene employed Roy F. Bergengren in 1920 to work for the Massachusetts Credit Union Association. Bergengren, an attorney, knew nothing about credit unions when hired and was simply looking for a job. He quickly learned about the philosophical concepts of credit unionism — the serving of people, the promotion of thrift and the reducing of exploitation by loan sharks. He embraced those concepts wholeheartedly, and may have made the greatest personal contribution of any individual to the credit union movement in the United

The practicality of the brotherhood of man

States. His efforts over the years in the passage of various laws in individual states to authorize credit unions, and later his work through the Credit Union Extension Bureau, financed by Filene, ultimately resulted in the passage of the Federal Credit Union Act in 1934. At the time, Bergengren was quoted as saying, "The real job of the credit union is to prove in modest measure the practicality of the brotherhood of man." That became the working definition of the credit union philosophy.

Another person who lent his support to the credit union movement was Texas Congressman Wright Patman. Patman's support in the passage of needed credit union legislation over many years strengthened the movement and proved invaluable. Patman often said, "Next to the church, credit unions are the most powerful force for good in America today." There is no doubt that it was the basic philosophy of the credit union movement that caused him to offer his never-ending support.

My credit union career began 30 years ago in early 1956. Compared to the pioneers I just talked about, I was a Johnny-come-lately to the movement. Yet I have had the great privilege of knowing some of the second generation credit union pioneers. I often wondered what caused Mr. H.B. Yates of Texas to donate thousands of hours of his time to the Dallas Teachers Credit Union, the Texas Credit Union League and the Credit Union National Association during the 1940s and 1950s. In my conversations with him at Dallas Teachers Credit Union, I learned that his driving force was the desire to help people and that he saw the credit union movement as an opportunity for that to happen.

Later, I found that Henry Claywell of Florida had the same enthusiasm and drive, and he channeled his concern through his efforts as treasurer/manager of Hillsborough County Teachers Credit Union in Tampa. His efforts in the formation of the Florida Credit Union League and his participation in the activities of CUNA attest to his dedication to the movement. In preparing a history of Suncoast Schools Federal Credit Union, which was formerly Hillsborough County Teachers Credit Union, I learned that Claywell was known to spend untold hours of his own time on evenings and weekends in doing work for his credit union without pay. It's that type of dedication that has made credit unions worldwide what they are today.

Today, credit union leaders and pioneers continue the work their forebearers began. Some, such as R.C. Morgan of Texas, impress me with their never-ending energy to serve the credit union movement. Jack Mitchell, who served Dallas Teachers Credit Union for over 30 years, set an example and provided guidance for me during the 12 years I worked with him. Jack's efforts helped establish a firm philosophical foundation I feel has characterized my career in the movement. I have always felt that the dedication and leadership of many other credit union leaders whom I have had the privilege of counting among my friends has provided added inspiration for my own efforts.

In contemplating my own career as a credit union professional, I learned at the outset that it was essential to honor the principles and philosophy of the movement. I have always strived to teach my staff to place emphasis on the character and to believe in the honesty of individuals. Over the years, I have often heard members relate versions of "I don't know how I would have gotten by without the help of the credit union." That is the type of image that Henry Claywell and I both attempted to establish at our institution. Together, we've given that philosophy a long and concentrated effort — Henry for 33 years and me for 19 years.

A special philosophy of concern

Henry stressed, as I have over the years, that credit unions are unique financial institutions formed and operated to carry out a special philosophy of people helping people with mutual financial assistance. I still believe that credit unions are organizations of people rather than dollars, and I always will.

I ran across a quote from a Minnesota credit union official in the 1960s that summarized a basic truth of that philosophy. I believe it still applies today:

A man's credit union is the only non-governmental free enterprise, democratically controlled, self-supporting organization that is solely and exclusively concerned with all aspects of his economic welfare! It is the only place he can go for credit, for instance, where he represents something other than a source of profit. He may or may not get the help he wants, but he will get an answer uncorrupted by any need to exploit his situation.

That philosophy lies at the heart of our movement, and it's a philosophy that must never be corrupted.

In addition to placing great emphasis on training employees to carry out the principles of the credit union philosophy, it's important to stress that credit union services must be provided in an efficient, prompt and courteous manner. To me, that's part and parcel of serving our members. And we all must remember that, in the end, members are the owners of our institution and should always be served with dignity and respect.

An impact on members

In examining the impact of credit union philosophy on pioneers of the movement and the many thousands of volunteers who have served as directors and committeemen of credit unions, we cannot ignore the impact of such a philosophy on individual members. It seems to me that no matter how dedicated our pioneers and volunteers may have been, the movement could not have been truly successful had there not been any substance to the concepts, principles and philosophy that were established at the outset. The fact that it has been as successful as it has stands in testament to the value of that substance.

Our members must have understood and appreciated the virtues of the credit union movement. Otherwise, it is unconceivable that they would have lent such strong support. I've always believed the greatest marketing and advertising successes of the movement have been the result of individual testimonials of credit union members. Individuals, especially today, would never support a movement they did not perceive as worthwhile to themselves and others in their particular area of common bond. It's truly unfortunate that, in some cases, credit unions have failed to communicate the true philosophy of the movement and thus failed to properly reach many potential members.

I can recall two specific instances that illustrate the support members will give their credit unions when called on to do so. The first involved the desire of Suncoast School's board of directors to switch from a state charter to a federal charter in 1978. They desired the change in order to offer credit cards and share draft service to their members. We experienced great difficulties, at that time, in getting approval to offer those services from the Comptroller's Office for the State of Florida, the regulator of state-chartered credit unions.

It was necessary for a majority of those attending an annual meeting to vote for the change and was also necessary that a majority of the members eligible to vote support the change through a mail ballot. Past annual meetings were normally attended by some 400 to 500 members, most of whom attended only for a chance at the prizes given through a drawing. At this particular meeting, however, members overflowed the high school auditorium when the meeting was called to order. Attendees overwhelmingly supported the charter change.

When the mail ballot was sent to members, more than

50 percent approved the charter change, with no follow-up effort required. I was very proud of their response and felt that such a turnout and such a vote was an overwhelming indication of support from the members.

The second instance was in early 1979, during an extreme credit crunch. We found it necessary to restrict loans because of a shortage of available funds. I wrote a special editorial in our newsletter, *The Credit Union Courier*, entitled "Continued Support of a Philosophy." I explained the philosophy of our institution as a part of the entire credit union movement and made a plea for members to switch savings accounts from other institutions to their own financial institution — the credit union. I explained that the funds would be used to support the credit needs of members. The response to that plea was more than sufficient to remove all restraints from the lending policies.

A living philosophy

Over the years, I've heard many testimonials from individual members about how the credit union helped them through their difficult times. In conjunction with the celebration of Suncoast Schools Federal Credit Union's 50th anniversary in 1984, a special history was prepared. A number of early credit union members were contacted and their comments were included in an extensive section called "Reflections." These members were asked to relate some of the things they could recall about the early years of the credit union and its accomplishments. Their reflections speak not only of their own experiences, but the credit union philosophy as a living philosophy, active within members.

"I first heard about the credit union from my principal. I was young and a little afraid to jump into something new, but I just knew that it was the thing to do and that it would work. I didn't need to borrow, but put my savings in the credit union. The credit union has done so much for others. My faith has paid off."

Lois S. St. Clair, a member since 1934

" I was always a thrifty person and put a little money away regularly and was surprised at how fast the amount grew. I always encouraged young *teachers to join the credit union and watched it grow. It has done so many good things for people — it has always been great."*

Dorothy M. Moseley, who joined in 1934

"I joined the credit union at the very beginning. We had difficult times in the school system in the Depres-

sion — a $100 loan seemed like a $100,000 loan today. One time, on a Sunday, I needed to know about a loan so I called Mr. Claywell. He told me to come on over and 'let's talk' — on SUNDAY! The credit union has always had good people — they must really do a lot of screening to get such good employees. They never made anyone feel bad or little if they could only make the minimum payment on a loan. The credit union is one of the greatest organizations I've ever dealt with — I wouldn't think of going to a bank."

Flossie Sparkman, a member since 1935

"I joined the credit union when Mr. Claywell worked out of the Madison School. Before the credit union, the only place we could get a loan was from loan companies that were called salary buyers. If we borrowed $45, we had to repay $50 on payday, so we were still short. The credit union didn't charge much interest and gave you more time to pay loans. I was able to go back to school for a four-year degree because of the credit union. I could not have made it without the credit union. I've always appreciated the opportunity to be a member."

Erma Young, a teacher who joined in 1938

"I have many good memories about the credit union. Many of us were forced to do business with what were called 'loan sharks' in the 1930s and were taken advantage of. Mr. Claywell got us into the credit union and I was the 14th black member to join. Co-signers were required for loans at first, but that ultimately was changed. 1 was able to secure money for going on to school as well as meeting living expenses and purchasing furniture. The credit union was a godsend to all of us, black and white. I'm proud that I got to know people like Henry Claywell, T .R. Robinson, Adeline Moran Bailey and Sue Sperry."

Edwin Artist, a member since 1938

"I worked with Henry Claywell, who was involved in the founding of the credit union, and drew up the charter at Henry's request. I believe that the credit union was one of the finest things to come along during the 1930s. It was a place where teachers could belong and get help. There wasn't anything else available like that at that time. Henry Claywell never waivered in his determination to make the credit union a success. I don't believe that current members can possibly appreciate the

difficulties in starting the organization 50 years ago. The credit union attempted to serve everybody equally and made no distinction regarding their position, race or sex. I think the credit union did many wonderful things and I thank God for its success."

LaMar Sarra, who served as a director from 1938 to 1948

Basic principles

How many non-credit union financial institutions can boast that kind of testimony? It's testimony to the effectiveness of the credit union philosophy and the value it has in the lives of its members.

Needless to say, it's vital that modern financial services be provided to meet the needs of members in order to retain their support. All things considered, I'm pleased to see that the vast majority of members of credit unions do support the basic principles and philosophy of the credit union movement.

My own career as a credit union professional has been spent working for two credit unions — Dallas Teachers Credit Union in Texas and Suncoast Schools Federal Credit Union in Florida. I'm thankful and proud that both credit unions are considered successful and progressive. In 1985, I prepared a column for *Chalktalk*, the newsletter for the Education Credit Union Council, entitled "Some Common Elements for a Successful Educational Credit Union." Some of the items I mentioned may seem very basic, but each item helps establish a solid foundation which will enhance the success of any credit union. They come from my heart, and lie at the heart of the credit union philosophy.

Strong commitment

• There must be a strong commitment on the part of all elected officials and management staff to understand and put into practice the basic philosophy of the credit union movement.

• Every policy set by the board of directors must be reached with the best interest of individual members in mind. Office hours, for example, should be set for the convenience of members, not the staff.

• Adequate physical facilitites, properly located, are very important. This includes an ample number of telephone lines and a telephone system designed to handle an extra large number of calls during peak periods.

• Loan programs with very competitive rates, to meet as many credit needs of members as possible are extremely important. Management and staff must be able to introduce new and flexible programs that will build and sustain a full-service image.

• A full range of savings programs that offer attractive rates are essential. This now includes IRAs, share certificates and money market accounts, along with regular share and share draft accounts. Because of increased competition, I believe that dividends should now be calculated on a daily basis, if possible.

• Care should be exercised in setting fees for various services. I believe that it is proper to charge fees for providing money orders, travelers checks and even credit cards, but I am convinced that credit unions can and should charge lower fees than those of other financial institutions. As a financial cooperative, a credit union should strive to provide clearly identifiable advantages for all of its services.

• All of the credit union's financial services should be delivered by an adequate, well-trained staff, dedicated to assisting members in not only an efficient and prompt manner, but with tact, courtesy and warmth.

• Credit unions strong enough to do so should strive to become the primary financial institution for a major segment of their members. Programs should be attractive to all members, including school superintendents and others in the higher salary brackets.

• Extreme care should be exercised at all times to operate the credit union as economically and efficiently as possible in order to keep loan rates low and savings rates high. Employees must have the ability to take advantage of the latest technology and must always look for better ways to do things.

• Credit union officials and employees must never forget that credit unions are financial cooperatives and that the members are the owners. I frequently remind my own staff that we must all recognize who is the master and who is the servant. Simply put, we must serve our members well.

Old-fashioned word-of-mouth

• Information about your credit union must be related to all members and potential members. Services and operating principles must be described in a manner that is easily understood. I have always used a comprehensive newsletter and a wide range of brochures as major marketing devices, but old fashioned "word of mouth" advertising from satisfied members works best of all.

The list was not intended to be all-inclusive, and I am sure it could be lengthened by other credit union professionals. When the list was prepared, I was aware that services offered by small credit unions are sometimes limited, but I don't believe that size necessarily limits most of the concepts described. If a small credit union with limited resources can do a good job in providing the services that it can offer and has a firm commitment to the philosophy and principles of the credit union movement, growth will follow and new services will be added. It's not necessary to set growth as a goal. Growth is the natural outcome of good leadership and services provided through the efforts of good credit union officials and employees.

Built on trust

But there are changes in the air, changes affecting not only our members but ourselves. The credit union movement was built on trust and, today, the terms are such that the trust is being betrayed. Stories of improper conduct and insider dealings being revealed by both state and national regulators are alarming and depressing. Those who dishonor the trust placed in them in their roles as either officials or staff employees dishonor all of us and the entire credit union industry.

Credit union leaders around the country are expressing concern over the future of the credit union movement. Threatened by the possible loss of our tax-exempt status, an increased amount of competition from other financial institutions and so-called "non-banks," and the difficulties in keeping pace with new technologies, I think we all realize our challenges are formidable. Yet I have no doubt that the future of the movement will not be impaired so long as the basic principles and philosophy estabished from the earliest credit unions, right on through present-day credit unions, are maintained.

The long-standing motto of the movement — "Not for profit, not for charity, but for service" — speaks of the traditions of the past and for the beliefs of the present and future.

It is up to every one of us, as credit union executives, to keep that philosophy a living and vibrant force that gives power, strength and compassion to the hands that guide credit unions!

Chapter 4

The challenge of federal and state legislation for credit unions has never been greater, and in spite of temporary victory, issues like credit union taxation, field of membership expansion and other issues of deregulation promise only to get more complicated, and in some cases, more threatening. Understanding the legislative climate for credit unions has never been more important, and there has never been a better account of past, present and future trends than that by Rear Admiral Joe Schoggen.

Credit union leaders have always played legislative tag with federal and state law makers, but the issues are getting more sensitive, R. Adm. Schoggen says, and the answers more complex. Its never been a battle easily won by credit unions, but the battle lines are now not as clearly drawn. As the movement expands and begins to take on the characteristics of the competition, there is less and less safe ground on which executives may stand.

But its not enough to go before the House and Senate with both guns blazing. The effective executive understands what he's up against and works to help find a solution rather than to merely parry the blows aimed at credit unions and their members.

Rear Admiral Joe G. Schoggen, S. C., U.S.N., (RET.), is a chief executive officer of Navy Federal Credit Union in Washington, D.C., and a member of its board of directors and executive committee. Prior to becoming part of the credit union movement, R. Adm. Schoggen served on an attack transport in the Pacific Fleet, with naval assignments in Japan, Spain and Hawaii.

He joined the staff of Navy Federal in June 1975, and has been actively involved in the growth and extension of member services in what is now the nation's largest credit union.

R. Adm. Schoggen served as a member of CUNA's National Planning Committee and is a former chairman of the two Planning Process Monitoring Committees, appointed to convert recommendations of the National Planning Committee into specific action. He is currently a member of CUNA's Capitalization Oversight Committee and System Planning Committee.

Legislation and Regulation- the Difference Paradox

by R. Adm. Joe G. Schoggen

"The basic idea of the credit union is that a group of people can organize cooperatively, pool their individual savings, and from the pool, take care of their own credit problems without usury."
Roy F. Bergengren [1]

The laws and regulations providing the legal framework within which credit unions in the United States operate are creating two forces which are pulling in seemingly opposite directions. The broadening of powers for all types of financial service providers, together with a climate of deregulation and ease of cross-country (and cross-industry) acquisition and charter conversion, are creating a perception in the eyes of legislators and people generally that all financial service providers are alike. This perception of "homogenization" is being strongly resisted by the credit union movement. At the same time, however, broadened powers and deregulation appear to be widening the differences between individual credit unions within the movement. This makes it more difficult to achieve and maintain unified credit union positions on legislative and regulatory issues.

America is a society based on the rule of law. It is both necessary and appropriate, therefore, for credit unions, in whose mission is found the essence of the American dream, to have their foundation in law.

One of the earliest meetings to discuss ways in which cooperative credit associations could be introduced in this country was held in Boston on November 24, 1908. It was attended, among others, by Alphonse Desjardins, Pierre Jay and Edward A. Filene. Later one of the meeting participants said, "realizing the necessity of correcting the loan shark evil, they got together for the purpose of discussing ways and means to *create legislation* that would provide for small people's banks where a man of good character in modest circumstances could borrow money at reasonable rates of interest." [2]

In his history of the early years of the credit union movement in the United States, Roy Bergengren noted that "[the credit union] movement was *necessarily predicated on the enactment of legislation* to make credit union organization possible on a national scale." [3]

Shortly after leaving the Army at the end of World War **II,** Bergengren began his credit union involvement, which later led to the task of getting necessary legislation. He met with Edward Filene, for whom he had done some work as a lawyer before the war. Filene advised that there was a vacancy in the management of the Massachusetts Credit Union Association and offered Bergengren the job. Being in urgent need of work, Bergengren promptly accepted, although he wondered at the time what a credit union was.[4]

A crusade for economic democracy

Bergengren soon learned that his job was to make the credit union idea valid in law throughout the United States. This was to be what he later described as the "crusade for economic democracy in North America," and he was to lead it. He approached the task one state at a time, beginning with the four state laws which existed in 1921. By 1934, 39 states had enacted laws authorizing the organization of credit unions. The District of Columbia was added in 1932 and Bergengren's historic campaign to "get the laws" culminated in the enactment of the Federal Credit Union Act in 1934, "an act to establish a federal credit union system . . . to make more available to people of small means credit for provident purposes through a national system of cooperative credit. "[5]

It should also be emphasized that, after each law was enacted, Bergengren undertook the additional challenge of making the law work. As he notes in *Crusade,* "After any credit union law had been passed, there was great inertia to be overcome. The almost automatic reaction to a new idea is negative. It took perseverance, faith, experimentation on a grand scale and the hardest kind of hard work to secure entry for this new idea into the minds of the very people it was designed to serve." [6]

From this description, it is clear that the credit union was not conceived as just another type of financial institution which, presumably, could have been created with the framework of existing law. It was a totally new idea. It had to have a specific authorization in law and it had to be sold to people who generally were doubtful that it could be done and were resistant to change.

Since 1934 there have, of course, been many laws, including laws not written with credit unions in mind, that have come to have a profound impact on credit unions. One of the most pervasive of these, with the greatest potential for long-term impact is the Depository Institutions Deregulation and Monetary Control Act of 1980, which legalized "share drafts" for credit unions but also added credit unions to the definition of "depository institutions." This brought share draft accounts under the Federal Reserve's Regulation D. (More on this later).

An important part of the legislative and regulatory environment for credit unions continues to be the dual chartering system. As they have been from the beginning, credit unions are chartered by both the federal and state governments. Those chartered by the federal government operate in accordance with the Federal Credit Union Act; those chartered by states operate in accordance with the applicable state laws. In the early years, there was not much difference between the two. The Federal Credit Union Act initially contained most of the provisions commonly found in the state legislation which had preceded it.

In later years, there has been an interactive effect. In some instances, a change in an individual state's laws pertaining to credit unions will be followed by similar changes in the laws of other states and the federal law, and changes in the federal law frequently will be followed by changes in the various state laws. This is not always the case, however. For example, a provision in the state of Illinois law providing for proportional voting (one vote per share owned rather than one vote per member) has not been adopted by other states nor proposed for federal law.

Dual chartering: push-pull

It seems clear that the general impact of the dual chartering system has been positive. Its "push-pull" effect encourages creativity and innovation. It helps credit unions respond more quickly to changes in the needs of their members. It helps credit unions accommodate wide diversity in size, scope of services provided and people served while preserving the essential characteristics that make an organization a credit union. Unfortunately, the effectiveness of the dual chartering system is currently being eroded. More and more states are requiring their state-chartered credit unions to have federal insurance. Since federally insured, state-chartered credit unions must, to a growing extent, comply with the regulations of the federal regulatory agency, differences between federal and state legal and regulatory requirements become much less significant for these credit unions.

This should not severely impact the ability of credit unions to be creative and responsive to changes in the needs of their members. There are other ways to facilitate ingenuity and creativity. It does, however, require that credit unions and their trade associations compensate for the weakening push-pull effect of the dual chartering system by placing greater emphasis on maintaining a supportive legislative and regulatory climate in the federal arena.

It should be recognized that other factors interact with legislation and regulation to affect credit unions. These include general economic conditions, technology and the changing needs of people for financial services.

Thriving under adverse conditions

Credit unions were first organized in significant numbers during the early 1930s, a period when general economic conditions were having a severe adverse impact on banks, but in which credit unions thrived. Does this mean that there is an inverse relationship between general economic conditions and the prosperity of credit unions? Or does it mean that the credit union idea, when implemented, prospers during periods of adverse general economic conditions but also does well during periods of general prosperity? The credit union record during the last 50 years suggests that the latter is the case.

Despite the fact that some credit unions have largely abandoned the credit union idea and become difficult to distinguish from for-profit financial institutions, the overall record of growth and financial soundness which has been established by credit unions in the United States during the last five decades has been impressive. General economic conditions appear to have benefited credit unions during bad times but not to have retarded their growth during good times.

A review of the record also suggests that there is an interaction between general economic conditions and the legislative and regulatory environment impacting credit unions. The laws which were enacted and the regulations which were issued during the early development of credit unions in this country reflected the depressed state of the economy. This is seen in the tight restrictions included in the early laws and regulations regarding what credit unions could do. It was not until 1940, for example, six years after President Franklin D. Roosevelt signed the Federal Credit Union Act, that the law was amended to increase the maximum unsecured loan limit to $100.

As general economic conditions improved over the years, this limit was gradually raised until, in 1977, the statutory unsecured loan limit was removed completely. Similar broadening can be seen in other statutory powers of credit unions, such as maximum maturity limits on loans, maximum supervisory fees paid by credit unions and the types of loans and investments authorized. While these broadening powers certainly have not been an automatic result of improved general economic conditions, it is doubtful that many of them would have been granted without the substantial improvement in general economic conditions which have occurred since 1934.

In recent years, it has become increasingly clear that technology is a major factor interacting with legislation and regulation to impact credit unions.

Credit unions were recognized at the outset as cooperative associations for people "for the purpose of promoting thrift among their members and creating a source of credit for provident and productive purposes." [7] For this reason, even though credit unions have been strictly constrained by law in most aspects of their operations, initially they were, and have remained, comparatively free of any statutory or regulatory constraints limiting their use of technology in serving their members. For example, they have been free to accept share purchases from and disburse loans to their members, regardless of the geographic location of the members. As new telephonic, telegraphic and satellite technology has become available to facilitate such transactions, credit unions have been free to apply it, and many have done so with a high level of success.

Credit unions have been near the forefront of the trend toward using new technology to provide financial services to people. Since the early 1970s, Navy Federal Credit Union has been processing loan applications and share withdrawal requests electronically with its members in widely dispersed locations around the world. In the late 1970s, Texins Credit Union in Dallas, Texas, began operating an automated "branch office of the future." Credit unions pioneered the truncation of checks (share drafts) beginning in 1976 and were among the first to provide service through automatic teller machines.

The changing nature of money

Technology is changing the nature of money, which long ago ceased to be primarily currency and coin. For years, it has been primarily entries in paper accounts. Now, increasingly, it is taking the form of electronic blips, often initiated by plastic cards. Direct (electronic) deposit of pay is becoming the norm. Credit unions, many of whom have long been receiving share purchases by payroll deduction, are well positioned to accommodate this technological advance. On the other hand, electronic deposit of pay, combined with the proliferation of ATMs, is eroding the traditional "place convenience" advantage which has been enjoyed by occupational credit unions.

Recent advances in technology have spawned specific legislation and regulations impacting credit unions. The Federal Reserve's Regulation E, for example, was the result of advances in the electronic delivery of services through ATMs and the transmission of direct deposit of pay. At this writing, proposed legislation has been introduced in both houses of Congress which would require that wages and salaries of Federal military and civilian employees be paid by electronic funds transfer (EFT), another obvious outgrowth of advancing technology. [8] And on March 25, 1986, the Internal Revenue Service issued a regulation requiring that credit unions (among others) use magnetic data in filing certain specified reports. [9] This is just one more example of regulation as a result of the continuing advance of technology.

Technology is, however, a two-edged sword. It can enhance a credit union's uniqueness, but it also facilitates growth and sophistication. As credit unions grow larger and/or become more sophisticated in their delivery of services to members, they begin to look more like banks. This apparent similarity to banks creates confusion in the minds of people. It is difficult for everyone to retain a clear focus on why credit unions exist and what their unique purpose is.

The challenge for credit unions is to continue the effective application of new technology to the delivery of services to members while retaining a clear focus on their unique purpose in being. For the credit union idea to survive in the United States, it is essential that technology be used as a tool to preserve and strengthen the differences between credit unions and other financial service providers, not to weaken them.

Addressing the loan shark evil

The early laws which permitted the formation of credit unions clearly reflected the needs of people at the time. As noted at the beginning of this chapter, that 1908 meeting of credit union pioneers in Boston was prompted by "the necessity of correcting the loan shark evil." Bergengren begins *Crusade* with the sentence, "In the beginning there was Usury." [10] The critical need was for people of good character and financial responsibility, but of modest means, to have a source of credit at reasonable rates. The early laws in the states, as well as the Federal Credit Union Act, responded to that need.

Subsequent legislation and regulations have continued to reflect the changing needs of people for financial services. Legislation and regulation, in turn, have affected credit unions. Now in addition to low-cost loans and generous dividends on savings which have been the hallmark of credit unions, these cooperative associations have been given statutory and regulatory authority to provide a wide variety of financial services to members.

A comparatively modest array of services offered by a federal credit union today would include:

- Share savings accounts
- Share purchases by electronic deposit of pay
- Consumer loans for almost any purpose
- Toll-free telephone loan applications
- Touch-tone telephone inquiry automated response
- Savings certificates
- Individual Retirement Accounts
- Interest-bearing checking accounts
- An open-end line of credit
- First and second mortgage loans
- Government-guaranteed educational loans, and
- Automated teller machine services

Greater liberalization, more legislation

While there has been much liberalization since the early 1930s in the laws and regulations impacting credit unions, there has in recent years been a major legislative and regulatory thrust to protect consumers from abuse by financial institutions. As organizations of, by and for consumers, credit unions have traditionally supported pro-consumer legislation. They testified in Congress supporting the Truth-in-Lending Act with the expectation that its effect would be to give consumers the same kind of complete information about their loan accounts that they were already getting from their credit unions. They supported the Depository Institutions Deregulatory and Monetary Control Act of 1980 with the thought that its effect would be better financial services to consumers. Credit unions have supported in concept proposed legislation requiring prompt availability of funds in chocking accounts and many other proposals aimed at benefitting consumers.

Very recently, however, there is growing concern about the impact of this type of legislation. The implicit assumption in all of it is that credit unions are essentially no different from for-profit financial institutions. The fundamental fact that credit unions are owned and controlled by their members, who are their only customers, is ignored. The significance of this fundamental fact, namely that credit union members do not need legislative protection from their credit unions, is lost in the process of lumping all "depository institutions" together.

The additional costs to credit union members of compliance with Regulation B, issued pursuant to the Truth in Lending Act, have been unconscionable. The inclusion of credit unions in the definition of "depository institutions" in the Monetary Control Act of 1980 has gone a long way toward convincing legislators, credit union members and people in general that credit unions are just another type of financial institution, rather than voluntary associations of people pooling their savings and lending them to one another. The overall impact is that it has become increasingly difficult for credit unions to preserve their essential identity and thereby continue to provide people with the opportunity to voluntarily get together with others sharing a common bond, to pool their savings, lend them to one another and own the organizations where they save and borrow.

With these concerns in mind, it may well be that credit unions can no longer always support legislation which, while aimed at worthy objectives, would force credit unions further into the standard mold of financial institutions. This was suggested in a recent thoughtful letter to the Chairman of the House Committee on Banking, Finance and Urban Affairs, Congressman St. Germain, from the Chairman of the Credit Union National Association, Joseph Perkowski, providing comments on the "Depository Institution Examination Improvement Act of 1986" and the "Truth in Savings Act." [11]

The Federal Credit Union Act specifies that "credit union membership shall be limited to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community or rural district." [12]

For at least the first 40 years after the Federal Credit Union Act was signed, a rather strict interpretation was made of what constituted a common bond. In recent years, however, the National Credit Union Administration has made a more liberal interpretation. During the Connell administration [13], a broad meaning was attributed to the term "community" in the Act, and a rapidly growing number of "community charters" were approved. Probably as a result of the large number of requests for conversion to community charters received in 1981 when NCUA Chairman Callahan succeeded

Chairman Connell, a new interpretation was made focusing on the term "groups" in the Act. [14] The new interpretation was that a credit union's field of membership may include any number of diverse groups, each of which has its own common bond. It was ruled that the Act did not require "groups" to have anything in common with one another, other than the desire to belong to the credit union, and this interpretation still prevails. It does not mean the end of the community charter concept, the legitimacy of which is clear in the Act. But it does represent a major shift in NCUA policy which appears to be a matter of some concern to the current Jepsen administration. [15]

No level field on which to play

Related to the common bond and fields of membership is the much-ballyhooed contention that all financial institutions should be required to operate on a "level playing field." What those who tout the level playing field do not recognize is that a credit union is permitted by law to serve those people who are named in the field of membership specified in its charter and no one else. Other financial service providers, however, are permitted to serve the general public, including those in the credit union's field of membership. Therefore, the only level playing field that exists is the credit union's field of membership! Further, from the standpoint of individuals, if there were no credit unions, most members would not have a field to play on. This is illustrated by the following facts about Navy Federal Credit Union, the country's largest, compiled on July 31, 1986:

- 21 percent of members' share savings accounts (158,844) have balances of less than $10;
- 46 percent of members' share savings accounts (351,663) have balances of less than $100;
- "Sharecheck" (checking) accounts are offered to all members with no monthly fee, no minimum balance requirements, no charge for name-imprinted checks and dividends at 5.25 percent APR;
- All members have access to small consumer loans by toll-free telephone, 24 hours per day, seven days per week, 365 days per year;
- Seven of every 10 consumer loan applications are approved, and delinquency is 35 hundredths of 1 percent.

Valuing the common bond

In the absence of credit unions, it is doubtful that many of these members would have the type of playing field that Navy Federal Credit Union provides.

In any event, it is important to note that the common bond concept is of great value to the credit union movement in general as a distinguishing characteristic and that it also is of real practical value to many individual credit unions whose common bond is clear and strong. In terms of the difference paradox, insurance legislation has cut two ways. On the one hand, by specifying that the credit unions provide all the funds for their own share insurance legislation it has helped emphasize the differences between credit unions and banks and savings & loan associations whose insurance funds were initially capitalized by the federal government. On the other hand, by providing federal agency-backed insurance on members' shares of ownership in credit unions, it has furthered the perception that these shares are deposits and that there is no essential difference between a credit union and a bank.

A good case can be made that, for safety and soundness, there was no real need for federal share insurance in 1970 when Public Law 91-468, establishing the National Credit Union Share Insurance Fund, was enacted. The same is true regarding any real need for the increased capitalization of the Fund, which was required by Public Law 98-369 in 1984. In both instances, the need was psychological. However, the impressive demonstration of voluntary cooperation, with which the entire credit union movement paid in the necessary funds to meet the new capitalization level, went a long way toward convincing all concerned that credit unions really are different. They do take care of their own problems, rather than asking for help from Congress.

As we have seen, the laws and regulations affecting credit unions have become vastly more liberal than the initial laws authorizing the formation of these cooperative associations. The early laws made it possible for the credit union idea to become a reality in the United States, but they also limited credit unions to carrying out their original purpose and nothing more. The Federal Credit Union Act now provides statutory authority for credit unions to exercise 15 specific but wide-ranging powers and a significant 16th: "to exercise such incidental powers as shall be necessary or requisite to enable it to carry on effectively the business for which it is incorporated." [16]

From initially specifying a maximum unsecured loan limit of less than $100, the federal law and its implementing regulations have been broadened. This broadening has allowed individual credit union boards of directors to set any loan limits they wish, to use separate corporations called Credit Union Service

Organizations (CUSOs) to engage in a wide variety of businesses, to have vastly greater opportunity to copy banks and other commercial enterprises if they so choose and to forget — or at least de-emphasize — the original purpose for which they were created.

Widening latitudes

Similarly, the legislative and regulatory environment applicable to banks, savings & loan associations and other providers of financial services is now much more liberal than it was when the overriding objective was to prevent failures of any type of financial institution. The statutory and regulatory limits on amounts that can be paid for savings or deposits have been largely removed. The limits on rates of interest that can be charged on loans also are much broader.

In the traditional environment, savings & loan associations were limited primarily to financing home purchases, banks were known primarily as commercial lenders, brokerage firms provided little more than securities underwriting and sales, and the major retailers, while sometimes providing a limited range of insurance products, were almost exclusively merchandisers. This is no longer the case. All types of financial service providers now have wide latitude to engage in businesses formerly restricted primarily to others.

In this environment, the question for the future for all types of financial service providers is: "What business are we going to be in?" Although perhaps not apparent at first glance, this question, for credit unions, is closely related to their tax status.

In the fall of 1985 (and carrying over into 1986), the credit union movement faced the latest and thus far most serious threat to its historic exemption from federal income taxes. This caused the credit union movement to re-examine its roots. As a result, there was a strong re-emphasis on the elements of basic philosophy which make credit unions different. At this writing, it appears that this campaign to preserve the federal tax exemption for credit unions was successful. Congress has reaffirmed the conclusion that credit unions, no matter how large they may grow, should remain tax exempt as long as they do not abandon their "not-for-profit cooperative philosophy and engage in a direct, profit-driven confrontation with other financial institutions." [17]

Credit unions at the crossroads

Now credit unions are at a crossroad. We must decide whether we will, as a movement, preserve and strengthen our basic differences, or resume the trend toward imitating banks, which was apparent before this latest tax exemption campaign began.

There are, of course, those who contend that loss of the federal tax exemption for credit unions is not important to the future of the credit union movement. Estimates of the financial impact have been made which suggest that it could be accommodated without serious adverse impact. Other estimates, however, and the experience of credit unions in Canada, suggest that at a minimum, there would be serious erosion of credit unions' financial strength and a substantial diminution of their ability to accomplish the unique purpose for which they were initially authorized by Congress and the state legislatures. In this event, it might be necessary for Congress to create by law (at the expense of taxpayers, of course) some new form of organization to provide the "lifeline services" which now are provided on a voluntary basis by credit unions.

But regardless of the financial impact of taxation on credit unions, it is far less important than the inevitable impact of taxation on the future of the credit union idea in the United States. The most important effect of the loss of credit unions' tax exemption would be a self-fulfilling prophecy. In taxing credit unions, Congress would assume that they are fundamentally no different from other financial institutions. And because credit unions would be taxed, their basic character would change.

The changes would be gradual at first and might hardly be noticed. But they would accelerate with time. Their result, over a period of perhaps ten years, would be the gradual disappearance of the organizations we have known as credit unions. The survivors would be indistinguishable from other financial institutions.

Why would this happen? Essentially because of the devastating effect taxation would have on the differences between credit unions and for-profit financial institutions. Some of these differences are listed below:

- Volunteer officials
- Common bond
- Specific field of membership
- Supervisory committee
- Member/Owners (one member/one vote)
- All members treated equally
- Concern for lowest income member
- Personalized member service
- Member counseling and education
- Same rates for all borrowers
- Small consumer loans
- Not for profit

The demise of concern

Following taxation, volunteer officials who had previously served their fellow members because they believed in the credit union as a non-profit cooperative, would begin to expect, and receive, compensation for their services. The common bond and its counterpart, a specific and restricted field of membership, would soon go by the boards as the drive for increased earnings to offset taxes intensified. The ombudsman responsibilities of the supervisory committee would become unnecessary because the members/owners — each of whom formerly had one vote regardless of the size of the account would demand and ultimately gain proportional voting (the more shares, the more votes). This in turn would lead to the demise of the characteristic of treating members equally and, particularly, to the demise of the concern all credit unions had for the lowest income member.

As a result, the personalized member service and the member counseling and education that previously had been provided for the benefit of all members now would be provided only to the most affluent. The organization which previously had been a credit union would begin to act like other financial institutions and play favorites with loan rates. The low income borrower, who previously had paid the same rate as the most affluent (or influential) member, soon would be charged a higher rate, reflecting the higher risk. Small consumer loans, well below the break-even point which formerly had characterized credit unions, no longer would be available because the profit motive, which had been absent, now would be very much present as a result of the pressure for increased earnings to offset taxes.

If this line of reasoning has merit, it is indeed fortunate that the federal tax exemption for credit unions survived this latest threat. It is widely recognized, however, that the threat has not gone away permanently. The need for government revenue is great and growing. The search for additional sources will intensify. There must continue to be a powerful reason for preserving the tax exemption for credit unions.

Filling a vital need

What is that reason? It is that credit unions are truly different. They voluntarily fill a vital social need which Congress would otherwise be under great pressure to fill at taxpayer expense.

To many in Congress, the chief distinguishing characteristic of credit unions is that they adhere to a viable common bond. At recent conferences of credit union people in Washington, Senator Jake Garn and Congressman Byron Dorgan, both of whom have supported credit unions' continued exemption from federal income taxes, have warned that there is a direct relationship between credit unions' tax exemption and the existence of a common bond. Gam, Dorgan and others, including Congressman Fernand St. Germain and Senator William Proxmire, have indicated that they will continue to support credit union exemption from federal income taxes as long as the institutions adhere to a tight common bond and continue to provide low-cost financial services to people of modest means, the purpose for which credit unions were first authorized by Congress and the various state legislatures. In other words, as long as credit unions stick to doing what they were created to do, thereby meeting a recognized public need, Congress is likely to support credit unions' tax exemption. If credit unions abandon their original purpose, they will be taxed.

Stated another way, as long as credit unions remain truly different, as they were originally intended to be, they will be so recognized in the tax laws. If they cease being truly different, they will be taxed and the citizens of our country will no longer be served by the not-forprofit cooperatives that we have known as credit unions.

The implications for the future are obvious. For the credit union movement to grow and become stronger as the years go by, adherence to fundamentals is essential. While accepting the reality of wide diversity in size, range of services offered and, within reasonable limits, who is served, every organization that calls itself a credit union should willingly and consistently adhere to the unique role which credit unions were created to play in our society. This will ensure that the American people continue to have the freedom to voluntarily get together with others sharing a common bond, to pool their savings, lend them to one another and own the organizations where they save and borrow.

Notes

1. Roy F. Bergengren, with Agnes C. Gartland and James W. Brown, *Crusade: The Fight for Economic Democracy in North America, 1921-1945,* New York: Exposition Press (reprinted in 1973 by the World Council of Credit Unions, p. 18.)

2. J. Carroll Moody and Gilbert C. Fite, *The Credit Union Movement — Origins and Development 1850-1980,* Second Edition, Kendall Hunt Publishing Co., Dubuque, Iowa, p. 23.

3. Bergengren, p. 16.

4. Ibid., p. 20.

5. 12 U.S.C. 1751.

6. Bergengren, p.18.

7. 12 U.S.C. 1751.

8. "Status Report on Legislative and Regulatory Issues Affecting Credit Unions as of May 22, 1986," Prepared by CUNA, Washington, D.C., p.43.

9. Ibid., p.85.

10. Bergengren, p.15.

11. Letter dated July 8, 1986 from Joseph Perkowski, Chairman, CUNA, Inc., to Honorable Fernand J. St. Germain, Chairman, Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives.

12. 12 U.S.C. 1759.

13. Lawrence Connell, Jr. was appointed Administrator of NCUA in 1977 and became the first chairman of the newly established, three-person NCUA board in 1979. He served in this capacity until 1981.

14. Edgar F. Callahan became Chairman of the NCUA board in 1981. His administration was characterized by his oft-repeated statement, "We don't run credit unions."

15. Roger W. Jepsen became Chairman of the NCUA board in 1985. In mid-1986, the Jepsen administration initiated a study to assess the impact of recent field of membership changes on the safety and soundness of credit unions.

16. 12 U.S.C. 1757.

17. CUNA Status Report, p.37.

Chapter 5

There was a time when a credit union member was the person who stood in the assembly line next to you, occupied the classroom across the hall from yours or slept in the barracks bunk two men down. Each was an individual, but their lives ran in similar patterns. They did much the same thing throughout the working day and required many of the same financial services. Life was simpler then.

That's all changed, however, and no one has felt the change more than credit union executives, especially those who have diversified, splitting their fields of membership among many different employer groups or community organizations.

The face of credit union members is changing, says Larry T. Wilson, and professional executives are going to have to be prepared to meet those changes in a way that will enhance the service benefits for members, as well as increase the bottom line for credit unions.

The first step in meeting those needs, Mr. Wilson says, is understanding who those members are, what motivations drive those members and how credit unions can best serve them. The task isn't easy and the facets of the challenge are highly complex. But it can be done and is being done very successfully.

Larry T. Wilson, president/CEO of IBM Coastal Employees Federal Credit Union in Raleigh, North Carolina, has been very active in the credit union movement at both the national and local levels. He has served on the board of directors for the CUNA Mutual Insurance Society, along with the CUNADATA Advisory Board. He is a member of the CUNA Technology Committee, the NAFCU Awards Committee and the Credit Union Executives Society. In 1985, the National Association of Federal Credit Unions named him "Professional of the Year."

The Changing Faces of Credit Union Members

by *Larry T. Wilson*

There once was a time in the early days of most, if not all, credit unions that virtually all members of a credit union were alike. Whether they were teachers, foundry workers or military personnel, they possessed some driving characteristic that tied them together from the standpoint of personality and economic need. A few early credit unions may have run counter to this, but by and large, it was easy to determine what types of services members wanted and expected.

Deregulation of the industry has created a land of opportunity for credit unions, but with a host of obligations. If that weren't enough, it's also opened up many institutions to a widely diverse field of membership built on all personality types and embracing every variety of economic profile imaginable.

The biggest challenge facing credit unions today, perhaps, will be how to take advantage of that new marketplace and its variety of consumers without negatively affecting a credit union's profitability or philosophy. The first step toward that goal comes with understanding just who is out there and what they expect from their financial institution.

Today's "new" consumers are primarily in their 20s and 30s, are highly educated and have a tremendous demand for fast, efficient and congenial service. They are likely to be socially responsible and involved in politics. They are also likely to be participants in team play with very high expectations, accustomed to reaching the highest ideals in all endeavors.

Today's new consumers are less likely to be driven by price, but more concerned with quality and convenience of service through various delivery systems which would include automated teller machines, bill-paying systems, audio reponse systems and other "high-tech" delivery mechanisms. They like self-service opportunities.

They also want and desire high-quality products; in fact, there seems to be more concern for quality than price. One look at the automobiles driven by the new generation — BMWs, Hondas, Saabs, Nissans and other sporty varieties — will bear this out.

Basically these new consumers can be divided into several groups. There are those who are self-centered, those who like to try new things, those who are socially conscious, more traditional middle-class Americans, emulators and achievers and, finally, those who have succeeded.

The self-centered group, particularly those raised in a favored environment, tend to seek out — often ungraciously and noisily — a new way of life for themselves. Few members of this group are over 30, a large number are students and only a few of them have been married. In fact, many are still living at home and identify strongly with their parents. They represent the zippy, highly energetic and enthusiastic group of our new consumers.

Plain living, high thinking

Next comes a larger group we might describe as experimental. What matters most for some of them is deep personal involvement in ideas or issues. For other experimenters, it's the challenge and excitement of great physical exertion or the quest of inner exploration. And for a few in this group, the core of existence is a lifestyle of voluntary simplicity, described as "plain living and high thinking." Most members of this group are perfectly at home at either a noisy parade or deep in thought. Action and interaction with people, events and ideas pure and strong — are their essence of life.

A few years ago, most of this group passed through a self-centered, chaotic stage of life. A few years from now, they will extend their perspectives to the society, perhaps even in a global way, and become more action and mission-oriented. But for now, it is not things that count, but emotions. The intangible is likely to loom larger than the plain invisible.

Experimenters also tend to be artistic people turned to subtlety and nuance. Their independence and self-reliance go deep, enabling them to try anything once, if only for the experience of it. This inventive group is given to the unusual, the one-of-a-kind, the daring, the dramatic, the impulsive and the quaint. Their self-understanding makes them excellent judges of what is authentic and makes them decisive about rejecting what comes across to them as fraudulent. Energetic, they engage in many social activities ranging from vigorous outdoor sports to the van life, to wine tasting, to participating in artistic events.

This experimental group is considered youthful, mostly in their late 20s, and well-educated, with annual incomes ranging between $23,000 and $27,000. Many hold technical and professional jobs. By and large, they are happy, self-assured, well-adjusted people with faith in the trustworthiness of others and great assurance that they are on top of things. They tend to be politically liberal and highly supportive of such phenomena as the women's movement, premarital sex, legalization of marijuana, conservation, consumer movements and limits to industrial growth. Many are intensely opposed to military spending and have little faith in institutional leaders.

They prefer natural products to the synthetic, some to the point of growing their own flowers and vegetables. Many preserve their own food or shop in organic food stores and have much faith in holistic medicine. It is they who do most of the rock climbing and backpacking. It is they who above all love to get away from it all, where the signs of civilization are few. They are likely to be the hang gliders, skiers and river rafters.

Experimenters tend to be happy individuals, not because they don't have pressures and frustrations, but because they feel they are growing and changing and that any day may bring a fresh, new insight, a peak experience to eliminate all that has gone before. This group is much less self-centered than the previously described group and is concerned with a broader range of issues in a more participative and self-assured way. They are notably self-reliant and more dependent on peer support and social status for their self image.

Socially conscious, Politically effective

The next group is known as the socially conscious, composed of the sophisticated and politically effective lot. They have reached an average age of almost 40 and have arrived at positions of influence in their jobs and communities. The mass majority have attended graduate school and even a larger number hold professional and technical jobs. Most members of this group try to lead lives that conserve, protect and heal. They return unsatisfactory products or complain to suppliers more than any other group. They worry more about air pollution, support more spending to protect the environment, believe industrial growth should be limited and feel more than most that military spending is too high. They place a high imporance on energy conservation in the home, and more than any other group have looked into solar heating. The overall picture is of a well-educated, prosperous, politically liberal group driven by social ideas that they take seriously.

The next group, composed of middle-class Americans, is more traditional, conforming, conservative, "moral," non-experimental and family oriented. They're a mighty force of stability in a world of tumbling change, preferring the status quo, if not the ways of yesteryear. Old-fashioned values shine bright: patriotism, family, home and sentimental values.

These are people who above all share cherished institutions such as family, church, loyalty to nation and job and old associations. The majority want to fit into society, not stand out. For the most part, they follow the rules, are middle-aged or older and have middle incomes and middle levels of education. They tend to live in small towns or the open country. They tend to shun big cities and are not much interested in sophistication or intellectual affairs. All the evidence suggests that the majority of this group live contented, happy lives, rarely vexed by the stresses and complicated events that swirl around their lives.

Their emotional needs are met through soap operas and romance magazines. They see safety in numbers and think it is important not to be an outsider. Togetherness and agreement are important, but closeness with others tends to be quite formalized. Members of this traditional group want things to be clear and easily understood, and they have no tolerance for ambiguity. They feel society should reward "virtue," and they prefer to follow rather than to lead. They are threatened by the aberrant, and to avoid hostility they will accept the lowest common denominator. Adherence to tradition and status quo is essential. Most important to us, this group of middle-class Americans forms the backbone of the credit union movement as we know it today.

Difficulty in structuring services

As we look at the evolution of today's marketplace, we find that there is a growing trend by another group toward emulation. With an intense striving desire, these emulators and achievers seek to be like those they consider more successful than themselves — that is, people who have achieved high levels of success. They tend to be ambitious, competitive, ostentatious, unsettled, macho — whether male or female. Hard working and supportive of contemporary social trends, they are fairly successful. Members of this group have an average income of over $22,000, but they tend to spend and tend to be in debt.

Finally, we have a group that has succeeded. They are the driving and driven people who have built the "system" and are now at the helm. Accounting for almost one-quarter of the adult population, they are a diverse, gifted, hard-working, self-reliant, successful and happy group. To social critics, these people represent the establishment. More than anything else, they have learned to live the comfortable, affluent, affable and outer-directed life, and in so doing, have set the standard for much of the nation. About 20 percent of this group are self-employed, while many others hold managerial and administrative jobs. Incomes exceed $35,000 a year per household and household assets exceed $100,000 or more. Life appears to be comfortable. Almost half the members of this group live in suburbs, and 87 percent own their own homes.

A large majority feel good about themselves and their families. They lead all groups in trusting people, in considering themselves upper-class, in having self-confidence, in not feeling rebellious and left out of things and supporting national issues such as industrial growth, military spending and U.S. involvement in world affairs. They are more satisfied with their financial situation and they feel that products are getting better and safer. They support technology and go for the new and improved product. Staunchly Republican and conservative politically, they do not want radical change. After all, much of the culture is of their making. They are on top, and radical change might shake them off. They have contributed to the development of American values in a fashion they did not anticipate. By building an economic system of unprecedented affluence in the years following World War II, they made possible the emergence of current values.

As we can see, today's consumers take on various personalities and desires, making it very difficult to structure services and products to meet this diverse society. As we've already seen, there are several overriding factors that cross most, if not all, societal lines. People of all types expect high-quality products and demand fast, efficient service. They look for a high degree of trust in the provider, and where they find trust, they will believe in the product being offered. If they believe in the product being offered, they will support the organization, particularly the large mass of middle-class Americans who have no real desire to lead, change or revolt against the system.

According to a 1986 survey by Opinion Research Corporation, conducted among a randomly selected group of 1,000 Americans, public awareness of credit unions is strikingly low. In order to increase our competitive stance with other financial institutions, we must create for ourselves a stronger, more favorable impression among present and potential members. The survey, not surprisingly, also found that people turn to commercial banks more often than other institutions and continue to have a high regard for banks. On the other hand, there also is a growing blur between different financial institutions. People are currently shopping around more, juggling loyalty, service, convenience and need to find the institution that best satisfies all of their requirements.

According to the survey, credit unions are not the first providers to come to mind. One survey question asks, "When you think of the various institutions that offer the full range of personal financial services you might need, what types of institutions come to mind?" Credit unions came up in only 22 percent of the responses, compared with 65 percent for banks, 31 percent for savings & loans, 13 percent for savings banks and 10 percent for brokerage firms.

Another question asks, "Considering those institutions you have just mentioned and any others you can think of, what financial institutions do you feel are the best places for you to meet your savings goals?" In reply, 20 percent of the participants mentioned credit unions, 45 percent singled out banks, 20 percent cited savings & loans and 10 percent listed savings banks. The same question, this time substituting personal loans for savings, came out with 60 percent of the sample pointing to banks and 30 percent choosing credit unions.

Armed with knowledge, awareness

Given the various behaviour traits of the new consumers and the information obtained from this recent survey, we should be armed with the knowledge, awareness and products and services necessary to properly develop marketing strategies that meet our individual credit union memberships. Each and every institution must be able to determine what behavioral traits are identified with their particular field of membership. And as we relate to these particular behavioral traits, we should keep in mind the reported findings of market research.

Our survey shows that when asked "what types of financial institutions — if any — come to mind when people refer to 'not-for-profit cooperatives used and controlled by their members,'" half of the respondents were current or past credit union members, yet only 30 percent recognize this as the definition of their institution. Realizing that at least half of all credit union memberships are composed of what we define as middle-class America, we apparently have not done our job in educating people on this distinct differentiation between credit unions and other financial institutions.

Key findings positive

Other key findings in the survey results are very positive, indicating a consumer audience ready, willing and able to accept credit unions. Responses to individual questions show that:

• People who are familiar with credit unions do not feel negatively toward them.

• Almost none of the respondents feel that credit unions are worse than other financial institutions.

• Most respondents believe credit unions are just as safe as banks for depositing money or securing loans. But there were also some negative responses, such as:

• Many believe that a prerequisite to becoming a credit union member is employment in a particular industry or firm. This response alludes to the 'common bond' that traditionally ties a membership strictly to a particular place of employment. This leash has loosened, however, to the point where membership restrictions today are defined vaguely, at best.

• People who have never joined a credit union, as well as past credit union members, perceive credit unions as being out of touch, needing to modernize. Respondents who are currently members, however, disagree with this.

In a smaller, separate survey, 100 senior marketing/ market research executives representing a "full kaleidoscope" of financial institutions were questioned about their perception of their competition. Among the group were 14 senior executives of credit unions.

In the overall opinion of their peers, credit unions rated poorly compared to other financial institutions. Indeed, of the 12 types of institutions polled, credit unions only came in ahead of real estate brokers on this count. Competitors said they believe that credit unions have diversified too slowly, if at all, and have *limited potential* for growth and development over the next five to 10 years. The competition did concede, however, that credit unions offer their members inexpensive and cost-effective services.

What can we learn from this public awareness research? The first thing is that there are important questions to answer. How do we match up with the service needs and desires of the new consumer in our future operations? Why don't we diversify more quickly and expand our potential service offerings within our given marketplace?

If we are to improve the perception and satisfaction levels of our membership, we must establish accountability. Operating departments tend to be organized and run in an assembly line fashion. Each unit adds value to its work that then gets passed to the next unit in a chain that ends with delivery of services to credit union members. This is an efficient way to process large volumes of work and it helps management achieve its objective: low-cost production. It has one major drawback, however. No one is accountable for assuring member satisfaction.

Six factors help solve problems

There are six factors that can help solve problems and translate member satisfaction from a concept to a reality:

• *Discover how you are doing by asking questions.* Survey your membership periodically to determine their satisfaction, needs, expectations and perceptions of the strengths and weaknesses of the credit union.

• *Make member satisfaction your primary goal.* Get departments to think of each other as members, dovetailing their needs with those of your external members. The change in attitude and communications can be amazing.

• *Develop a strategy and implement service improvement programs.* Solutions to problems should come from the people doing the work, and their personal contributions should be recognized. A newsletter is a good idea. The dollar spent taking time out from regular work to help solve problems should produce a six-to-one return on your investment. That may sound impressive, but remember that the return in Japan is up to 40-to-one, and still rising.

• *Reassure participants.* Make all suggested changes safe. You will not get cooperation if your staffers feel threatened. People have to understand the reasons for change, buy into them and own the solution. Your job should be to create the proper environment and provide direction.

• *Establish accountability.* Departments should be held accountable for delivering services to agreed-upon, measurable quality levels. Contrary to common practice, internal departments that consume services (as opposed to departments that deliver them) should be responsible for measuring and reporting the quality of service they receive.

• *Team work.* No one department should "own" member satisfaction. Single-point responsibility should give way to interdepartmental problem solving and accountability. Senior management should demonstrate its commitment by supporting both cost-effective operations and member satisfaction.

Simply put, the new consumer wants to be part of participatory management along with the credit union's employee base. We need to ask members how we are doing, ask for their suggestions and implement those suggestions where possible.

One new strategy growing in popularity in retail financial services is the concept of private banking. This strategy requires bank operating officers to provide special customized attention to customers with affluent lifestyles. A recent survey indicates that 72 percent of the top 300 commercial banks now offer this new concept. But many bankers have noted this is not new and that they have always offered these services and handled the entrepreneur/business owner with special attention. As we examine some of our new competitors, we see similar strategies.

But from the consumer's viewpoint, the picture is different. For decades, the burden has fallen on them to discover what their financial institutions can do, and then struggle to manage and coordinate these capabilities and the people who provide them. If a customer wants to buy bankers' acceptances, execute a wire transfer or trigger a margin loan, how many places and people must he deal with? Who coordinates these activities? Who is responsible for knowing the customer? And whose job is it to tell the customer about what the bank can do? These are the questions bankers and other competitors are asking internally.

The American wealthmaker

Private banking as a concept recognizes what a relationship with the upscale customer can be worth. The customer who has been or can be sold — not only high balance deposit accounts, but also loans, portfolio management, custodial money market trading, municipal bond purchases or trust services — is also the customer who might own or control other major assets. Clearly, this is a customer/member that you want to know. He or she is the person upon whom the entire philosophy of free enterprise rests — the American wealthmaker — who uses and spends more financial services by far than any other segment of the consumer population.

Private banking as a concept says it is the institution's job, not the customer's, to make it as easy and as efficient as possible to tap the bank's or the credit union's total capabilities. This marketing view is why private banking is becoming a mainstream part of consumer service strategy.

Access to tools

A second high priority in banking is private lending, which falls into the no-man's-land between retail lending and corporate lending. Private lenders make sizable loans to individuals for both personal and quasi-commercial purposes. Letters of credit, lines of credit and other commercial tools and structures are part of the private lending structure. Among those institutions engaged in lending to the affluent or wealthy individual, there is a strong demand for better information on numerous topics, including:

- Policies and procedures;
- Building the right interfaces with credit review/audit functions within the institution;
- Training and monitoring of lending officers;
- Standards and data on portfolio growth and quality;
- Compensation;
- Clarification of the private lending product strategy vis-a-vis commercial or retail lending. Private lending means more personal attention, a strategy that fits the credit union industry's needs in serving the new consumer.

For the most part, all financial institutions agree that the upscale member/customer is extremely important to the success of the long-range growth of an organization. Given this, will we be prepared to compete with the concepts of private banking and private lending? If this is a service need our existing members demand, integrating automation and high-tech delivery systems will be required to maintain a competitive environment in the financial services industry of the future. However, we must emphasize the high-touch portion of this strategy and be prepared to meet the conceptual delivery mechanisms currently employed by the banks to "personalize" service to people on an as-needed basis.

The law of large numbers

Perhaps this seems contrary to the credit union point of view, and I am not advocating that we divorce ourselves from our original purpose and mission. It appears extremely important that if we are to compete, we must compete where the law of large numbers will support the economics of our operations and provide us with the financial strength to remain viable.

To summarize my thoughts on the new consumer, I must simply say that there is no specific set of criteria by which we must deal. We will continue to serve diverse personalities and people of different behavioral traits. Each credit union's new consumer will vary and the sphere of emphasis in the overall marketing strategy will also vary according to the field of membership being served.

To determine the needs, wants and desires of your individual field of membership, you must keep your ear close to the ground and ask your members for feedback. I discussed earlier that the primary way to do that is to survey, survey, survey. Nothing in our future is more important than keeping up with the changing lifestyles and behavioral patterns that are presented by the people we serve. Ongoing market research is the way in which we do that.

If we are to remain viable, competitive financial institutions, we must provide the products that fit consumer needs, and perhaps that is more important now than ever. Adopt the strategy today that if your members want a service, you'll deliver it. It's the way to keep pace and grow with the changes.

Chapter 6

The phrase "high-tech" has become synonomous with many industries, but with the exception of perhaps computers, no industry has grown more rapidly or become more involved in "high-tech" more completely than financial services. This includes credit unions, much to the dismay of many of the industry's pioneers and leaders.

But for most credit unions, going high-tech is a rational decision, explains James Bryan, and is based on competitive necessity rather than technological indulgence. Rapid turnover of transactional information is necessary for the efficient operation of credit unions. It's also a cost-saving device that will help the credit union grow more quickly and drive it into the future markets it desires to serve. But at what cost?

High-tech without "high-touch" can be disastrous, especially to the relationship between credit unions and their members. Is there any other financial service provider so closely linked with high-touch member service? Is there any provider who would suffer more deeply were that service to be discontinued?

The answer is a high-tech, high-touch environment, one that serves members quickly and efficiently but without the loss of the human touch. Its a logical step, Mr. Bryan explains, and one vital to continued success.

James L. Bryan is president of Texins Credit Union in Dallas, Texas. A former employee of Texas Instruments, Texins' primary sponsor group, in the area of accounting, administration and financial planning, Mr. Bryan has been credit union president since 1976.

He is past president of the Dallas Chapter of Credit Unions and has served on the board of directors for the Texas Credit Union League. In addition to golf and traveling, credit union work figures prominently among his hobbies.

High Touch/High Tech-Enhancing Member Services

by James L. Bryan

The financial services industry, our industry, is today undergoing some of the most dramatic changes in its history, changes that have only accelerated because of deregulation.

But such dramatic changes cannot be solely tied to deregulation. Other catalysts include rapid technological advancements and social changes. Competition, too, has significantly increased, and we have been forced to reanalyze both our short and long-range operational plans as well as our management techniques and tactics. Together, these alterations are affecting the way we think and act both as individuals and as credit union executives.

To put these changes into perspective, consider for a moment that it took our ancestors many centuries to develop the wheel. This unique yet simple device solved many problems. It enabled man to perform more work, achieve greater feats and function more efficiently.

In just the last 100 years, spectacular changes that make the wheel seem almost insignificant have emerged with some regularity and have drastically changed our lives. We have moved from a society based on agriculture through a society comprised primarily of factory workers to today's society, in which 65 percent of the workforce is engaged in service industries. The processing or management of information is the primary occupation in the services industry.

The major thrust of our most recent social change came during the last two decades. Almost overnight, compared to the time required for prior changes, we have moved from an industrial society to one that is based on and driven by information and service. We are replacing steel and muscle with technology and intelligence. These social and technological alterations demand that we change the way we provide services to our members as well as change the services we offer.

Technology is also transforming the way we live, work and play in the 80s. In the workplace, technology has taken some very remarkable forms through robotics. Machines and their applications have expanded beyond the dangerous jobs into the skilled and unskilled labor market. At Texas Instruments, our sponsoring company, robot-like machines deliver mail to various departments, while other robots are used in the actual production of some products. Other companies are also using automation to manufacture products. In Detroit, for example, the use of robots to assemble cars is expanding. *Newsweek* magazine has estimated that "from 50 to 75 percent of all U.S. factory workers could be displaced by robots by the end of the century."

At numerous educational institutions throughout the nation, computers are becoming commonplace in the classroom. Students are using microcomputers hooked up to televisions as learning tools. And in some schools, students are using computers to help select careers by programming in their likes and dislikes, strengths and weaknesses.

Technology steps up the pace

In the home, we are finding that modern technology is also having an impact on the way we live. Microwave ovens are speeding up the preparation time for meals. Our yards can now be watered automatically by computerized sprinklers. There are remote control units for all sorts of home gadgets ranging from video cassette recorders to tape decks, and only this year a manufacturer of bathtubs introduced a remote control device which enables its owner to draw a bath while driving home. There are even fully computerized homes and, in some cases, entire communities from which a person could conceivably run a business without going to the office. As we move into the '90s toward the year 2000, technological advancements will develop even faster.

Technology has increased the pace of our individual lives. We rely on technology to help us work smarter and enjoy our free time.

Amid all this change, our members, too, are developing a new character. While their wants and needs may be the same as they were ten or 20 years ago, the way they go about satisfying those wants and needs is different. Much of this change can be attributed to the impact that work has on our society. To a great degree, what we do for a living — our work — shapes society. Today, most of our lives are fast-paced in a rapidly changing society which is the result of new technology and the information age.

Let's look at the financial needs of consumers today and how they have been affected by the information society. Ten years ago, when we were much more reluctant to change than we are today, automated teller machines (ATMs) were hot topics in the financial industry. Financial institutions could see numerous uses for the ATM, but for the most part, consumers simply looked at the ATM as a gadget to be avoided due to an intrinsic lack of trust. Not so today; the consumer acceptance of ATMs is healthy and growing. Some of this acceptance can be tied to marketing and strong selling. Much of it can, however, be linked to the society we live in today. People are seeking the most convenient source to meet their financial needs. That is one of the real reasons for the popularity of ATMs.

Consumers are also looking for choices. One only has to look at the shelf in any supermarket to understand how important a choice is to the consumer. With choices so plentiful, it almost requires major research to determine which toothpaste, cereal or luncheon meat to buy.

Similar product diversity is also now available in the financial services field due, in part, to deregulation. Savings programs come in all shapes, sizes and forms with rates tied to everything except the temperature. Loan programs are next in creativity and hold great promise to become even more so in the near future. Today consumers have a much broader choice of financial products and services, and that choice grows almost daily as nonfinancials, such as Sears, expand their list of financial services to attract more customers.

We live in an era in which technology is changing so fast we hardly have time to become familiar with one system before another is introduced that has more capabilities, more possibilities and more bells and whistles.

Technology as a tool

While modern technology may be a source of frustration for some, it can, if used and managed properly, be the best solution to many problems. We should view technology as simply a tool we use to complete a task, improve our productivity and make life easier much like our ancestors used the wheel to improve their lives.

In the book *Megatrends,* author John Naisbitt addresses our changing society and outlines five important things to remember about the shift to an information society. Naisbitt notes: "The information society is an economic reality, not an intellectual abstraction. Innovation in communications and computer technology will accelerate the pace of change by collapsing the information float. The new information technologies will at first be applied to old industrial tasks, then gradually give birth to new activities and processes and products."

Fighting technology rejection

He also notes that in this new society, we will need a more highly educated populace and that "the technology of the new information age is not absolute. It will succeed or fail according to the principle of high tech/high touch." Naisbitt believes that whenever a new technology is introduced, there must be a counterbalancing human response — high touch — or the technology is rejected.

At Texins Credit Union, we use technology as a tool through which we can provide better service to our members in terms of both convenience and lower cost. At the same time, we also focus on excellence in personal service to create the "high touch" environment Naisbitt discusses. To a large degree, Texins Credit Union is enhancing member services through technology, a process we began in 1976 with the installation of our first ATM.

Our Dallas-based credit union, which serves Texas Instruments located throughout Texas and at TI sites around the world, has brought together numerous ideas, financial products and equipment from a number of technology-oriented sources to provide an efficient and time-saving array of financial services and delivery systems for members.

We have tried to use technology to solve a unique credit union problem. Our 20 branch offices are located in TI plants where our members work, which immediately gives us an advantage . . . convenience. That same advantage has at times been a disadvantage, simply because we are so convenient. In the past, our lobbies would fill with members wanting to perform routine financial transactions. These routine transactions — account inquiries, funds transfers, share withdrawals and deposits — kept our lobbies packed a good percentage of the time. We saw the use of electronic funds transfer systems (EFTs) as a way of taking these routine financial transactions, which comprise approximately 85 percent of all our transactions, out of our offices. This would not only reduce the congestion in the offices, but would enable us to reduce the branch staff and give our employees serving members more time to focus their efforts on selling services and handling more complicated transactions such as loan closings and opening IRA accounts.

An office of the future

EFTs are an important part of our plan to improve productivity by providing members with efficient, cost-effective services they can access at their convenience. We have drawn from a variety of high-tech sources to reach our goal, which has led to the creation of our "office of the future" called Center 2000. This office of the future incorporates the use of electronic self-help financial tools which members can use to complete their own financial transactions. These tools include self-service terminals which enable members to perform many inquiry transactions previously requiring human teller assistance.

The credit union provides 35 ATMs, enabling members to withdraw cash and perform other financial transactions at convenient locations within the worksite. The EFTs also include our membership in the *MPACT* shared ATM network, which permits our 40,000 cardholders to get cash at almost 1,000 MPACT machines throughout the Southwest. Through MPACT, members have access to 16,000 additional terminals nationwide through the CIRRUS, Visa, MasterCard and American Express ATM programs.

Loans worldwide

Members also have access to a point-of-sale program through which cardholders can have their purchases at participating stores electronically charged to their share draft account. A new audio response program calfed *Access Line* enables members with touch-tone telephones to make transactions from home or work. A future program, which is now in a field test, will enable members with personal computers to make transactions from home using the Access Line technology. One of the final elements of the Center 2000 office of the future is the Texas Instruments on-line reporting system. This system allows employees using TI computer terminals to access the company's worldwide communications network to make loan applications or other service requests electronically.

Our ultimate goal is to tie all of these programs together as much as possible in our Center 2000 office. This process is simplified since many of our members are familiar with electronics and computers. They are not reluctant to experiment with new electronic equipment and new concepts, even to handle their financial needs.

We took our initial step into the development of EFT in 1976 when we installed our first "TexTeller" ATM. It enabled us to remove some of the basic financial services from our lobby and place them in the member work area. It also made service available 24 hours a day, seven days a week. Today that single ATM location has grown to 35, with plans to further expand the network.

Most of the larger TI sites now have two ATMs, increasing the convenience of our service.

Through the ATMs, members can perform a variety of routine financial transactions. They can make withdrawals from their share, share draft or TexChek line of credit accounts and make deposits to the share or share draft accounts. Members may also transfer between various accounts, for example transferring a line of credit loan advance to their share draft account. Loan payments can be made by deposit or by transfer from a share or share draft account and balance inquiries can be received on share and share draft accounts.

Member use of the system tells the real story of its acceptance. During June of 1986, 330,000 transactions were made through our 35 TexTeller machines. With this number of transactions, it is easy to see the volume of traffic the ATMs take out of our offices.

One of the keys to the success of any ATM program is the overall reliability of the system. If an ATM system has 95 percent-plus uptime, members will come to depend on it for meeting their financial needs. At the same time, if it is down more than 5 percent of the time, they will be less likely to rely on the service.

An important aspect of our system is the emphasis we place on reliability. The backbone of our performance, which currently rates 96.6 percent uptime, has been our strong ATM department supported by efficient service from vendors, and a regular preventive maintenance program designed to replace components before they actually fail. Our uptime performance rating includes allowance for daily balancing and servicing of all ATMs in the network, and regular preventive maintenance and periodic service calls. Most of the downtime problems are handled by fully trained credit union employees. This reduces the downtime and results in better service to the members.

Another key element of success in our ATM program has been the level of high-touch we have worked into the program. Initially, when a new ATM is installed, a trained professional is present for the first week or two, depending on the size of the site, to explain how the ATM works. During the demonstration period, service brochures and other items are distributed to explain how the ATM operates. When preventive maintenance is scheduled or when there is a problem, we try to maintain a very high profile at the front of the machine with signs telling members when the ATM will be back in service. We have also let members know of our overall uptime average of 96.6 percent and tried to educate them on the importance of preventive maintenance even though it removes the ATM from service for a few hours.

Another key element of high-touch is explaining to members on a regular basis, through our newsletter and various advertising materials, that the ATM is cost effective. We let the members know that a transaction completed through the ATM costs the credit union approximately 31 cents compared with 61 cents for a transaction completed by a teller. They understand this is a favorable impact on operational costs and helps the credit union keep its savings and loan rates competitive.

The *MPACT* ATM network we joined in 1985 also helps us to further expand our ATM convenience to members. Since MPACT is linked with other Texas networks and out-of-state ATM networks such as CIRRUS, American Express, MasterCard and Visa, our members have access to their accounts virtually throughout the United States.

Usage volume builds

Since implementing the MPACT shared network program, we have had excellent member response. The monthly MPACT volume averages approximately 50, 000 transactions. This volume is building even though we pass along the operating costs of the program to the member. Total cost to the credit union for each financial transaction averages 91 cent. The member is charged $1 to offset the cost. Each cardholder also pays a 50-cent-per-month TexTeller/MPACT card fee. However, there is no charge for conducting a financial transaction through our own TexTeller ATM network.

Another key element in the development of our Center 2000 office concept was the installation of our self-service financial terminals. We currently have 115 work stations and six concentrators. These terminals are used at teller stations, in the back office and for member self-service.

In the Center 2000 office concept, the terminals permit members to make account balance inquiries on savings and loan accounts and obtain year-to-date dividends. Members may also obtain their share draft history for transactions cleared in the past ten days and determine payroll distribution information such as deduction amounts and direct deposit data.

Our members can access their accounts through the self-service equipment by sliding their TexTeller/ MPACT card through a card reader located at the back of the keyboard and entering their personal identification number (PIN). The system is very user-friendly, and even those who are not familiar with a computer terminal keyboard can easily access their accounts through the equipment.

To maintain our high-touch approach to the implementation of a new technology-oriented service, we demonstrate the new service in the branch for one to two weeks. This helps familiarize members with the service. Member response has been tremendous.

The self-service habit

Through our various EFT equipment, the members are developing a self-service habit. They are actually extracting information from the system in the same manner they would receive it from a teller. The most promising aspect is they seem to have fun performing the transactions. They enjoy working with their accounts the same way they liked depositing their paychecks before the direct deposit program was offered.

As one of the nation's leading high-tech companies, Texas Instruments develops and manufactures some of the products used by the credit union. TI also has the skilled work force to support our plans for EFTs and for further expansion of the Center 2000 office concept.

TI employees at almost every plant and office location throughout the world have access to the company's TI 914 computer terminals. These terminals are linked together in TI's worldwide communications network.

Members in these plants are able to communicate directly with the credit union. For example, a member in TI's Japan facility can make a loan application from his/her desk simply by calling up a loan application on a computer terminal and completing the application.

Once the application is completed, it is electronically sent to our Correspondent Service Center (CSC) in Dallas for processing. The CSC is a fully staffed branch designed to serve the financial needs of remote members through the mail, telephone and other electronic equipment. Other service information such as check requests, transfer requests, service application requests and much more may also be sent over the network.

Each month, the CSC receives about 40 loan applications via this method, a total which we feel will continue to grow. We are in the process of developing a shorter, more concise loan screen that will be easier to complete and more "friendly" to the member.

To further expand the convenience of our services into the home or work area, the Access Line audio response system mentioned earlier also enables members with touch-tone telephones to access the on-line computer and perform financial transactions. Through Access Line, members can transfer money, make loan payments, inquire about their account balances and obtain information regarding cleared share drafts.

To use the service, a member must have a TexTeller/ MPACT card and a P.N. The member pays a 25 cent fee for every 2V2 minutes of connect time with the computer. The credit union also has a toll-free 800 number for members who live outside the Dallas area.

In yet a further expansion of our Access Line technology, we plan to increase capabilities to include the ability to make transactions at home using a personal computer. Several thousand members have personal computers at home. Once we complete our test program during the fourth quarter of 1986, these members will be able to transfer funds, check on their account balances and obtain other information on credit union service without having to come to the credit union office. This segment of our market will grow as we move further into the information society and as more and more practical applications for the computer, such as bill paying and home shopping are brought on-line.

Another new EFT service we began offering this year is point-of-sale (POS). Members who have a TexTeller/ MPACT card can make purchases at participating stores, where they are immediately debited to their checking account. Some members do not like the idea of losing their float, but the convenience of not having to write checks to make purchases is attractive others. POS is another financial convenience that fits in with our Center 2000 office of the future concept.

The future began an hour ago

In an age when developments in high technology occur from moment to moment, it is hardly an exaggeration to say that the future began an hour ago. For credit unions, emerging technologies will bring about opportunities to provide better, more sophisticated and cost-effective products and services for our members.

Some of the new technological tools which we will be monitoring include developments in expert systems, super-smart cards, satellite communications and self-service work stations. All four developing technologies have practical applications for our credit union and the entire financial services industry.

Complex yet cost-effective expert systems are available today — systems with the capability of allowing financial institutions to provide high-touch, personalized financial planning services for members. As these expert systems move into the marketplace, they will change the traditional buyer/seller equation. The expert systems being designed today will cause product design to shift from seller control to buyer control . . . from mass marketing to individual marketing.

Expert systems will succeed because they will provide important consumer financial advisory services to members in an economical, convenient and timely manner. They will help members make difficult financial decisions that will affect their personal finances for many years.

A network of sources

To achieve the potential of an expert financial advisory system, we need to develop a network to access other information sources such as government data bases for inflation data and for the latest news on the financial funds market. Private data bases with money market information must also be accessible to financial institutions.

Expert systems, when fully developed, will enable credit unions to provide members with financial advice in a cost-effective manner without adding a financial consultant and other counselors to their staffs.

Another service that holds great promise for the future is the super-smart card. One is currently being tested that works off-line as a completely self-contained unit with the capability of authorizing transactions within themselves. The French initially developed this concept and it has generated broad use throughout France.

While the technology is new to American consumers, I think many will be intrigued by the super-smart card. It's a new form of financial convenience that certain segments of our new society will find very useful.

Technology is also causing a revolution in satellite communications. Even today, these satellites offer credit unions an inexpensive, reliable way to compete in a deregulated financial environment.

To a degree, the revolution in satellite communications can be applied to the needs of the rapidly changing financial services industry. And, satellite technology would prove a cost-effective alternative to traditional land-based telecommunications for credit unions using service bureau processing. Credit unions that now use an outside data processing service center can benefit from lower costs and improved system uptime by substituting direct satellite links for current telephone lines.

Texins Credit Union is currently benefiting from this technology through the use of satellite links with our members around the world. The real advantage of this new generation of communications is that it enables credit unions to remain competitive with giant financial institutions.

In looking at emerging technologies, we would not be complete without discussing the rapid developments in self-service work stations and other consumer-activated devices which enhance office operations and help reduce the staffing needs of financial institutions.

Electronic financial services technology will prove to be a very cost-effective way to deliver new, exciting, consumer-oriented services. And equally important, the growth in electronics will provide a better, more cost-effective way to deliver those services that credit unions have already been providing.

In the future, the financial services industry will place great importance on delivery systems at branches and other remote locations in order to improve office and staff productivity. In a very short time, American consumers will have available a large number of locations and systems to serve their financial needs. As a result of the emphasis on self-service devices, a consumer might visit a branch in the future and see only a few employees; but might also see quite a few member-activated work stations, all capable of performing different activities and providing different services.

We have automated our tellers and now we are moving to automate our branches. The significance of the new emphasis on customer-activated systems is apparent when considering the more sophisticated services provided today by financial institutions. By freeing customer service employees from routine transactions, we give them more time to counsel members on financial alternatives as well as to personally market more products and services.

One company has even developed a "personal banking machine" to support this trend toward self-service. This machine can perform all the transactions of a typical ATM, as well as two new functions. It can dispense five denominations of bills and coins. It can also read individual checks, capture the information electronically and cash the check to a penny.

Industry emphasis on self-service will encourage suppliers to develop more new products like the personal banking machine. And as a result of this emphasis, a broader range of self-service devices with even more capabilities will emerge. Equally important, the delivery of products and services will be in modular form, so each credit union or financial institution will be able to specifically tailor the technological elements of the solution to its specific needs.

Some maintain that the consumer, our member, is not yet ready for the high-tech world of electronic financial services. However, in view of our rapidly changing society and the increasing desire for convenience, I think the consumer may be further along than we realize, especially in larger metropolitan areas.

A 1984 survey completed by *American Banker* revealed that more than one-third of the American public liked the idea of completing financial transactions without having to visit a financial institution. Thirty-seven percent of the survey respondents said they would be comfortable handling their financial transactions by telephone, mail or ATM, if the financial institution they used no longer had branches. Although more than half of those surveyed still oppose the concept of self-service, the fact that more than one-third favor it suggests that acceptance of high-tech financial services is not as distant as some opponents claim.

Also in the survey, respondents that identified a credit union as their primary financial institution were evenly split. Some 47 percent said they would be comfortable using the self-service equipment and 48 percent said they would be uncomfortable handling their financial transactions through EFT.

The challenge facing credit unions today is how to survive and grow in the competitive and complex financial services market. That challenge is further complicated by the geometric increase of information made available through technology.

To succeed in the future, we must establish tactics that use all available resources to achieve our objectives. Without these tactics, so elequently described by Henry Wadsmorth Longfellow in his poem, "The Village Blacksmith," once an important part of each village or town, the need for a blacksmith has vanished. Longfellow closed his poem with these thoughts:

Thanks, thanks to thee, my worthy friend,
For the lesson thou has taught!
Thus at the flaming forge of life
Our fortunes must be wrought;
Thus on its sounding anvil shaped
Each burning deed and thought!

The flaming forge of life on which our fortunes will be wrought is fueled by technological advancement. We have a choice to make, and high-tech/high-touch can be the anvil on which we shape our future.

Chapter 7

Credit unions are built on service to members, thrive because of member loyalty and are driven first by the member need and second by the demands of the institution. Many credit union executives may tell you that, few believe it as strongly as Thomas Allen.

In its headlong pursuit of prosperity and glory, credit unions must never forget the members who formed the basis of the organization and through whose loyalty have helped it grow. But in its pursuit of member service, credit unions must also remember that the marketplace is changing, the members' needs are changing and service to those members does not mean the same as it did 10, five or perhaps even two years ago. Like any other industry or movement, the only thing for credit unions that is constant is change.

But what credit union executives must remember, Mr. Allen explains, is that any change in their institutions must be brought about in response to member need, not the other way around. Credit unions change because members change. Credit unions do not change and then ask members to catch up. That's a sure way for credit unions to lose out.

Its a simple service equation, one that is easily misunderstood. But like any such equation, the result is much greater than the sum of the various efforts that go into it.

Thomas E. Allen is president of Anheuser-Busch Employees' Credit Union, headquartered in St. Louis, Missouri. He joined the credit union in 1954 after working as an auditor for Haskins and Sells, a public accounting firm.

He has served as a credit union CEO longer than any other president in Missouri and is a tireless advocate of quality member service. He is a member of both the Society and the greater St. Louis Credit Union Managers

Managing Financial Services as if People Mattered

by Thomas E. Allen

In 1947, I went to work as a salesman for a local hardware store. Given my complete lack of mechanical aptitude, it has never ceased to amaze me that the hardware store hired me. At a youthful 18,
I was working my way through St. Louis University and dating my future wife. Convinced my career would be in accounting, my education was a world of debits and credits, but I found myself surrounded each day by nails, paint and hammers.

I had no experience in nails. My experience was in ice cream. As a youngster, I had worked in a small neighborhood pharmacy and was often put in charge of the soda fountain, where I delighted in making customers (and myself) ice cream extravaganzas. The regulars knew I was always good for an extra scoop, because working with people was something I reveled in, and keeping the banter going with customers came naturally to me. The customers, I thought, were great fun.

The manager of the hardware store, however, held an entirely different view. When a customer walked through the door, he saw dollar signs. We were taught that what mattered most was making a profit for the store. If the customer needed three ounces of nails, we should sell him a pound.

Once we received a large shipment of electric fans. They were not the fans the store had ordered and advertised, and they were of inferior quality, but the manager told us to sell them anyway. The lesson drilled into us was that customers were people to take advantage of. This, I was told, was how all businesses treated customers. My view of customer service began to sour.

Seven years later, with a growing family and a degree, I was hired to run a business. The business was Anheuser-Busch Employees' Credit Union (ABECU).

The credit union job offered a steady paycheck, but there were also other aspects of working for a credit union that appealed to me. The idea of serving a co-operative and working for more than "customers" was important to me. Every day, I was counseled, I would be working with "members," and these people were the owners of the credit union. Members deserved special treatment. From my perspective, it was a chance to return to the soda fountain. Instead of selling a pound of nails, this was my opportunity to help people to an extra scoop of ice cream.

When I started at the credit union, we had 2,000 members, and I was proud of the fact that I knew each and everyone's name and account number by sight. The credit union office was a small, plain room with one teller window, a file cabinet and a desk. Once a week, a typist would come by and help with the typing. Members stopped by the office at all times of the day, sometimes just to talk. I never wore a tie in those days (it was 28 years before I started wearing a tie to work) and both salaried and wage-earning members felt comfortable dropping by the credit union to visit.

Loan decisions, then, were made on a member's character and need. The convenience was unequaled. If I were walking through the bottling plant, it wouldn't be unusual for members to stop and hand me deposits. Now there's an automated teller machine in the bottling plant hallway I used to walk down. Serving the members was much simpler in the early days.

Today, ABECU has 37,000 members, $165 million in assets, 12 offices in eight states, and 125 employees. Competition, deregulation, growth and expansion have all had a significant impact on our members and their relationships with the credit union. But two things have not changed: member service and the common bond.

Superior levels of service

Our employees are required to maintain a superior level of member service. Regardless of the impact that change and competition may have on our members, outstanding service is the common denominator to each member's relationship with the credit union.

As deregulation matures and I watch its impact on members, I'm even more convinced that it's the quality of service that will draw members to the credit union. With services at financial institutions virtually interchangeable, superior service can position a credit union above the routine level of others and help protect it from ruthless price competition.

A recent study by professors Robert 0. Metzger of the University of Southern California and Sukhan Dey of Indiana University found that more than 85 percent of retail bank customers surveyed had absolutely no interest in any new non-banking products or services developed by their bank. What most of them wanted was more personal banking service.

In descending order, consumers also desired accuracy, quality of overall service, friendliness of the staff and speed in the teller line. Personal service ranked well above the level of interest rates paid on deposits as an attraction.

Selling performance

In his book, *Marketing Financial Services,* Dr. James Donnelly points out that "the pivotal difference between goods businesses and service businesses is that goods businesses sell things and service businesses sell performances." Whether our credit union offers four services or 40, I've always tried to see to it that our service performance is tolerant of members who are uninformed, prompt to those in a hurry, reassuring to those who are concerned and accommodating to those who feel wronged. By establishing a corporate culture where outstanding member service is the top priority, we have effectively insulated this relationship from many factors that are beyond our control.

From the members' perspective, superior service makes the act of banking at the credit union more enjoyable and convenient. Most financial transactions, though essential, are faceless and dull. Superior service puts a sympathetic face on something that could seem lifeless, and however long the transaction takes, superior service makes the member the center of attention.

In addition to member service, the common bond has retained its importance. ABECU's field of membership, Anheuser-Busch employees and their family members, has essentially remained the same since the credit union was organized in 1939. Many credit unions now work toward diversifying their fields of membership. In many cases, this may be necessary if the industry or organization served by the credit union is laying off employees or failing. It seems that, to many credit unions, the common bond has become an obstacle to expansion.

From my perspective, our common bond has always been a center of gravity for the credit union, giving members a sense of exclusivity and belonging. There is more than a little pride in being part of an organization that not just anyone can belong to.

How important is the common bond to our members? My director of marketing, Dave Baggett, has been chafing at the neck over the "common bond collar" imposed on his markets. In an attempt to prove it was a moot point, he slipped a common bond question in our 1985 member survey. The question asked, "ABECU is a not-for-profit cooperative serving people in a defined field of membership with a common bond. How important to you is the 'common bond' aspect of the credit union?"

Fifty-seven percent said it was very important, 29 percent said it was somewhat important and only 14 percent said it was not important. That means that 86 percent believe the common bond is at least somewhat important. Mr. Baggett regrets asking the question.

My loyalty to the common bond is tempered with the understanding that, as go the fortunes of Anheuser-Busch Companies, Inc., so go the fortunes of the credit union. When I started with the credit union in 1954, Anheuser-Busch was simply a beer company, and not even the nation's largest — that didn't happen until 1957. Just as the credit union's business has expanded, so has the scope and influence of Anheuser-Busch.

Today Anheuser-Busch Companies, Inc., is a diversified corporation whose subsidiaries include the United States' second largest producer of fresh baked goods and the world's largest brewing organization. Other subsidiaries are involved in container manufacturing and recovery, malt and rice production, international brewing and beer marketing, wine, non-alcoholic beverages, baker's yeast, snack foods, family entertainment, cruise ships, international baking, refrigerated and frozen foods, real estate development, major league baseball, turf farming, stadium ownership, business communications, rail car repair and transportation services and metalized label printing.

Expansion and growth

Thus, while the credit union receives not one penny of support from Anheuser-Busch, we have benefited from the company's aggressive expansion and growth. The company's prosperity has allowed the credit union to grow and compete without "diluting" our original common bond. But what impact has expansion and competition had on credit union members? Are they better off today than 30 years ago? Has there been any negative impact on the members as a result of competition and deregulation? To answer these questions, we must look at those factors having the greatest impact on the members' financial condition.

For the purposes of this discussion, I will define internal factors as those factors having an effect on the members that are under the credit union's control or influence. If the credit union decides, as a matter of policy, to invest all funds in bank certificates of deposit and to stop loans to members, it would affect the members' financial condition, and thus it is an internal factor within the control of the credit union.

On the other hand, if the price of oil triples, or a war begins in Central America or the return of double-digit inflation causes interest rates to skyrocket, the financial condition of the membership would certainly be affected. However, these are external factors beyond the control of the credit union.

The threat of competition

Competition is a good example of an external factor that affects members but is beyond the credit union's control. You may do your best to offer competitive services, but you have no control over the Sears Discover Card commercial your members see on the evening news or the CitiCorp mailing the members got in the mail yesterday.

By reviewing the factors from this perspective, it helps us weigh the relative impact each has had on the members. It also forces us to take a more disciplined look at how changes in the credit union world have touched our members' lives.

Every time a credit union board of directors sets a policy, it is exercising some degree of influence on its members, and each policy is a reflection of the credit union's operating philosophy. Credit union operating philosophies are perhaps the greatest internal factors having an impact on the membership.

Take the issue of growth and expansion, for example. The growth of your credit union, or lack of growth, is a direct result of your operating philosophy. We've all seen some small credit unions which are determined to stay small. They stay small by enforcing obscure rules, imposing petty inconveniences and offering uncompetitive services. But like it or not, their operating policy is to remain small. The resulting service, indifferent at best, pushes the member to another source for financial services. If this is the only credit union available to the member, then he or she has lost a credit union option for financial service and has had the choices narrowed.

At the other extreme, consider the credit union which pursues growth at all costs. A credit union of this type judges itself on paper, equating statistical jumps in members and assets with success in member service. I know of one credit union that aggressively pulled in millions of hot, short-term, money market dollars when rates were high. Other services were ignored in the chase for asset growth.

When interest rates declined three years later, the hot money left and the credit union was left with a service portfolio in shambles. It had been successful at focusing most of its corporate resources at doing one thing well — taking in new money in one high-rate, state-of-the-art type of account. With that gone, members were left with services that were three years behind the marketplace and personnel untrained in their administration. Once again, we see how a credit union's operating philosophy can restrict a member's range of choices.

Four concepts

At ABECU, our operating philosophy is driven by four important concepts: superior member service, total service, user pay and managed growth. Each is an internal factor with measurable impact on the members. I have already discussed the role that superior member service plays in our credit union, so let's discuss the three remaining internal factors and their impact on members.

Total service is just another way of saying full service, a phrase the banking industry holds dear and advertises loudly. One objective of total service is to provide a complete, but reasonable, range of quality financial services to meet the financial needs of the membership. By doing so, the credit union generates important service relationships with the member, establishing the credit union as the member's primary financial institution (PFI).

When translated into member services, total service means consumer loans, real estate loans, Visa and MasterCard, safe deposit boxes, checking, Super NOWs, certificates of deposit, money market accounts, insurance services, direct deposit, automated teller machines, audio response, payroll deduction and, of course, savings accounts. At last count, we were offering our members more than 45 different financial services, a far cry from my early days when you could count the number of credit union services we offered on one hand.

We know from marketing research that certain services, such as checking accounts, are critical to establishing the credit union as the members' PFI. Employees at our credit union are trained to cross-sell the services most likely to create a **PFI** relationship with the member. We use sophisticated management reports to track members' use of services, but there's another barometer I use. Total service has been so successful in establishing multiple account relationships with our members that, on a quarterly statement mailing, the average number of statement pages for each member is 2.8. The additional postage is one expense I don't mind paying because it tells me the total service concept is working.

Our total service philosophy gives the members more choices and greater convenience. Having more financial service choices may not be important to a member who fits a bank's preferred customer profile and is courted by many financial institutions, but it does make a critical difference for other members. The extended range of financial service options created by total service has been of extreme importance to some of our demographic segments. Senior members on a limited income, for example, rely on many of our "lifeline" services such as no-charge checking and no-charge bank-by-mail. Younger members just entering the workforce appreciate our efforts to help establish their credit.

Seeing how total service benefits our many members is one of the most satisfying elements of my job. One of our long-time members took every opportunity to complain each time we added a new service, saying we were looking more and more like a bank. During one of my "walk around management style" days, I noticed this particular member as he circulated from the teller windows, then to new accounts and then to the loan department. I finally stopped him as he was leaving the safe deposit area and gently chided him for complaining all these years about the new services while apparently availing himself of so many of them. "Well damn it, Tom," he replied, "you make it so darn hard not to keep all my business here!"

I am constantly amazed at the number of credit union professionals who remain critical of the total service philosophy. The question is still asked whether credit unions can offer total service and remain loyal to the " original" credit union philosophy. This is what our well-intentioned critics mean when they announce they want to "examine the true mission of credit unions."

Co-operative self-help

The mission and the philosophy of credit unions are one and the same and are based upon two mighty concepts: cooperative self-help and democratic self-determination. These concepts, when put into practice at a credit union, work toward the twin goals of encouraging thrift and supplying credit at reasonable rates of interest.

Many credit union professionals believe this philosophy implies a subservient position for credit unions - noble, but subservient — and that offering too many services makes credit unions just like banks. "Credit unions," they say, "were organized to make low-cost loans and allow members to pool their savings. This is all."

Those who say credit unions shouldn't offer more and better services are really saying that credit union members have no right to improve their financial condition. Total service, served up credit union style, is an expression of the will of the membership and a reflection of the evolving needs of today's financial services consumer.

Filling needs

Total service, however, does not mean a headlong rush into every service to come down the pike. We must establish services to fill defined needs. One way to identify these needs is through market research, but even this science can be inexact.

Through research, ABECU identified a perceived need for two new services: discount brokerage and audio response. We are now CUNA Brokerage's largest client with a large and active member-trading base. Audio response, unfortunately, has been a huge flop. Thus, while not all services are successful, the members see their credit union constantly evolving, presenting new ideas and expanding the members' range of choices. When some ideas fail, we simply cut our losses and go forward.

Total service need not be an expensive proposition if you take a disciplined approach to the pricing of each service. Our commitment to total service is supported by the consistent application of the "user pay" concept.

Based on my early association with other credit union professionals, I think many of us really believed that there was such a thing as a free lunch. Those were the days of 12 percent loans and 6 percent share accounts. As our total service menu grew and margins narrowed, however, it became apparent that all members could not be expected to pay for services that benefited only some of the members. Enter the user pay concept, a pricing philosophy, if you will, that makes for an equitable distribution of service expenses.

Self-supporting services

The user pay concept means only the users of certain credit union services for those services, rather than spreading the cost among all members. This helps keep all services essentially self-supporting. But user pay can be taken to the extreme depending upon the type of functional cost analysis you calculate for each service. Teller service is a good example. Obviously there are significant expenses involved in maintaining teller operations, and through a functional cost analysis you can calculate a cost per over-the-counter transaction. But can you charge members, say, $4.82 per transaction? Could you even charge 50 cents a transaction?

Citibank tried the latter and was met with a firestorm of consumer backlash that caused them to abandon the policy. User pay, from our experience, works best when direct and significant expenses involved in the delivery of a service can be identified and efficiently passed on to the member. For each service, we look at the proposed charge and compare it with similar charges in the marketplace. No institution, at least in our service areas, charges for teller transactions. But institutions do charge for personalized printed checks, and so do we, passing on the cost of the checks directly to the members. With user pay, members who use checks pay for them.

Does user pay have a negative impact on member relations? No, because members see the concept as a fair one, and we are careful to explain the purpose of the user pay concept each time it is applied. When a member complains, for example, about having to pay for credit life insurance, our staff is trained to respond by saying, "Well, if we didn't charge the users of credit life insurance for using the service, all members would have to pay indirectly through higher loan rates. If you don't want to use the service you don't have to pay for it." In fact, when we introduced member pay credit life insurance, we accommplished it with a significant drop in interest rates to support that concept.

Sensitivity to member attitudes is important when applying the user pay concept because its application can have far-reaching member relations implications. Our experience with user pay on our ATM network is a good example.

ABECU was one of three founding institutions of the Credit Union Exchange (CUE) network in 1982. Today, it's a regional network with more than 20 participating credit unions. Part of the agreement between the participating credit unions is that each institution is compensated for the costs of handling transactions for members of other credit unions.

Under the current agreement, ABECU must pay the other credit unions 65 cents for each withdrawal and 90 cents for each deposit on one of the other credit union's machines. These are called foreign transactions, and by 1985 we were paying between $4,000 and $5,000 a month to other credit unions for them. The obvious application of user pay would be to charge a fee to members making the foreign transactions. But the issue was complicated by the fact that many of our foreign transactions were generated on ATMs located in areas of St. Louis with largely black populations. We were confident members would pay for the convenience of using non-ABECU ATMs, but would the foreign transaction fee be perceived as a form of residential discrimination?

We decided to charge our members a 50 cent fee for each foreign transaction. Thirty days before imposing the fee we sent a direct mail piece to all our ATM cardholders explaining the charge and focusing the issue on user pay and convenience. The same brochure was mailed to cardholders 15 days prior to implementation.

By taking a positive marketing approach, defining the issue in our terms and giving fair notice, we hoped to deflect any complaints or any decrease in ATM volumes. I will emphasize this point later, but aggressive marketing and communications support are extremely important in making our operating philosophies a success. Without marketing support I'm not sure the user pay concept would be as accepted as it is by our members.

There were a few complaints, but total ATM volumes remained the same as transactions shifted to our ATMs. We continue to have the highest transaction-per-card ratio in the network. By applying the user pay concept, the credit union shifted costs to the users, with no negative impact on the service and without the service acting as a drain on credit union revenues.

By keeping services essentially self-supporting, the user pay concept allows the credit union to offer its members more services. And more services give the members more choices in the administration of their financial affairs. Any time we can increase the number of financial options available to our members, I think we give the members more freedom to make informed decisions.

Managing growth

The third and final internal factor I'll review is managed growth. Its impact on the member may not be as evident as total service. But the importance of managed growth and its impact on the members is most evident when it is not practiced.

As a non-financial illustration, take the case of Peru. The capital city, Lima, situated on the Pacific coast, had a population of 175,000 in the early 1920s, just 60 years ago. Its population today is approaching four million. The once-beautiful Spanish city is now infested with slums. People are arriving from rural areas at the rate of more than 1,000 a day, and nobody knows what to do with them.

Peru is an example of the destructive effects of uncontrolled growth. Perhaps the chief hallmark of uncontrolled financial growth is the unrestrained rush of members and money into a credit union, and consequently, nobody at the credit union knows what to do with them. Management creates new services at a rapid rate, expensive marketing campaigns are rolled out, the common bond is expanded, mergers are consummated and inexperienced employees are dumped in the fray. The victims are both the members and the front-line credit union employees, because management has failed to manage growth and nobody knows what to do.

Since 1980, ABECU has gone from $30 million in assets to $165 million. But it has been managed growth, without undue strain on member service and our employees. This is not to say it has been effortless. Part of the growth included expanding from a 10,000-squarefoot main office to a 40,000-square-foot facility without interrupting member service.

The impact of managed growth on the members is twofold. First, members receive knowledgeable and timely service. They come to the credit union knowing the institution is prepared to serve them. With this expectation met upon repeated visits, member confidence in the organization grows. Second, managed growth increases the solvency of the credit union. This is accomplished by directing, usually through strategic planning and marketing, growth in multiple areas of the service portfolio.

On the savings side of the balance sheet, we channel growth into regular savings, IRAs, certificates of deposit, a money market account, a Super NOW and interest checking. With members' savings dollars strategically distributed, the credit union is protected from aberrant changes in the market. But does this really have an impact on the members?

If you will recall the example I cited earlier regarding the credit union that put all its eggs in one money market basket, only to have the funds leave when rates dropped, you can see the impact it had on its members. The credit union had no competitive alternative available when the members needed it. A similar situation can be found in credit unions who ignored their loan market when investment rates were high. Now, when investment rates are low and dealer subvention financing is eating away their new car loans, these credit unions are trying to generate loan growth with the odds against them. Member loans are something to nurture, not turn on and off like tap water.

Strategic marketing is also critical to a successful program of managed growth. An aggressive marketing program keeps the credit union in front of the members, generating use of credit union services that contribute to the credit union's bottom line. Marketing/communications is another internal factor that has a positive impact on the membership.

From member education to marketing

Despite the fact that most of my local colleagues think I'm a conservative old Dutchman, in 1980 ABECU became the first credit union in Missouri to advertise on television. I've always been a big believer in marketing, although we called it "member education" in the early days. My belief in the value of marketing is not just tied to its bottom line contribution. Well-crafted, honest marketing can have a very positive impact on the members.

As a not-for-profit consumer cooperative, one of our objectives is to help the members make informed decisions on their financial affairs. Our 1950s reference to marketing as member education may have been simplistic, but good marketing does educate the members and help them make informed decisions. Keeping the members informed is one of my top priorities. Our market research tells us that our members overwhelmingly view the credit union as a credible source of information on financial and consumer issues. Because credit unions are consumer organizations, an informed membership should be more likely to use the credit union than it would use more commercial financial institutions.

At ABECU, we maintain three member publications to keep the member informed, each with a separate identity and purpose. The monthly publication, *First Draft,* uses a straight news style to inform members of new services and policy changes. The quarterly publication, *Resources,* reviews consumer and financial issues. And our bimonthly *Silver Eagle Gazette* goes to our senior members and discusses issues relevant to their needs.

Perhaps the best example of how marketing can benefit members by keeping them informed is the case of dealer subvention financing. Two years ago, when dealer financing first began to erode our new car loan market share, our members were uninformed on the merits of a credit union new car loan versus dealer financing. They believed the lowball rates could be applied to the auto of their choice. Many signed 18 percent APR loan contracts thinking they were getting the rate advertised on the dealer's showroom wall. Most of these loans were refinanced at the credit union.

We began an aggressive marketing effort to educate the members on dealer financing, which has continued to this day. Not only did we run a direct mail campaign on the issue, but we constantly review it in our publications. By educating the members on this issue, we've been able to protect our market share at a time when many credit unions have seen their market shares decline.

Many would argue that credit union marketing has a negative impact on the membership by spending money which would be better allocated to interest and dividends. Some of our members made this case when we started broadcast advertising in 1980. Our members were used to seeing Anheuser-Busch commercials on television. (In 1980, the world's largest brewer spent almost $90 million on television advertising.) But the membership was unprepared for commercials from the credit union.

Two-step marketing

The purpose of the three-week campaign in 1980 was to attract family members. When you attempt to increase service use among family members — particularly those not residing in member households, by mailing to primary members, you subject your message to a "two-step flow." The primary member is expected to do the persuading that the brochure was designed to do. The persuasive power of your message is usually lost in the translation, if the message is passed on at all. By delivering the message through mass media, you eliminate the perils of the two-step flow.

Our 1980 television campaign was a great success, pulling in more than 600 family members and almost 450 new share draft accounts in just a few weeks, generating a healthy surge in loan demand. Had we taken the money we spent on the campaign ($17,000) and applied it to the dividends on the regular savings, we could not have increased the rate by even one tenth of a percent. This is one reason I've always looked at our marketing budget as an investment in the future of the credit union.

For marketing to have an impact on members, however, it must have a strong base of valid market research. It was market research, for example, that identified dealer financing as a significant competitive factor long before it was generally recognized as a market force. Market research can be an invaluable tool in making sure your internal factors have a positive impact, and in evaluating the impact external factors are having on the members.

I guess one reason I value market research so much is that I've always listened to the members. That's how I conducted market research in the early days, by simply listening to what the members had to say. Their comments told me what impact the credit union was having on their lives. Today, with 37,000 members located all over the country, I can't listen to each and every member's comments or complaints.

Instead, ABECU relies on market research and a program called Feedback. The program is designed to funnel member comments and complaints straight to my desk. Each credit union office has a Feedback center consisting of a locked collection box, a writing ledge and a forms dispenser with Feedback forms for comments or complaints. The members use the Feedback form to make comments or complaints. Each form folds down to a postage-paid, self mailer and can be dropped in the mail or in the Feedback box, which is checked daily.

The Feedback program has its own logo and stationery. It is promoted through our publications and information centers.

Members are promised a written response in 10 business days or less. The marketing department directs each completed Feedback form to a particular manager for response. Before the response goes to the member, however, I see it and a copy of the member's Feedback form. Feedback gives me a direct pipeline to member concerns and needs. One of the great benefits of Feedback is its ability to tell us how successful we are, or are not, in managing the internal factors I outlined earlier.

The system has already proved its worth by giving us access to member opinions on a variety of subjects. Under user pay, for example, we began charging all members $1 for each telephone transfer between checking and savings. This was made necessary by the sheer volume of calls requiring one teller to do practically nothing else but handle telephone transfers. Members were notified of the charge in advance, with an explanation that members could avoid the charge by making the transfer in person or through an ATM.

After the charge was implemented, members located in areas not served by our branches put Feedback to work. Through Feedback they told us in no uncertain terms that this charge was unfair to them since they did not have access to a branch or ATM. They made such a strong case that we altered our policy to exempt them, and senior members, from the charge.

Two other scientific market research forms that we rely on are member surveys and focus groups. Every three years, we conduct a major member survey. This is done by taking an opinion survey of a representative sampling of our membership in order to evaluate how well the credit union is serving the members' needs and to provide information valuable for future management and marketing decisions. Our member surveys are conducted through the mail, where members are sent questionnaires to complete and return in postage-paid envelopes.

In addition, we regularly direct "targeted" member surveys to carefully defined member segments. We have done targeted member surveys with members in our Tampa, Florida service area; members age 55 or older; and members on our net pay program. These and other surveys have delivered quantitative information that serves as a base for our focus groups.

Qualitative and quantitative information

A focus group interview is a research technique employing small consumer group discussions led by trained moderators to obtain insight into consumer perceptions. The *quantitative* information from member surveys provides the direction for the *qualitative* information generated by focus groups. Member surveys are strong in evaluating the rational variables important to members (such as interest rates) while focus groups help to gauge emotional variables (such as personal service).

Both techniques are extremely valuable in tracking the impact that external factors, such as competition and deregulation, have on the members. Remember that external factors are those that are beyond the direct control of the credit union. With internal factors, such as user pay, the credit union has more control over how it is perceived by the members. Smart marketing positions user pay as a fair and reasonable operational philosophy in the members' perceptions. But the credit union has considerably less control over how members perceive external factors. With good marketing research, you obtain better information on how to attack the members' perceptions of external factors.

Perhaps the two most influential external factors having an impact on the members are deregulation and competition. These are factors that touch the lives of our members almost every day, probably more than we like. Are deregulation and competition really one brute market force for us to contend with? I think not, primarily because competition has always been a factor and deregulation is only a recent one.

During the past six years, the government has steadily deregulated the financial services industry, including credit unions, banks and savings & loans. On January 1, 1986, the Depository Institutions Deregulation Cornmittee (DIDC) removed the final remaining regulatory minimum balance requirements on bank deposit accounts.

Then, on March 1, 1986, DIDC removed the last remaining rate ceiling on banks and savings & loans; the 5 1/4 percent ceiling on interest checking accounts and the 5 1/2 percent ceiling on savings accounts. These actions complete the deregulation of the financial services industry as mandated by the Depository Institutions and Monetary Control Act of 1980.

Competition shapes the market

DIDC has determined that market competition will shape the products and services offered to consumers by financial institutions. The result of this powerful external factor has been an almost uniform overhaul of the pricing of consumer financial services. When the last rate ceiling was removed, the result was notably minor; with very few exceptions, things stayed the same. Those who predicted a thunderous din of new product roll-outs by financial institutions were greeted with the sound of one hand clapping. Narrower spreads have knocked the creative wind out of many a risk-taker.

This has created a trend toward sameness in financial services, particularly in a low interest rate environment. Most aggressive financial institutions look pretty much alike. They offer a wide range of services that are strikingly similar to one another in name and benefit. Our service portfolio is virtually the same as those of Merrill Lynch, Sears, CitiCorp, and a dozen local banks, and an equal number of savings & loans. So while deregulation has given members more choices, these choices vary more by source than by content.

One major impact deregulation has had is on the members' perceptions of financial institutions. Is deregulation nothing more than a governmental paint shop where a rainbow of financial institutions enter one end of the market and all exit colored off-white at the other end? Deregulation *is* forcing financial institutions to look more and more alike. Through market research, we've uncovered a rather articulate belief among members that, although convenience is a very strong factor, if they don't like the way their accounts are serviced at one institution, they can be certain the same types of accounts will be available at another institution.

Deregulation matures

This same research tells us that as deregulation has matured, so have our members' expectations matured. There was a time when our members greeted each new service with delight and admiration because they didn't expect such things from their credit union. When we introduced the discount brokerage service, the response from the members was, "Well, what took you so long!" Savvy credit union marketers will tell you that to count on member loyalty when battling the competition is financial suicide. If it does exist anymore, it's much more diluted. Members may rally at the grassroots level to beat back taxation, but that's because it's in their best interest to do so. But how effective is member loyalty when they can earn an extra $20 by opening a certificate of deposit at the local savings & loan? Probably not effective at all.

Cherry picking the premiums

Seniors with certificates of deposit are particularly adept at playing the field, cherry-picking premium offers as they move their money from one institution to another. With rates essentially the same, they pick a toaster here and a cash premium there, shopping the premiums with the same zeal they shop the rates. We've countered this by giving members in our seniors program three coupons a year, each worth a quarter percent more interest on a certificate of deposit.

With the growing perception that all financial institutions are clones of one another, and with the increased sophistication of financial services delivery, I believe it's important for credit unions to place more emphasis on communicating human values, friendliness and warmth. It's up to us to define our niche. Let others become boutique bankers tracking the upscale consumer or the state-of-the-art technocrats who define banking relationships in data-speak. Credit unions are places where people, not profit, come first.

If we can be successful at positioning credit unions as organizations with a heart, like George Bailey's Building & Loan in Frank Capra's film classic, *It's a Wonderful Life,* we will have established an important slot in the members' set of values.

In 1984, we were so concerned about this trend toward sameness and the increased role of technology in our relationships with members that we ran a promotion giving members a fresh apple just for stopping by the credit union. Called the "Great Apple Giveaway," the promotion featured a drawing for an Apple Macintosh computer. Members had great fun during the promotion and new accounts opened en masse. I can't tell you how many times, when crossing the lobby during the promotion, a member would wave and say, "Thanks for the apple, Tom."

Making the members feel special helps us blunt the negative impact of deregulation. In addition to marketing campaigns like the Great Apple Giveaway, we also use our annual meeting to emphasize our uniqueness, a strategy many other credit unions employ effectively. Typically, more than 1,500 members attend our annual meeting in St. Louis. There is no charge and members are treated to a free gift, attendance prizes, dancing to a 30-piece big band, soda, Eagle snacks and Budweiser beer on tap. Usually more than 30 half barrels are consumed!

Annual meetings of this type, where business and social interaction combine to produce a feeling of belonging, are singularly credit union events that help us stand apart from our competition. And standing apart from the competition is extremely important because the competition often emerges from some unknown quarter.

In addition to deregulation, the second most powerful external factor having an impact on credit union members is competition among financial institutions for a slice of the consumer financial pie. I watch with dismay as so many professionals in our business wring their hands and fret about how terrible competition has been since deregulation began in the '80s.

Not for one minute do I believe competition was less keen in the '50s and '60s than it is today. It was merely different, the cast of characters more predictable. From the time I started until the early '80s, our competition was primarily banks, finance companies, savings & loans and other credit unions. In fact, during the late '70s, as some St. Louis credit unions began taking on community charters, the competition between credit unions for member savings was very intense.

The competition today remains intense, but as I noted earlier, it is more likely to come from unexpected sources. We've always had competition for car loans. We used to compete with the banks and now it's primarily with the dealers. We've always had competition for savings. It used to be with savings & loans and now it is brokerage houses. So while the intensity of competition may be relatively the same, the players are becoming increasingly less traditional.

In 1981, as money market mutual funds began to gain popularity, I remained convinced our conservative members would keep the funds at arm's length because they lacked federal deposit insurance. I simply did not see the funds as a competitive threat, not until a member survey of our seniors reported that 35 percent of our seniors were already participating in money market funds. It wasn't long before we introduced our Daily Interest

Fund and advertised it as the *insured* alternative to money market funds.

Three competitive factors

What impact has this competition had on credit union members? There are three areas that stand out. First, like the factors of total service and deregulation, competition gives the members more choices among financial services. Multiple financial relationships are a fact of life today for most members. For example, while a majority of our senior members count the credit union as their primary financial institution, many still retain a checking account at their neighborhood bank. They could get a better deal with our interest checking program, but they dislike the idea of terminating a longterm financial relationship.

Second, competition has caused some members to accept increasingly more risk in their investment strategies, and it's a recent development that disturbs me. As nontraditional investment sources have become more aggressive marketers, they have succeeded in attracting member funds that should not be subject to risk. This has been particularly true in today's low interest rate environment. Some members have chased high rates with IRA money, ending up in mutual funds that promise high yields but expose the deposit to devaluation.

This directly relates to the third major impact competition has had on credit union members, and that is increased awareness among members as to what financial services are available to them today. Consumers of financial services are aware that they have multiple sources from which to choose and they are aware of the benefits these sources offer.

This increased awareness has worked in the best interest of credit unions. The more aware a consumer is, the more educated and affluent he or she will likely be. *American Demographics* magazine reports that credit union members are more affluent than other financial consumers, based on a 1983 survey of consumer finances. It concluded that the credit union is no longer exclusively for lower-middle-income and blue-collar consumers. Credit union members have the highest median income and median amount of outstanding debt among any of the consumer groups, and one-third are white-collar workers, virtually the same share as for commercial banks.

Clearly then, the external factors of competition and deregulation have been good for credit union members. They have more choices, they are better informed and they are becoming more financially fit. But this discussion would be incomplete if we ignored those elements that have a negative impact on the members. There's no such thing as a free lunch, so what has the cost of competition and expansion been for credit union members?

From my perspective, the biggest cost of expansion and competition for the members has been the insertion of technology into their relationships with the credit union. I realize many preach the benefits of a "high-tech and high-touch" approach, but some members resent having to deal with computers rather than people.

A recent GMAC television commercial captures just how low-touch high-tech can become. In the ad, a fellow stands in an impersonal bank lobby with video monitors behind the teller windows. He is asking the video teller for car loan information, but the responses are disjointed electronic glitches. He asks the only other human in the lobby — a security guard — for help, whereupon the guard cheerfully gives him a free calendar. The ad makes the point that GMAC has real people experienced in car loans ready to help you.

Let's face it, as we become more sophisticated in delivering financial services to our members, we've put some distance between us and the members. Audio response service, ATMs, next available teller systems and drive-up systems are all a far cry from the days when I walked to the bottling plant and handed a member a loan check so he wouldn't be late getting home. The new technology makes our services more convenient, but also more impersonal.

Another negative factor is the impact regulations and litigation have had on the members. It's much more difficult to make exceptions for members today because if you do it for one member, regulations require that you do it for a thousand more. In the early days, you could take a chance on a member, counting on his or her character as the collateral. That's simply not possible anymore.

Even one of the internal factors I championed earlier has negative implications. Although the user pay concept is a good one, it does dilute the pure cooperative nature of the credit union with less sharing of direct costs. While user pay contributes to a strong capital position for the credit union, a long-term member benefit, it returns less to the member in short-term benefits.

Finally, one of the most negative byproducts of competition is misleading and unethical advertising. Such advertising demeans our industry and creates confusion among consumers. Some institutions, for example, misrepresent the true value of a money market account by advertising one high rate for a particular day and then paying lower rates for the next several days to make up for the loss leader rate they advertised.

Expansion, competition, deregulation

Expansion, competition and deregulation may also have had a negative impact on credit unions, but I also think they have generated benefits for credit union members. In the final analysis, I make the judgment by asking myself this question: Would I rather be a credit union member today or a member back when all the credit unions first began?

On a cold winter's night in 1939, eight Anheuser-Busch employees sat down and organized a credit union. They pitched in a total of $40 and signed the necessary papers. The eight men were joined by a common bond, forged out of necessity during hard times and fellowship. But they had a dream, a dream of a credit union where people could help one another build wealth and watch it grow.

Today there are 37,000 men, women and children sharing the common bond of membership in Anheuser-Busch Employees' Credit Union, not account numbers or credit reports, but people. People joined by a common bond with a rich heritage of member service and cooperative self-help.

So, would I rather be a credit union member today rather than yesterday? You won't find the answer in our financial reports or balance sheets. I see the answer in the faces of the people using the credit union: confident, happy, secure. And when I look hard enough, I see a proud tradition . . . and a very bright future.

Chapter 8

Voluntary effort is the heart of the credit union movement. That's what helped credit unions get started in the first place and it is what powers them and gives them their special quality today. Boards of directors who voluntarily give of their time generally care more deeply. The result is often higher quality effort, delivered with more compassionate hands.

But being a credit union volunteer is no longer an easy task. Greater responsibility, a more volatile marketplace and a wider scope of products and services have made the position increasingly more difficult. One of the major challenges facing credit union executives today, according to John R. Stephenson, is finding a board of directors who can perform competently as well as compassionately, and often that's not a challenge easily met.

Much of the responsibility falls on the CEO to choose and develop board members who have something authentic to contribute. Without careful selection and judicious handling, a badly chosen board could lead to trouble and perhaps even the end of a credit union.

On the other hand, Mr. Stephenson says, a high-quality, professional board of directors can be one of the greatest assets a CEO can have.

John Robert (Bob) Stephenson is president of America's First Credit Union in Birmingham, Alabama. Since his appointment in 1952, the credit union has grown from a membership of 3,000 with assets of $1.5 million to a membership of 95,000 with assets topping $226 million. America's First Credit Union is the 41st largest credit union in the United States and is Alabama's largest state-chartered credit union.

Bob is currently a trustee of the Credit Union Legislative Action Committee, was named to the Credit Union National Bankruptcy Task Force, and serves as a director of the Alabama Automated Clearing House Association, Alabama Alert Network, Alabama Credit Union Administration, and the Alabama Credit Union Administration State Credit Union Board, and is Chairman of Electronic Processors, Ltd.

From Volunteer to Director-Building a Better Board

by John R. Stephenson, Jr.

By almost everyone's standards, I am a fortunate man. I might even go so far as to say that I am an incredibly fortunate man. I manage what I believe to be one of the most progressive credit unions in the United States — America's First Credit Union - and in my 34 years as manager, I've had the good fortune to have worked with 11 outstanding directors.

We have a seven-person board of directors, just like a lot of other credit unions, but our board is comprised of individuals with so much skill, integrity and dedication that we've been able to spend less time filling positions and educating new board members and more time on the credit union and the overall concerns •of its members. What's more, I've been able to work with this board, and it must be one of the industry's prime examples of a good working board.

That's put me in an incredibly fortunate position as the person paid to run the credit union, and it's allowed me the "leisure," so to speak, of drawing some conclusions I feel go into an effective relationship between management and directors.

I believe there are certain elements that make a good board/management relationship, regardless of the board members' tenures. I believe these elements are crucial to the success of a productive board/management relationship and consequent operational success. There must be a mutually agreed-upon purpose for the credit union and responsibility must be assumed by each member of the board/management team. This may require negotiation, resulting in a board that participates in the credit union's progress while letting management manage. Other requirements include commitment to the board, continued management and staff education, recognition of the board's voluntary effort and continuity in the credit union's culture.

These elements exist with our board and management, and because of that, I'm confident that the board will approve every plan the management team recommends. That is a bold statement and being able to continue making it is perhaps my greatest management challenge. But the statement represents credibility between the board and management members. It represents hard scrutiny of any plan before it is presented to the board. It keeps constant pressure on me and my management team to develop business plans from hard factual information, and when a guess is necessary, to admit that it *is* a guess. It also challenges the board not to be lulled into "rubber stamping" plans because of prior successes, or to lose confidence in management when a plan fails.

The framework of a strong relationship

The following elements are interrelated and mutually supportive. They form the framework for any strong relationship between credit union management and board members.

Of all the board/management elements, probably the most important and the one on which all others depend is the mutual understanding of the credit union's purpose. That element may also be the most difficult to establish and maintain. Unfortunately, there are credit unions that never succeed in defining their purpose. Without a collective understanding of what the board and management want to accomplish, the organization can have no direction, no objectives, no goals.

The staff, in turn, has no clear understanding of what is expected. Their lack of direction is transferred to the members, who begin to feel that the leadership has no idea of what it's doing. Usually the membership's appraisal is accurate. Whatever the credit union's purpose, and regardless of how it is stated, it must be repeated and "signed off on" frequently by the entire board and management team. All their energy must be directed toward accomplishing that purpose.

From our credit union's purpose of providing a safe, serviceable financial cooperative, we can develop reasoned plans with which everyone can agree and support. Our pricing structure, the level of retained earnings, the marketing strategy and the services portfolio make sense to everyone. After months into a project, management does not have the problem of board member backlash because the board has been involved in the project from the beginning.

The credit union's purpose, of course, must reflect what the membership wants, and that will vary among different common bond groups. The purpose may seem obvious to management because management earns its paycheck daily trying to serve the purpose. But what is obvious to management may not be clear to the volunteer board, whose opinions and viewpoints are the products of their own daily enterprise. The board/management team's lucid purpose can easily become cloudy with time and changing market demands. Management should never assume that the board blindly shares their ideas, nor should management assume that the board relates every project to the purpose in the same way. Whatever it is, the purpose needs to be repeated as regularly as the groups meet.

The continued reminder can help control panic and knee-jerk reactions. It is harder to deal with deregulation, taxation, less restrictive membership requirements, surprise competition and narrowed income and expense margins if each board and staff member has a different ultimate purpose. Strategies to reach credit union goals may change frequently, but they must be directed at the purpose. Occasionally, strategies will fail. When they do, if everyone has the purpose in mind, then it is likely that the strategy will be kept in perspective as a means to an end, not the end in itself.

A constant purpose

As board and management members do get replaced, having the credit union's purpose constant makes the transition to a new makeup of people easier. Disruptions to the progress of the credit union are less likely, the credit union membership is less likely to be confused and success in achieving the purpose increases.

When credit unions have a clear understanding of their purpose, they are less tempted by dangerous investment schemes or fads and services that look good on paper but do not relate to the purpose.

If the board has a clear understanding of the credit union's purpose, they have a measurement for management's performance. Management is paid to develop and successfully implement the methodology for achieving the purpose. If adequate progress is not being made, then management should be replaced. That's not to say management can't have a certain amount of latitude for trial and error. But the overriding purpose, clearly stated and repeated, and agreed on by each member of the board/ management team, provides the context for the negotiation that inevitably occurs in the board room.

If the mutually understood purpose guides the organization's direction, then less significant motivators such as individual egos, management incentives and panic reactions to short-term competitive threats are less likely to give bad direction.

When the business of running a credit union gets so complex that the thoughts of the board/management team become murky and the leadership energy refracts, then restating the credit union's basic reason for being always serves to generate fresh perspectives of the problem at hand.

Personal responsibility

I came to understand some time ago that I am responsible for my credit union's performance. I can point my finger at no board member, no staff member; only at myself when failures occur, because I am the only person over which I have any control for change. If performance is not up to expectations, I have to ask where I failed to communicate, what resources I failed to provide or what misunderstanding I may have had of the problem. The responsibility lies with me.

It is important that each member of the board/management team has this kind of understanding of personal responsibility, because from this understanding comes ideal teamwork. If we all believe that we are responsible, then we can all be mutually supportive of each other, and from this support comes a mutual trust of each team member. Suddenly, each member wants to see the others succeed in achieving the credit union's purpose.

Obviously some individuals are more difficult to work with than others, but it is distressing to hear comments like "my board won't let me," or to hear board members laying blame on their manager for a credit union's poor performance. That attitude of "it's someone else's fault" will be transmitted to the credit union staff, which in turn will transmit it to the membership. The board is elected and the management hired to take responsibility, not to lay blame. We are in our positions to fix the problems. In my opinion, problems can be fixed a lot faster if energy is focused on problem solving rather than finger pointing.

The refusal to take responsibility can become debilitating. The board/management team can get so fearful of the membership's finding out that the team is human and bound to make mistakes, that the team can't get on with jobs of planning, implementing and problem solving. That fear becomes a cancer that destroys self-confidence and clouds good judgment.

With any business there must be bottom-line objectives. In a credit union, those objectives can get clouded in trying to balance philosophic ideals and economic realities. The desired mix of efficiency and effectiveness requires frequent negotiation between board members and management. Even with consensus of the credit union's purpose, there are as many opinions on how to achieve the purpose as there are planners. For example, there is no perfect mix of fee-based services and free services. Consequently, a mix of services that will achieve the purpose will have to be negotiated by the board and management members. How to use that mix to achieve the purpose should be a management decision.

Noble goals, financial realities

The members' share dividends could be larger if less earnings were retained. Borrowers could benefit from lower loan rates and fewer fees. In both cases, the members would be served, but both strategies may be economically unsound. Just because our credit union is a noble institution with high ideals, it is not immune to financial realities.

Conversely, the board may decide on goals that efficiently improve the bottom line, but in doing so may weaken the credit union's effectiveness as a non-profit financial cooperative. We may choose not to expand our service portfolio and delivery systems, but by doing so we may limit services. Although our board and staff believe no one should be excluded from a credit union, it is economically efficient to be selective in our membership. But by doing so, do we lessen the effectiveness of the credit union? I beleive that the board and staff must recognize this process of negotiation for what it is and not as an argument of who is right or wrong.

One of the aspects in the board/management relationship needing negotiation is the amount of authority the board is willing to delegate to management. Delegation is difficult for any superior because it requires that the delegator trust someone else to perform duties for which he himself is ultimately responsible. To compound the difficulty, the person to whom the responsibility is given also has to trust the delegator to permit mistakes and support the decisions. Trust, of course, is earned with time and experience, and the sooner the manager can be put to the test by the board, the more efficient the board/management relationship can become.

There are sometimes relationships in which the board rubber stamps the manager's proposal without proper questioning. There are other situations where the manager must spend time at the monthly board meeting defending a recommended $30 per month raise for a teller. Somewhere between those extremes is a working relationship. Our board would never approve an annual budget without our proper defense of it. But once the budget is approved, it is management's problem to live within it and to distribute salaries in the best way to accomplish our overall goals. It is management's responsibility to maintain a competitive and equitable salary administration. That's another by-product of negotiation.

Monitoring progress

It is possible for a board and manager to escape from truly complex credit union issues by bogging down in arguing mundane details and conveniently running out of time to deal with real problems. Some boards spend hours pouring over the delinquency list when they can't do anything about collecting the loan, paying little attention to the more positive growth aspects of the institution. It seems to me that the time could be better spent directing the manager to institute a proper loan training program and making recommendations for better collection procedures and reporting the progress.

In other words, a delinquency list is history. The questions really should be: "What is the board/management team doing to direct the credit union's future loan portfolio?" "How much delinquency is acceptable?" "Is the lending policy appropriate for the purpose of the credit union?" "Do more resources need to be spent for better-trained officers?" Once the complex questions are answered by board and management, and management is given parameters within which to work, there should be no need for the board to be concerned with the day-to-day operations. They should, however, monitor management's progress, perhaps summarizing it at each board meeting with a recommended loan charge-off amount and a percentage of delinquent loans.

It's unproductive to prepare reams of detail and have the board review an entire month's minutiae. Some managers evidently believe that they are impressing the board with their preparation when in fact the board members are silently screaming "get to the point!"

Getting to the point

Participation does not mean that management should wait for the board to make recommendations or work out a business plan. Our idea of participation is to bring the final draft of a plan to the board, introduced with an executive summary for any use of significant amounts of credit union resources. When our credit union wanted to expand, a thorough capital budget analysis for our administrative office expansion and subsequent branches was presented and discussed with the directors for approval or modification. Progress reports were then made each month. If variations from the approved budget were required, we asked for monetary ranges to work within to preclude additional board meetings that may have slowed progress. The same procedures are used with proposed annual and interim six-month budgets as well as any new services.

Such a process requires the board to participate in directing the credit union by defining what needs to be done and providing budgetary guidelines. Management must do the homework, and creatively enough to make optional use of credit union resources. We must present a sound business plan, and after board consensus, execute the plan while keeping the board informed of progress.

Ideally, subjective judgments are made by the board, and management must support, modify, and even offer polar alternatives with quantitative information. Ideally, this type of participation and negotiation eliminates the arbitrariness that too often creeps into business decisions because of politics, personality clashes and other hidden agendas.

A shared mission

Since each board/management team member participates in achieving the credit union purpose, members tend to become closer to each other than often happens with other business board/management teams. What makes the closeness possible is the shared mission of helping people help themselves to create an improved lifestyle. The credit union team is dealing with lives, a job that seems more significant than producing and selling widgets. Because of this mission of sustaining a social benefit with global impact, I believe a board/management team can appreciate and understand each other better than most.

The credit union team should periodically back away from its routines and reports and take a broader look at what they are accomplishing, because self-appraisal can be a source of strength, even a tonic for their missionary efforts. It refreshes the team members' appreciation of each other, improving their working relationship. By recalling their higher goals, the team members put their boardroom differences into the proper perspective and improve production and outcome.

The length and type of formal education of the board and management members vary and each member brings a different body of experience and perspective to bear on credit union issues. We have found it useful to focus our mix of financial, legal, human resource, labor, accounting, manufacturing and other perspectives, on a common body of information so that we speak somewhat the same language.

One way we accomplish this is by promoting credit union education, and we start by subscribing to all major state and national credit union publications and major news and business publications for each board/management team member. By staying well-read, everyone can anticipate business trends and communicate more quickly and clearly. I encourage our board to attend state and national meetings, governmental affairs conferences, the chairman's conference and any other conference or seminar which seems valuable. These events are not social or vacation events, but rather working sessions. They may seem expensive, but we consider the return on our investment to be an exceptional one.

By staying up-to-date with reading and educational sessions, our board and management have moved the credit union smoothly from one that once served employees of the Ensley Works of United States Steel Corporation to a credit union now servicing over 2,000 groups; from a credit union that made one type of loan, co-signed several times, and offered dividends paid in cash by the company pay clerk to a deregulated, electronic environment of lean and hungry sophisticated competition.

By staying conscious of the world around us, by distinguishing the differences between real business trends, fads, rumors and imminent business cycles, and by accepting reasoned risks, our board has kept this credit union an innovative leader. We began expanding our field of membership in the early 1960s, as well as making real estate loans and developing a student loan program. We had open-end loans and a credit union service organization before the terms were coined. We were among the first to sell certificates of deposit, make loans with variable rates and offer regular and money market checking accounts. Our credit union was even one of the first to stop making fixed-rate mortgage loans until the adjustable-rate mortgage was available and we could resume them.

Keeping current

Credit cards, voice response, on-line computers and mini-computers to supplement the mainframe all came about on a timely basis because our board stays aware of market demands. Their education is kept current and they respond to present and future needs. Because of their continuing education, their vision is supported by hard information and their direction is consistently proactive rather than reactive.

Of course, like any board and board/management team, we have had our share of misjudgments. But because of the board's informed business approach, mistakes are quickly recognized, losses limited and a corrected approach taken. This informed group doesn't have any need to do any finger-pointing or linger over " what we should have done." We work from a common information base and have a clear understanding of why a project is undertaken. Consequently, the board and management share equally in the successes and failures.

Confronting the issues

Our education process includes a preview of everything to be discussed at the board meeting. Major projects are discussed with each board member by telephone or at a session prior to the full board meeting to give them time to consider the ideas. No one likes surprises, and keeping board members as informed as possible helps them reach consensus quickly. Our monthly meetings, coordinated by me and the chairman of the board, average about an hour and seldom last longer than $1^{1}/2$ hours. If a meeting requires more time, it's probably getting bogged down with detail and perhaps management didn't prepare well. The board meeting must confront issues, not details.

Credit union directors are motivated by their individual needs, and those needs obviously do not include remuneration. They must have an unselfish drive to make difficult decisions for people who have entrusted them with their money. They must also have the integrity to make reasoned but sometimes unpopular judgments. These decisions may sometimes even endanger friendships with co-workers, but the decisions have to be made for the credit union's overall long-range benefit.

With few exceptions, our directors have had to schedule their respective lives around the third Wednesday of every month. I've had the pleasure to work with directors who, in 30 years, have never missed a board meeting except due to serious illness. And for what? For the sometimes thankless job of volunteering their time and mental capacity to build a facility that allows people to help themselves improve their lives.

I believe management should take the initiative to see that the board's efforts are recognized by the membership, the employees and the general public. Management may administer staff salaries, but our recommendations must also be approved each month. And we remind our staff of over 200 that it is the directors who ultimately sign our paychecks. Frequent thank-you notes are written from every level of staff to the board. We never forget that it is the board that ultimately decides how much latitude we have for creativity and challenge. Utimately, they are the people who make coming to work fun. In our cynical business world where so many endeavors are motivated only by profit, we must never lose sight of the board's spirit of volunteerism.

It is their spirit of giving, their dedication and their unselfishness that lift our enterprise above sheer commercialism. It is their direction that allows us to be different and gives us a greater sense of self worth. We pay attention to the board because they deserve it.

One ingredient to a good board/management relationship that is the most obvious, the most overlooked and perhaps the most easily instituted is simply the common sense use of good manners. Just being polite to the board will go a long way in preparing for productive negotiation. Managers sometimes get caught up in their own importance and brilliance and forget that they have a group of superiors to whom they are responsible. When they forget that individually and collectively their directors affect paychecks and progress, then they've got trouble. In my opinion, managers who do not respectfully defer to their superiors, the directors, should be replaced, just as the manager would replace an insubordinate staff member.

Seldom recognized, often criticized

Some managers feel that the board meeting is a necessary evil and that board members know too little to direct the credit union. With that attitude, managers isolate themselves from the board and cannot hear what the board is trying to tell them. They are then perceived as rude and insensitive to board members who are volunteering their efforts to a worthwhile cause. Remember that board members are not paid, are seldom recognized and are many times criticized.

That kind of treatment has a negative effect on anyone, and will certainly affect the ability of a board and its manager to function as a team. Regardless of the relationship between the manager and board, I cannot conceive of any situation that justifies rudeness directed from the manager to a board member. I also cannot conceive of a situation when the manager can forget his position in the credit union hierarchy of membership, elected board, and hired manager.

There is a mutual fear by boards of having to respond to recommendations of an untried new manager, and by managers of having to communicate with a new board of directors. When abrupt change occurs, that fear can create defensive, suspicious postures which sometimes supercede good judgment. It takes a special type of individual to perform well in a credit union, whether on the board or staff. Furthermore, I believe that the board/management team can be controlled by the group that is ultimately responsible for the relationship, the members. It's their money, their convenience, their equality and the minutes of their lives that we waste with operational deficiencies. It's their credit union and it's no wonder they have a lower threshold of acceptance for service.

Given that perspective, I believe that continuity of our organization's culture is a key element for success. Our board agrees, and has directed management to look for potential board member replacements. I also attempt to promote from within — fed by a career development program, staff members have time to adjust to our culture. Obviously, when a manager gets involved in electing his or her own board of directors, it can result in career suicide, but our board has given us the direction, literally taking us off the political hook. We were told to choose five to seven people from our business and participating sponsoring companies; contacts who were credit union members and who had excelled. Their interest in credit unions was already proven, but it takes more than that. Good directors understand what is involved in running a big business. That's the kind we try to attract.

The potential board members are told they may not be chosen by the board to fill an unexpired term and that it is possible that the members may vote them out of office at the annual meeting. We establish a business relationship by paying the potential directors a nominal fee to attend about six one-hour orientation meetings, followed by a social hour and dinner. At the meetings, we emphasize our credit union's history and philosophy before anything else, and the individuals are asked not to participate if they cannot relate to the credit union's purpose. After history and organizational makeup are discussed, we dissect our financial statements. But socialization is also very important because it gives us all a better sense of how the personalities will interact.

Planning the future

Prior to electing our two most recent directors, our board had a combined 202 years or an average of 29 years per director in voluntary service to their credit union. It is understandable that as attrition occurs, veteran members want replacements for the right reasons. I believe that board and management have an obligation to the membership to insure that the credit union's direction is continued by people who share the same values and the same enthusiasm as that of their predecessors.

Many credit unions, including ours, have ammended their bylaws, requiring a notice of intent to run for a seat on the board, along with a petition of 100 members' signatures. This may seem a little controversial to credit union idealists who would leave the future direction of the credit union to the sole discretion of the membership. But a credit union's future is too important to be left to the possibility of taking on unknown, possibly unskilled, even adversarial directors. I have never interpreted our democratic process as a process which should occur without planning. That's as true for credit unions as it is for everyone else.

Boards are as different as the fields of membership, and turnover rates range from one term to lifetimes. In my experience, however, the most successful credit unions are those who plan for their future directions.

Chapter 9

Fear of the unknown is the greatest fear that many of us face. For credit union executives, the unknown is the future of the credit union movement and the uncertainties in the marketplace it faces. CEOs who know who they are as professionals and can understand the steps to their own personal development have a better chance of facing the future with success.

Such is the case of Edward A. Baranowski. His involvement in credit unions has provided a wealth of personal growth and development and he can chart his current attitudes and feelings about his institution and his members back to their source in his early days, first as a volunteer and finally as CEO/Manager. If we can understand our past, we're better prepared for our future, Mr. Baranowski says. But how clearly we understand our past has a direct impact on how prepared we are to face that future.

Mr. Baranowski's recounting of his own experiences sheds a great deal of light on how he's gotten to where he is today. By developing the same kind of introspective focus, other executives may also be able to chart a clearer course for their credit union and its members.

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Mr. Baranowski has appeared at many Society conferences, as well as authoring Executive Excellence: A Time Management Guide for Financial Executives *published by the Society in 1984. In 1985, the Society selected him as "Executive of the Year."*

Facing the Future

by Edward A. Baranowski

Dreams come true in credit unions. At least they have for me and for the credit unions I've had the privilege to manage. That's as true today as it was when the movement began, and with lots of the right kind of effort, that can be true tomorrow as well.

The future of our movement is full of bright tomorrows that can be understood best, perhaps, if we look back on our own pasts and what credit unions have meant to each of us. I think I've been luckier than most, but my credit union experience has been a journey of personal discovery for over 25 years of working on behalf of members. It's a journey I did not originally intend to take, but one that I wouldn't now trade with anyone for anything. I learned much too much about myself and the credit union movement in the process.

I didn't originally plan a career in the credit union movement. In fact, I never knew the cooperative financial business existed. I had heard my father, a labor union officer, describe unions. He was a credit union member, too, but I never knew it until long after I got involved. A lot of people first hear about credit unions when they need a loan, and it was no different with me.

My first loan put me in contact with the Wausau Education Association Credit Union in Wausau, Wisconsin. While I was teaching business education in the local high school, I met and fell in love with the home economics teacher. My heart got ahead of my pocketbook, however, and when I proposed marriage, I got a positive response. I had no money, of course, but I did have a dream. I knew nothing about credit or credit unions except the credit presented in college textbooks. Credit unions were listed as a footnote in Money and Banking courses, and I never really ran up against one until 1960.

While talking to fellow faculty members in the teachers lounge about my cash shortage due to the upcoming wedding, I learned about the teachers credit union. I was told that Rob Reynolds was treasurer. His classroom was across from mine. "He'll give you the loan for your wedding expenses," they said. At the end of the school day, I stopped in his classroom, which became the credit union office after school. "Bob, I understand you have a union that gives credit. I need $500 to cover wedding expenses," I said. Bob proceeded, in his funny-you-should-ask kind of way, to tell me that since I was teaching accounting and other subjects, he was about to ask me to be the chairman of the Examining/Supervisory committee. I wanted the loan, so I accepted and volunteered.

A *new volunteer*

It was amazing. In a matter of days I was a credit union member, I got my first loan, marriage expenses were no longer a problem and I became a credit union volunteer. All I had to do "was check the member records once a year and report to the membership at the annual meeting." I performed my duties diligently. Was I dreaming? This was the greatest!

My first loan was paid off with summer earnings and wedding gift money. In the spring of 1961, when Bob Reynolds became an assistant principal, I was asked to become treasurer of the credit union. Based on my limited knowledge of the cooperative, I knew I had to be elected to the board of directors. I was assured by the school superintendent and board members that "it would be taken care of." Bob resigned. I was elected to the board and then elected treasurer. In a few short moments I became a policy maker, the cooperative's financial officer and the credit manager. Only in America could a 23-year-old move so fast and so far.

Keeping the records — hand posting over 200 member accounts for the $112,000 credit union — was a lot different than the practice sets I helped my bookkeeping and accounting students complete. The share balances and loan balances represented a lot of dreams for teachers and their families. As I pulled the handle on the manual adding machine to run trial balances while half-watching Jack Parr, I thought about all the potential — about all the teachers who weren't using the credit union. There were lots of dreams that could come true with the savings and loan services the credit union provided.

I began to read the credit union magazines. I attended chapter meetings. The spirit of the people was difficult to describe. It was like a revival, and credit unions were their religion. One began to feel good about what they were doing. There was a brotherhood of concern for others. The whole business of granting low-cost loans and helping people — my fellow teachers — build their savings accounts began to become more fascinating and challenging. I was amazed at what could be done.

The credit union traveled with me wherever I went, mostly out of necessity. My classroom was the credit union office. I changed rooms for some classes. I would put a few forms, deposit slips, loan forms, collection sheets and a few blank checks in my attache case as I left my classroom each day. Most of our members were at different schools and would catch me when they could.

One afternoon while shopping in downtown Wausau, a member approached me about a loan for a black-and-white television. We walked over to the car, where I pulled out a small loan application and an equally small promissory note from my attache case "office." There were no truth-in-lending or other regulations. I wrote the check for $180 to disburse the loan on the spot and got the three required signatures of the credit committee during the days that followed.

You'd have a hard time doing that today. Now there is overdraft protection on checking accounts, credit cards and automated teller machines, and we've gone from high-touch to high-tech. I see a lot of evidence that people still want that personal service. Perhaps we'll come full cycle again.

I can remember many situations where members would stop at the house. They would call at all hours. Loans and withdrawals, it seemed, were available 24 hours a day, 365 days a year. The slogan, "Not for charity, not for profit, but for service," meant what it said. While drawing up papers for an emergency loan, we often threw in a free cup of coffee. On occasion, a piece of cake was provided to the members who stopped after supper. After church on Sunday, some members got toast or a sweet roll to go along with the coffee. It seemed we were always open for business.

A purpose for being

Some years later, I saw the first educational film released by CUNA. *The King's* X showed a volunteer treasurer in his basement explaining how the credit union operated. I felt I had been there a hundred times. Yes, the credit union was like a king's X on the door of many a financially troubled member. This little member-owned cooperative was making life better. It was making dreams come true. Today I still feel every new credit union employee should see this old film to reflect on what we are about and our purpose for being.

Less slick, more substance

Communications were vital to the growth of young credit unions. During the early 60s, I had to rely on ditto masters (the old purple-on-white) and mimeograph copies to get the word out. Newsletters were simple and homespun. Readership was unbelievable. There were no fancy typeset, multi-colored publications with photographs. At times I think we could call more attention to ourselves with "less slick" and "more substance."

Every new teacher was exposed to a full-day orientation session. My credit union 15-minute presentation at the beginning of the school year left no choice. Every teacher filled out the membership application card like they did a federal tax withholding form and health insurance forms. As far as I was concerned, everyone was going to be a credit union member in my credit union. I took their first share of $5 plus an entrance fee of 25 cents. In some instances, I was lucky to get the 25 cents. Partial installments of $1 on a share were common.

I recognized the needs of the new arrivals. There were no restrictive policies saying, "you must be a member of the credit union for six months before you can apply for a loan." I can remember the new teachers arriving in a new city, fresh out of college, waiting for their first paychecks. I granted their salary advance loans, their first car loans, and financed tons of dreams. We may have been amateurs at lending; we may have been naive concerning human character; but needs were satisfied. Loans for "provident and productive" purposes were made. There was no complicated credit score imposed by a bureaucratic credit committee. I never used the credit bureau. (To tell the truth, I never heard about it until some years after I was managing.) I had liquidity problems in those days, and I always wondered where I could get more savings to lend.

There were the savers, too. I'll always remember Gene Thomas. I encouraged him to save, and after that he seemed to save every day. While I was on hall duty as classes passed, Gene handed me his loose change. "Put it in my share account," he'd say. During the summer months, he would stop at the house with the change accumulated over a week or two. My wife counted it and put it in an envelope for posting later. Something like an automated teller machine, only 1960s vintage.

New ideas gained from chapter meetings, league conferences and visits with other credit union managers provided the fuel for the credit union "dream machine." This was my only source of management training. Granted, I had an undergraduate degree in business, but textbooks really don't prepare one for running a business. Here was the chance, the opportunity to run a small business. I realized that I was the teller, disbursing clerk, bookkeeper, accountant, loan interviewer, loan officer, counselor and collector. Oh yes, I was the marketing director, too. What an opportunity! All of this for $50 per month.

Realizing I couldn't do the job alone, I volunteered my wife in 1963. She helped with the record keeping, and read tapes when I tried to balance the subsidiary ledgers or general ledgers. Marlowe would get a babysitter and come over to school two afternoons after the school day to take deposits and withdrawals while I granted loans. We were growing. It was an exciting time.

Word of mouth

Students in my Business Principles classes became part of the team. As class projects, they designed posters, promotional fliers and other advertising pieces. They got into the spirit of credit unions. They told their teachers about the credit union. Later my Salesmanship classes got into the act. It was amazing to see how effective marketing and sales efforts could be. We doubled in membership and assets in a few years. That same type of one-on-one salesmanship used in the early, days of credit union growth will make the difference in the future. Over 60 percent of new members who join credit unions hear about them from other members. That's how I joined and became involved. Satisfied members (customers) make the difference. We must increase our direct contact, personal contact and cross-selling, and develop a "selling" organization in order to move ahead.

League and CUNA programs were limited by resources. Management and volunteer training were in the form of "tool chest" kits of outlines and leader handouts. While attending the Wisconsin Credit Union League Board meeting in Wisconsin Rapids in the spring of 1963, and as a visiting president from the Wisconsin Valley Chapter, I recognized the need for a comprehensive leadership training program. James Goebel, the league education director, outlined a program of some 30 lessons that needed to be developed. I listened to the discussion. After all, my college degree work was in business education. I knew how to prepare lesson plans and support materials. I kept thinking about all the people who had been helped by the credit unions and about how many more could benefit from membership if only there were trained leaders and managers. More dreams could be realized.

I volunteered to prepare the lesson plans and training material for the Credit Union Leadership Certificate Program. CUNA and the League supplied me with background materials. I visited Filene House in Madison, Wisconsin and poured through books, magazines and speeches given by Filene, Bergengren and Doig. I was more excited than ever about this democratic, social, cooperative, member-owned movement. I wrote many hours each night, typed the lesson plans and shipped them off to the League. I learned so much. I was becoming a real credit union convert.

The training materials had to be tested. After teaching during the day at the high school, conducting credit union business after school and catching a quick supper with the family, I was off to the Wausau Vocational School to meet with 20 or more area credit union volunteers and managers. The materials on paper came to life as the participants shared their experiences. They were hungry for ways to serve their members better. I kept about two lessons ahead of the class. At times, the writing task became difficult, and the honorarium for developing the credit union leadership program was small. I knew each week these people would be coming back for more. If a group from Antigo or Rhinelander could drive 40 to 60 miles in a snowstorm to learn better ways of serving members, I knew I had to keep writing. In the spring of 1965, 22 credit union leadership certificates were presented for successful completion of the course. This was a milestone. We had worked together and shared so much so we could continue the work of credit unions. It's no different today. We must still work together.

Several times during the period I was teaching school and managing the teachers credit union, I examined the potential of a career in credit unions. "How could a small credit union support a full-time manager," I asked myself. There were few credit unions in the $1 million or more category. I knew many credit unions had the potential to grow. I saw volunteers giving up their factory or office jobs to become the first full-time managers. If these people, untrained in business management, could make a credit union a success, I certainly could do it. But every time there was an opportunity to work full-time in a credit union, I was tied to a teaching contract.

In the spring of 1965, I turned in my teaching contract unsigned and joined the staff of the Wisconsin Credit Union League. As a field representative, I knew

I could work in a lot of different credit unions and see how they operated. I learned a lot about management. I saw chances to meet member needs. During the summer, I figured dividends, balanced books, trained credit union personnel in the new Wisconsin Uniform Commercial Credit Code and managed a credit union when the treasurer resigned unexpectedly.

I had called the University Faculty Credit Union at the University of Wisconsin in Madison as part of my league field representative duties. On a hot August day, I suggested a number of new ways to serve members to credit union manager Diedrich Reimer. He had worked with the pioneers Bergengren, Doig and Orchard and had been employed by CUNA and CUNA Mutual. As a young man, he cut his eyeteeth on the credit union movement and the cooperative movement of Canada. I liked him. He had an excitement about credit unions I welcomed, and he liked me and my ideas. He offered me a position as administrative assistant. I would be a management trainee in the $3 million credit union. I accepted the position and the challenge he presented.

"Learn everything you can about credit unions"

"Learn everything you can about credit unions, the operations and functions," Reimer told me. I did. I arrived early and stayed late. He and I talked for hours after the other employees left. He shared the dreams of the pioneers of the movement. He had a special spirit. We didn't label people as mentors in those days. I had never heard the term anyway. I watched everything he did and worked in all the different areas of the small credit union. It was like old home week. I would be a teller, then a loan interviewer and later a bookkeeper. What a learning experience. I also learned a lot about what not to do. Meetings with the state banking examiners provided me with a whole new perspective.

Reimer defended the delinquency ratio of over 8 percent. "Faculty members will miss summer payments when they have no paychecks," he said, and always tried to find a way to make a loan. Sometimes when collateral was a bit short, we would take household goods of all types and varieties. "Collateral is psychological," he would say, and his service orientation and desire to help left a lasting impression on me.

I remember when he helped one member over a Thanksgiving weekend to complete a carpentry project so he could get money to make his loan payments. The project was finished and the member got paid, though the credit union didn't. But Reimer never lost faith in people. He instilled in us the philosophy of people helping people. The legacy all of us should leave for those who follow us is the historical perspective. Share the history, the stories, the perspective.

By February of 1966, I was named assistant manager. I had proven to Reimer and the board of directors that I was management material. In my own mind, I knew I could do the job. There was very little in terms of management education available. The credit union manager had joined a new organization, the Credit Union Executives Society (known as the CUES Managers Society). The occasional newsletters did not seem to be enough.

I enrolled in a master's degree program at the university. All my class work related to credit unions. When I completed a course in personnel management, the credit union had personnel policies, procedures and job descriptions. I shared the results with CUNA and materials were released to other managers. The sharing that took place was refreshing because it seemed everyone wanted everyone else to be a success. The dream of helping members to help themselves with cooperative financial services was shared by non-competing, limited common bond credit unions. A spirit of unity prevailed. We cared about each other.

Real learning begins

In 1966, I was named manager of the credit union. Then my real learning began. Reimer had resigned due to health reasons, but he had provided a quick course in the ten months I worked with him. I was still an apprentice, but when the board president asked, "can you handle the job," I assured him that I could. I could now become a member of the Credit Union Executives Society, and I knew the professional association could give me all the help I might need.

I had to pinch myself a few times. In less than a year, I had gone from management trainee to the manager position. A little luck; perhaps being in the right place at the right time. A little over a year before, I had been teaching about business and having an experience as the manager of a small credit union. Now I was managing a $3 million credit union. Who would have ever dreamed this could happen?

The board of directors was supportive of my new ideas — most of the time. I often wonder what would have happened if they had let me do everything I wanted to do. As I reflect back over the years, it was good to have nine other people concerned about their credit union. When you are in your 20s, you seem to know everything. It was good to have others hold the reins on what could have been a runaway horse.

Reminded of our failings

As the credit union grew, written policies and procedures were developed. The process of providing member service became more formalized. We progressed from hand posting to bookkeeping machines, to batch data processing, to on-line, and finally to our own in-house computer system. Although we did not plan it, it seemed with each new technological innovation, our member service did not carry the traditional approach. Our members occasionally reminded us of our failings. Then they would mention Katie.

I never met Katie Wolfe — she was the treasurer/manager of the University Faculty Credit Union prior to Reimer, who had succeeded her after her unexpected death — but I knew her. After hearing about the ways she helped out in emergencies, extended illnesses and all types of financial distress, I could see how the credit union movement adopted the man with the umbrella as its symbol. Katie was a true example of the credit union helping people to fulfill their dreams. She wasn't a professional by today's standards, but she believed in people and built a solid foundation of service no one could forget.

New policies, however, seemed to prevent us from being as flexible as in the good old days. The words "normally" inserted in new policy statements just didn't give us the latitude to act. Many new federal and state laws and regulations became excuses more than genuine reasons for not being able to do something for a member. So often I'd catch myself and my employees saying:
"Under state law, we cannot.................." It is far better to say, "I'll see if we can find a way to help."

I attended my first Credit Union Executives Society meeting in 1967 at the Americana in Miami Beach. The new activity was the Management Games, all punch-cards and computer action. We would make decisions about a sample credit union as a team, ten of us huddled around tables, scribbling the answers on worksheets to a multitude of financial questions. A professor from the University of Wisconsin used his quantitative analysis background to program the trends. Overnight, the computers worked. It was great to see how well we had done. Wowl The applications of the computer. Never could we guess what would happen in the years ahead.

The meetings also left an impression because of the type of thinking that prevailed. I served on a panel to deal with the issue of granting loans and meeting member financial needs. As the young crew-cutted manager, I presented the views of the new 1967 breed of manager. I talked about the dreams and the realities. It seemed I was in conflict with the views of those who made it through the Great Depression. I said, "My wife and I want a washer, dryer, dishwasher and television now while our family is young. My mother was able to have nice appliances at about the time her children were leaving home. It doesn't make sense to me and other young couples to save for years before you buy the items you want. You should enjoy the items while you pay for them."

A thrift movement or spend movement?

Needless to say, I opened up a hornet's nest. The few young managers who agreed with me applauded weakly. When I got off the stage, I was chastised by older managers and especially the old directors. They warned me about the problems of loose credit, delinquency and the importance of "thrift." One director said, "This is a thrift movement. You are advocating a 'spend' movement."

I could only think about all the people who had a better standard of living as a result of the many low-cost loans I had granted. Edward Filene, the founder of credit unions in the United States, gave impassioned speeches about the need to give people an opportunity to manage their own financial destinies through the wise use of credit. He wanted people to have victrolas, viewing machines, furniture and iceboxes. He used to wind up his speeches with the phrase, "Make no small plans."

I got involved in credit union politics as a chapter president, a league director and a CUNA director so I could build a stronger cooperative movement. Almost everyone involved had a solid interest in unity, preserving the movement, maintaining our not-for-profit status and helping people. The priorities of politicians varied, but for the most part, looking after the members' dreams came farther down the list. They wanted to preserve a heritage without improving it so it could survive. I was amazed over the years how we could debate issues, vote, have winners and have losers, and still we took a united stand and supported programs for the good of the members.

Insuring Mrs. Murphy's savings

In the late 1960s, managers of our Wisconsin credit unions had a dream. We wanted to insure the savings of our members. The Federal Deposit Insurance Corporation provided $10,000 in coverage. Members somehow thought that life savings insurance offered by CUNA Mutual was the same kind of coverage. It wasn't. Art Gilberts, manager of the Menomonie Farmers Credit

Union, used to say: "I want to tell Mrs. Murphy that her savings are insured." He used that line over and over again. There were the drafts, the bills in the Wisconsin State Legislature, hearings and opposition. There were arguments about whether we would call the program a " guarantee" plan or an "insurance" plan. We worked out our differences, we participated, we lobbied, we were united. A dream came true. Mrs. Murphy's savings were insured. I served as the first secretary of the Wisconsin Credit Union Share Insurance Corporation when it opened in 1970. It has since been replaced by Federal Savings Insurance.

There were other battles and skirmishes. When banks started offering time deposits/certificates, we had no vehicle to compete. A temporary obstacle always became a challenge for me and others. We talked, we shared ideas with other managers, we used all types of resources long before "networking" became popular. We decided to issue notes payable. The law said "we could borrow from any source," and we did. Members lent money to the credit union. The state regulator responded with a set of rules allowing us to issue certificates after he found we had a solid legal base.

Money management accounts, share drafts, our own regulatory agency, branching powers and automated teller machines appeared to be dreams. Members for the most part cannot imagine what the involved manager did to see programs come to life. The legislative, legal and communications battles seemed endless. A strong sense of unity, a positive attitude and belief in a dream can and does make the difference. Credit unions are a lot different than they were in some respects, but unchanged in many ways. We are a business with a philosophy. It is timeless.

My wife, Marlowe, got caught up in this work, too. She attended every chapter and League meeting with me. Marlowe knew a lot about credit unions, or so she thought. As public relations director for Madison General Hospital, she attended the annual meeting of the credit union there as a representative of the hospital administration. Because of the interest she showed by her attendance, she was elected to the board of directors. At the organization meeting, she was elected treasurer.

When she arrived home to say, "Honey, I was elected treasurer of the hospital credit union," I had to tell her she was now the manager. She was neither an accountant nor a bookkeeper. Once a week, I would post all the transactions and complete the books. Marlowe helped a lot of people get loans — orderlies, low-paid hospital janitorial staff, nurses, and some interns. More dreams came true.

After showing the new treasurer how to keep books, I thought that there had to be hundreds of new people trying to do this job. I talked with the League and CUNA about developing an accounting course. They liked the idea and we drafted an outline. By 1972, I had completed a basic accounting course along with a practice set of forms and problems. All of the numbers represented one month at the $50,000 hospital credit union. It was satisfying to see the students in the first class learn the new skills to be used in their own small credit unions. For many, this was their first training in bookkeeping.

Zero dollars, easy dividends

Throughout the years, the credit unions stayed close to their sponsors. Being on the premises of the employer group provided protection. The rental rate sure helped the operating expense ratio. Zero dollars for occupancy cost made it easy to pay dividends greater than the competition paid on savings accounts. The toughest job for most managers and their boards was to sever the umbilical cord and build their own building. Most managers in the 1960s had little or no experience in building plans. There were no fancy national firms like Bank Building Corporation and other vendors with consulting services.

There were contractors who had built some bank buildings, but there were few who could deal with 4, 000- to 5,000-square-foot facilities with very limited budgets. We would dream, design, budget, redesign and eventually build after the regulatory agency gave its approval. The cement block buildings were a real dream.

As time went on and the membership grew, the single office just didn't seem to make a lot of sense. Additions were made to the old office. Mazes of unrelated sections and remodeled buildings developed. Management suddenly realized that all members couldn't be served from a single facility. Branching began. Managing became more difficult now that everyone was not under one roof. But here was an opportunity. Each branch could be like the small credit union of the past. Members would identify with "their" branch. They would be recognized on a first-name basis by member-oriented, service-conscious employees. While I was at the University of Wisconsin Credit Union, we opened five offices on the campus. Some had only three employees in a couple of hundred square feet of space. Our promotion heralded these locations as "circles of convenience." The concept worked so well, I duplicated it in Orlando, Florida, with the Navy Orlando Federal Credit Union. From a three-location credit union in 1984, we have grown to a ten-location credit union in 1986. Yes, the area map shows the "circles of convenience." We doubled our asset size as well in the process. Convenience makes the difference.

Circles of convenience

It is a little more expensive to have multiple branches, but I see the small credit union with its personal attention repeated in ten different places. These small units have the benefit of a large asset base, professional management, technological applications to personal service and a wide variety of financial service options available.

If you want to succeed in the personal financial service business, you've got to dream. You've got to be creative. Members are attracted more by real benefits and convenience than by price (rates). Sure, I've learned that loyalty can be measured by a quarter of a percent (25 basis points), but most members will stick with you if you meet their needs. I looked at credit unions as an alternative to banks. While they are alternatives, credit unions are really *cooperative* banks. After serving ten years on the board of directors for Park Bank in Madison, I could see the bank people working to provide financial services in the same manner we were doing it. As a matter of fact, they may have learned how to make consumer loans profitable from us. I remember designing a marketing campaign for a graduate school course in 1968 in which credit unions became "unbanks." The professor said, "the credit union is too complicated to be marketed like a soft drink." I received a B grade in the course. A few years ago McCoy Federal Credit Union in Orlando won an award for its "unbank" promotion in the Society's Golden Mirror Awards program. When I turn on the radio in Orlando, I hear the "unbank" commercials and I see the "unbank" billboards for the competing credit union.

We really haven't competed until recently. "The" common bond, which was based on occupational or associational grounds in the past has given way to "a" common bond. The university credit union became the "University" credit union. Anyone having an association with the statewide university system, including the alumni, (Webster defines them as anyone who attended the university), could join. Overlaps of charters developed. McCoy Federal Credit Union has a cornmunity charter in the South Orlando area, yet several other credit unions exist and operate there. The largest credit union in the world, Navy Federal Credit Union, has branches near other local credit unions. Within the last year, they opened a branch outside the Navy base in Orlando. The Navy Orlando Federal Credit Union is located on the base. We have similar common bonds and yet some subtle differences. The $2 billion Navy Federal Credit Union has made us more aware of the need to provide the best financial service. Our staff is committed to excellence. We have grown faster than ever. Members have received better service at both credit unions — that is our ultimate objective.

Tied into this competition is the merger activity and the fears of small asset-sized credit unions being gobbled up by the large ones. I see more large credit unions helping small ones with accounting assistance, problem solving, marketing resources and even deposits. Navy Federal Credit Union maintains a correspondent system which is open to other Navy credit unions, as well as many others. Their professional staff has been most helpful when I have made inquiries. Those who throw rocks and make complaints would be better off. channeling their energy into serving their members.

Joining forces

Size is an excuse. I see some of the best member service being provided by small credit unions who have a genuine interest in working with members. The bottom line is most mergers come about when one group manages poorly. As part of our cooperative orientation, the larger credit union works with the successful units. In the last two years, I have worked to merge four credit unions. In order that both groups could look good, we referred to our activity as "joining forces." The former members of the merging credit unions could see the action of their board of directors as something positive. The employees and office remained at the old location. There was a new name and many new services. This is cooperation at the highest level.

In order to maintain a competitive edge, I've always tried to build a strong management team. People are motivated when they know they have an opportunity to advance and be promoted from within. The first *assist* ant managers I hired were eager young people who wanted to be involved and who wanted to have responsibilities. They performed, advanced and made me look good in the process. They won me the "Credit Union Executive of the Year" award in 1985.

In recent years, I've added a number of young college graduates to fill key positions in the future. Having professionally-competent assistants makes it easy to compete and survive. It also allows the executive the chance to move to other management positions and opportunities in other credit unions. They're all part of a larger succession that charts the future of the organization.

Combining the best of history and the future

Recently I started a management trainee program at Navy Orlando Federal Credit Union. As I look ahead, we will have new lines of business, including: real estate brokerage, insurance, discount stock trading, mutual funds, financial planning and commercial loans. We're developing eight young men and women who have been with us a short time to be the officers (assistant vice presidents and perhaps vice president) to carry on.

For us, the future depends on the development of the human resources who can make sound decisions and implement them while "keeping purpose constant," and I'm sharing with them the stories of the past. A historical perspective is vital in keeping our cooperative movement alive. Together in our monthly meetings, we review the latest management fads, methods, innovations, experiments, successes and failures. Yes, failures. I want some risk-takers, people who can learn from mistakes; people who will not be intimidated by the limits of laws, policies and other people's thoughts. We need people who can combine the best of history with the best for the future.

The credit union movement was built on the wishes and dreams of these risk-takers. Without their enthusiasm and drive, we wouldn't be serving the members we do today. And without their commitment to people, we wouldn't be serving them as well as we do today.

If we can judge the future by what's come before, then it's no secret that as credit union executives, we'll continue to face greater and greater challenges as our movement continues to change. We've come from ledger book to micro chip in what, by universal standards, is just a flyspeck in time, and there's no telling where our institutions will finally end up. But our driving force of member service will never change. It sets us apart, serves as our reason for being and breathes life into all that we say and do for our members.

I still remember how I felt as a young teacher when I received that first loan from the credit union to pay for my wedding. That charted my course toward the fulfillment of my own personal American Dream. And that's something I continue to try to do for my members every day that I'm open for business.

Chapter 10

When is a manager an executive? According to Henry C. Klein, it's when he stops managing a function and begins understanding the need for that function.

In the beginning, credit unions understood who they were and what they're limited service portfolio was able to provide members. What they needed was someone to manage those functions to make sure schedules ran right, dividends were paid correctly and institutions remained consistently solvent. Many executives refer to those as "the good old days."

But today's credit unions require much more professional leadership, much greater understanding and a need for the person who runs them to be the highest caliber in order to help address the greatest number of issues. That, Mr. Klein says, is where the executive function begins and it is the managers who work for the executive, not the other way around.

Credit union leaders have struggled for a long time to go from manager to executive, both in their decision making capabilities, as well as the understanding on the part of their staff, board and members. It's a natural and vital progression, no matter what the size of the institution, and eventually it will happen, if only out of necessity.

We may still find executives being referred to as managers, but in virtually all cases, they will understand their roles as an executive function and see the need for increasingly greater professionalism to help their members share the American dream.

H.C. (Hank) Klein is president of Tyndall Federal Credit Union, a $125 million financial institution serving governmental groups and located in Panama City, Florida. He joined the credit union movement in 1967 as supervisor of the collections department at Patrick Air Force Base Credit Union and in 1971 moved to Egland Federal Credit Union as cashiering collection manager. He's managed Tyndall since 1979.

Mr. Klein is actively involved in state and national affairs of the credit union movement and serves as treasurer of both the National Association of Federal Credit Unions (NAFCU) and Southeast Corporate Federal Credit Union. He is a member of the National Credit Union Administration (NCUA), Region Three Advisory Council and the Florida Credit Union League Governmental Affairs Committee.

From Manager to Executive- The Importance of Continued Professional Commitment

by H. C. Klein

Managers as chief executive officers of credit unions are a dying breed . . . or so we hope. A manager by definition "manages" operations, departments and functions, and as credit unions grow in size and complexity of operation, managers tend to move down the ladder, not up.

When a credit union is in its formative stage, the day-to-day operations responsibilities fall on the shoulders of the elected treasurer. As the credit union grows, these duties become, out of necessity, a full-time job for the infant credit union's first full-time employee. This person may be called a manager, office manager or general manager depending upon how the treasurer or board sees the responsibilities of the new position.

As the credit union continues to grow, more and more employees are hired to serve members, and the responsibilities of the CEO continue to change. Departments are formed and leaders are hired to "manage" these departments under titles such as assistant manager, loan manager or accounting manager. As growth continues, branch offices open to serve members unable to conduct business at the main office. These branch offices are managed by . . . you guessed it, branch managers.

Throughout this evolutionary process, the duties of the CEO are also changing. Nb longer is this top manager making share withdrawals or approving loans. No longer is the CEO handling the overdrafts, past due loans or share certificate renewals. Even his/her office has been moved from the front lobby to the second floor to be away from day-to-day traffic. The CEO is slowly changing from a manager to an executive.

Credit union leaders are a lucky lot. They have been given the opportunity to grow with their industry, particularly during the past 10 years. Occasionally, this growth has been forced and, in many ways, has separated the "men from the boys" both for managers and for credit unions themselves.

During the '50s, '60s, and early '70s, the vast majority of credit unions had "managers," not executives, with the responsibility of knowing the regulations and operating under them. I can recall knowing boards of directors who came to monthly meetings with the Credit Union Act and standard bylaws under their arms. During the meetings, many decisions were preceded by "a look at the Act."

Managers prided themselves in being able to quote the specific article and section explaining exactly how dividends should be calculated and paid. Even the maximum rate was regulated. Not much changed from year to year, or for that matter, since 1934, when the Federal Credit Union Act was passed. There wasn't much for an executive to do in a credit union, which is the primary reason our industry was filled with managers.

There were few true executives then, few individuals with the vision to make things happen in their credit unions in spite of regulatory restrictions. In the early '70s, I was fortunate to have worked for an individual whom I would definitely classify as an early executive. He ran Eglin Federal Credit Union in Ft. Walton Beach, Florida, and his name was David L. White. Mr. White (I've never called him by his first name — respect I guess) came to Eglin in 1963 from the NCUA, where he had served as an examiner. When he took the management reins, the credit union had $3 million in assets. When he left 16 years later, it was the 10th largest in the nation with $205 million in assets.

Management with a vision

This growth didn't just happen. Mr. White once confessed during a speech in a Dale Carnegie course that his goal for Eglin FCU was to have it be the largest financial institution in Okaloosa County, Florida. Okaloosa County had 10 other financial institutions and a population of 95,000 in 1979. Yet Eglin Federal Credit Union had 85,000 members and it had only one sponsor, Eglin Air Force Base.

That's because Mr. White had vision. He knew what was possible and, even though our movement was still heavily regulated, he always found a way to turn a problem into an opportunity. In 1971, with $33 million in assets, Eglin FCU was one of the first credit unions to employ a full-time investment manager. In 1972, the credit union had one of the movement's first marketing directors and by 1977, the marketing department employed not only a marketing director, but also a writer, a graphic artist, and a secretary. Eglin FCU had its own darkroom for developing photographs and its own studio for recording commercials.

During the '60s and early '70s when dedication to one's employer was out of fashion, Mr. White's employees were devoutly dedicated to both the credit union and the executive that ran it. He never used the word "I;" it was always "we." He never demanded or even asked, instead he "suggested." I know deep down that a lot of what I am today came from my association with this pioneer credit union "executive."

Many industries in our country are the same today as they were 20, 40 or 50 years ago, but many others have undergone drastic face-lifts, including the trucking, airline and financial industries. Even the trucking and airline industries didn't change until recently. The fares were set by the government as were the routes. But not any morel

Airlines are changing daily. Look at People Express for example. They were the up-and-coming airline, with no-frills flights that were the talk of the industry during the past few years. Their pilots and other personnel owned part of the company and were expected to work for a much lower wage than other "regular" airlines. Two years ago they were the model for others to follow; today they've been bought out.

On the other hand, Continental Airlines was a prosperous, languid airline prior to its bankruptcy a couple of years ago. Bankruptcy had a way of waking them up, however, and today they are strongly bouncing back as a low-cost airline.

Mortgage loans by the bushel basket

The same is true in the financial services industry. Savings & loan associations offered low-yielding mortgage loans by the bushel basket, filling their portfolios when interest rates skyrocketed in 1979. In the early 80s it was fashionable to start a new savings & loan. Many new ones were formed, but today many of them are failing due to their unorthodox lending practices. Management lost sight of traditional savings & loan values and invested in commercial loans instead of the standard home mortgage. Now they're suffering identity crises and many use the term "savings bank." Are they savings & loans or banks? Even they don't know.

We all lose sight of traditional values. In the airline industry, the savings & loan industry and, yes, even the credit union industry. In the early 80s, some said all financial institutions would look the same (the threatened homogenization of the financial institutions). This attitude was in the forefront during the introduction of the Depository Institutions Deregulation Commission (DIDC). The DIDC was formed to orchestrate the orderly dismantling of Regulation Q that had served as the equalizing force for the banking and thrift industries since the '30s.

Because of massive bank failures that occurred after the great stock market crash of 1929, the American public needed the confidence that only the federal government could give to a worried populace. That confidence came about through Federal Savings Insurance and increased federal regulation, including Regulation Q, which limited the maximum amount of interest that could be paid by banks and thrifts.

When the DIDC was formed to handle the orderly phase-out of Regulation Q, many individuals, both in and out of the credit union movement, had the notion that without regulation all financial institutions would be the same. Not true! The same voices were heard when credit unions won the right to legally offer their members share drafts. Individuals who did not understand the meaning of the words "credit union movement" assumed that offering a traditional banking service would make credit unions banks. Again, not true!

The lack of a simple regulation telling people how much they can pay on a savings account does not change the soul of a financial institution any more than an increase in our weekly paycheck changes our basic values of life. The ability to make decisions based upon member needs and based upon good business sense has, in and of itself, turned many managers into true executives and caused many other managers to leave credit unions because they couldn't adjust to the rapid changes in the financial industry and the movement.

Three monumental changes

Our federal agency, and the leader behind it at all times, have had possibly the greatest impact on the changes that have occurred recently in credit unions. Edgar Callahan, former chairman of the National Credit Union Administration, was the right person in the right place, at the right time. When he came to the agency he "took the bull by the horns" and immediately made long-needed changes allowing credit unions to get a competitive edge in the financial world in providing new and expanded services to their members. Three monumental changes that stick in my mind include the total deregulation of shares, liberalization of the field of membership concept and capitalization of the share insurance fund.

A complete deregulation of shares was unheard of in the financial services industry. While the DIDC had been formed to dismantle Regulation Q, its timetable for doing so extended from 1981 to 1986 — five years. Callahan deregulated us in one fell swoop in 1982 . . . a full four years ahead of banks and savings & loan associations.

One shoe nailed to the floor

This gave credit union managers who had been managing their funds with "one hand tied behind their back and one shoe nailed to the floor" free rein to do whatever they wanted with share accounts. The rules no longer applied. What an opportunity for a manager to spread his wings and become a true executive! Many did just that.

Many of the more innovative executives developed money market accounts in their credit unions before they were allowed in other types of institutions. Some developed adjustable rate loan programs so they could always pay market rates on shares. Others tried all sorts of novel certificate programs.

The same thing happened when Callahan liberalized the field of membership. Many credit unions were satisfied with their niche, but many credit union *executives* believed that the millions of individuals who did not have credit union service should not be forced to start a new institutionjust to experience the credit union difference. They welcomed "outside" groups into their institutions, and their community was a better place for all.

During Callahan's tenure at the NCUA, many say he *ran* credit unions, even though he was careful to say that his *predecessors* did, that he was only putting the power in the hands of the individual credit unions' boards of directors. That had been the practice until Callahan came to Washington. When he took the reins at NCUA, he turned the tables on the trade associations. Suddenly he was suggesting changes, and those changes were significant. The trade associations had just as hard a time as the credit unions in keeping up with Callahan. Many said that credit unions were becoming just like banks.

Credit union executives, however, know in their heart and soul that just offering additional services will never make a credit union a bank any more than selling autos through an auto brokerage service will make us car dealers or selling stamps to a member will make us a post office. What makes us different is that we are a *movement*, not just a business or industry. One of my former employees once told me something that I've never forgotten: "You know," he said, "I think the credit union is just about as close as you can get to going to church." I totally agree!

I mentioned he was a "former" employee. I've changed credit unions, moved up the ladder; he's left the fold. Seems he just never understood what credit unions were all about. He didn't realize that credit union salaries are low (although this is changing in the more enlightened credit unions); that the work is demanding, the hours are long (both on and off the job) and that real satisfaction comes from helping the members. But it is a sense of purpose that I firmly believe separates us from other financial institutions. Our purpose is to help our members with their financial needs, not make a profit. While professional management must be concerned with costs, efficiency of operations and operating ratios, the true professional never loses sight of our overriding purpose . . . service to members.

With our gradual change from an industrial society to an informational society, the definition of service changes almost daily. Take a simple share withdrawal. Is it service when a member comes to the credit union to see an old familiar face and request the withdrawal in person? Or, is service being able to call the credit union by telephone and request that the withdrawal be made available for you to pick up at a branch office close to your home, or deposited in your share draft account? Or is service having the ability to simply write a check and use your check cashing card to guarantee payment to a merchant?

Or is *real* service the ability to withdraw that money from an Automatic Teller Machine at any hour of the day or night, or through the use of a touchtone telephone audio response system?

Well, the fact is that all of the above falls under the service category, and the American public is demanding more and more. The truly professional credit union executive recognizes the needs of the membership and satisfies those needs through whatever service mechanisms make sense for those members.

For some credit unions, that simply means friendly tellers for the members to request face-to-face withdrawals; some call this high-touch. For high-tech credit unions, on the other hand, members may prefer much less interaction with staff and may turn on to state-of-the-art services like audio response or ATMs.

No matter whether we use "high-touch" or "high-tech" methods at the credit union to provide service, we must never forget our members are the center of that service.

We had a very successful experience when introducing our audio response system by trying to "humanize" an otherwise mechanical service. After finding out that other credit unions had experienced only marginal acceptance from members when ARS services were introduced, we asked why. We received many answers (usually guesses) but they all boiled down to the fact that members did not perceive a real need for the service and were reluctant to use it for fear of doing something wrong.

The fear of high tech

To overcome this fear of "high-tech," we not only gave the service a human name (Genie, the Touch-Tone Teller), but we also actually *made her human* by hiring a model to be our new service. She (Genie) had a "high-tech" type uniform (jump suit) and actually introduced our new service to the membership at the annual meeting, in lobby demonstrations and in a news conference covered by various local media, including both local television stations.

Was it really worth trying to make "high-tech" services "high touch"? We believe so, noting that another Florida credit union about our same membership and asset size introduced an ARS service at the same time we did. They also gave their service a human name, but didn't go to the extent that we did introducing it. At the end of the first three months, they had signed up 700 members to our 3,700 during the same period. Today we have 11,000 members signed up for ARS who conduct 28,000 transactions a month. We have always believed the old axiom, "If it's worth doing, it's worth doing right." We would much rather forgo a service that isn't going to be used or useful to a majority of the membership than install a useless service or do a halfhearted job. That's another part of the growth process.

As credit unions mature and managers grow to be executives, many CEOs complain of loosing touch with daily operations and member contact. Others say it often seems the credit union is running them instead of the other way around. It's not easy being a CEO of a large organization. You must delegate or nothing will be accomplished. It just isn't possible for the CEO of a large, full-service organization to know all the members or know everything about the daily operations, but the CEO must still maintain control, and this takes communication skills.

Having a vision of where your credit union is heading and being able to communicate that vision to your board of directors, staff, management team and the membership is one of the largest responsibilities of a true credit union executive. If done well, the credit union will take on the eyes, hands, mind and heart of the executive, operating as if the executive was making every decision. That is because everyone around him will believe in the same ideals of the credit union movement as he does. Service to members will come first.

Many executives are not completely satisfied with just providing service to their members, and volunteer their time and energy to assist their credit union at a higher level. Involvement with other credit unions, including corporate or central, state leagues and national trade associations allows the executive to stretch his/her mind while helping his fellow man and his own credit union and its members.

Some credit union managers and boards believe such " outside" activities will require the executive to share his time and energy, thus taking from the credit union that employs him. Nothing could be further from the truth, if the motives are properly placed. Serving your fellow man through volunteerism can be one of life's greatest satisfactions, at the same time providing added depth for the credit union executive.

My first voluntary service came courtesy of the Credit Union Executives Society in 1973, when I was elected to the board of the Society's Florida Council. I'll never forget that experience. My former boss, Dick Filip, nominated me even though I was only an assistant general manager at the time. He gave me many of my first breaks in the credit union movement.

I first served as a board member, then treasurer, then president. I was very proud when, as an assistant general manager, I was presiding over council meetings with some of the best financial executives in Florida. When I became president of the council I put my all into the responsibility. It was our 10th anniversary year. I worked my tail off during that great year filled with local excitement, national recognition and wonderful opportunities for growth.

Professional commitment

All this, and I was only an assistant. It goes to show that anyone who really puts their mind to the challenge can not only manage their own responsibilities at their credit union, but can take on greater responsibilities in the movement and truly make a difference. This is true whether you are a chief executive, an elected volunteer or a staff member of a credit union. If you really put your mind to the task at hand and you are committed, you can make a difference. We are a fast-growing, dynamic movement with unlimited potential, and having true professional commitment is vital to the transition process that makes a manager an executive.

Mike Welch is president of the Credit Union Executives Society and has headed the Society staff since 1971. Under his direction, the Society has nearly tripled in membership, budget and the number of programs and services it offers. He is responsible for the overall activities of the Society and supervision of a staff of 16. He answers to the Society's board of directors, whose policies he is charged with carrying out. He represents the Society at numerous meetings and conferences, and has given presentations on management and financial subjects to many credit union organizations. He frequently authors management-oriented articles for trade and association publications.

Post Script

by Mike Welch

Almost from the day I first discovered credit unions back in April of 1969, I've had a personal dream: "To increase the awareness of credit unions as unique financial institutions to the point where absolutely everybody in the world knows, understands, belongs to, is excited about and uses a credit union."

It's my version of an American Dream that I want to share with you now.

As a one-man crusade, I decided early on to tell everyone who would listen (and some who wouldn't) that credit unions, although they've been around for just about as long as I have, are an idea whose time has come. Friends, neighbors, relatives, business acquaintances, trade press reporters and editors, consultants, speakers, hotels, suppliers, other credit union organizations, other financial services industry association executives and association executives of all kinds, writers, cab drivers, bankers and audiences I frequently face as a speaker. All have heard my endless intoning about the greatness of credit unions.

At first, I didn't really think I had a lot to say that was new. But I was surprised more than once, when I stopped long enough from waxing eloquently about credit unions and credit union people, that I was, in fact, spreading the gospel of a not-so-new idea that keeps getting newer. Endless numbers, though, were hearing the good news of credit unions for the first time.

Many people simply had never heard of credit unions. That's true even today! That's my fault. That's your fault. That's the fault of everyone who is as enthusiastic about credit unions as I am and doesn't tell the world. It's a permanent agenda item of the Credit Union Executives Society, as a professional society serving an important segment of the credit union world: the credit union professional and staff support troops, whether they be staff members, directors or credit union members themselves.

Every time we discuss credit union success stories, (and there are hundreds of them), we become more dedicated, if that's possible. After all, there's no reason why every living, breathing soul throughout North America and beyond can't belong, be active in and take advantage of all the unique features of credit unions.

I am often cautioned about being mislead just because credit unions finally looked professional. Offering the ulim ate in services, having a distinct awareness of their reason for being, with the members foremost in their minds, top-of-the-line computers, the most convenient facilities, and the sharpest staff and the only dedicated volunteers serving financial institutions, doesn't mean that credit unions are not different. They are!

No matter how much the "trappings," — the brick and mortar and the creative marketing materials, for example — look like those put out by a competing financial institutions, the credit union still has members, not customers, and is owned by those members as share holders. Despite the fact that it has been stretched more than the original founders ever envisioned, the field of membership is still a field of membership and there is still a common bond. Credit unions are non-profit, but that doesn't mean being poorly managed to the point of disappearing from the face of the earth at a pace equaling that of the banking industry.

Far from it! Credit unions have never been more successful. They have never grown faster. They've never had more assets. They've never had more services. They've never served more members. They're a good idea that just keeps getting better.

How has all of this been possible? It would take another book like this one to do justice to answering that question. Maybe someday we'll do just that. But for now, one important answer is that credit unions are now attracting and improving top management talent. The professionals who handle the daily operations of credit unions have become extremely skilled at the craft of management. And they are full of vision. They know how to manage a credit union because they have the education, the on-the-job experience and training and the technical smarts. They combine all of this with dedication and an understanding of purpose and long-term goals better than any other financial institution executives can imagine.

Skilled marketers readily agree with current management gurus whose books are skyrocketing to the top of best-seller lists everywhere, that success can only be achieved if you know and understand: 1) who you are, 2) what business you're in, 3) why you're in that business, 4) who you're serving and, 5) how best to serve them. I've just described not only the new breed of credit union management but also the authors of the 12 chapters in this book.

Sharing the American Dream is a first. It's a showcase for some very knowledgeable credit union executives to explain in their own words what has worked for them and, in turn, what has worked for credit unions everywhere.

We never thought we could pull together 12 diverse individuals from different parts of the world, running credit unions of different types, sizes and geographical locations, and ask them to write about 12 different topics and have it come out making sense under the overall banner of *Sharing the American Dream.*

But we are risk-takers at the Credit Union Executives Society. We felt we had a good idea and that we could make it work. We were convinced we would come up with a product that would be inspirational and informative. We feel that we represent some of the best thinking in credit unions. Our members, individually and collectively, are a major reason why credit unions today are the fastest-growing financial institutions, serving more members in more creative and convenient ways than at any time in credit union history.

But my purpose here isn't to tell their story. It's only to add my appreciation for the authors' willingness to squeeze out a few more minutes in their already all-too-busy schedules to define a small slice of an American Dream that they, and hundreds more like them, have helped make possible.

We are proud to be responsible for this book because we are fiercely proud of each and every author, what they have to say, how they say it, and the contribution they have made and are continuing to make to credit unions. Yet, they are just the tip of the iceberg of a whole bunch of dreamers out there still determined to tell the exciting credit union story to everyone — everywhere — over and over again, until the world is completely saturated with credit union members. Wouldn't that be great? That's my personal American Dream!

Personal financial independence is a dream that's shared not only among North Americans, but by all people who live in democratic societies. Since first being developed at the turn of the century, credit unions, more than any other financial institution have helped their members make that dream come true.

In *Sharing the American Dream,* the executives themselves speak out about the importance of credit union tradition, the current financial climate and how they will help their institutions cope with the changes today and in the near and distant future.

Sharing the American Dream is a volume for anyone who has ever run a credit union, worked on its staff, served on its board or enjoyed the benefits of being a member. In a very real sense, it's a guide to the future of the credit union movement, and the dream of personal financial independence for people everywhere.

credit
union
executives
society