CREDIT UNION 2.0

A Tale of Three Credit Unions

by Sarah Robertson

Part I.

January 2014

CREDIT UNIONS: AN HISTORICAL PERSPECTIVE

Credit unions were pioneered as democratic loan institutions first established to offer a financial opportunity to workers and their families of the early 1900's. Each credit union is founded by a sponsoring employee group and proudly serves consumers (member-owners), but also serves small businesses through affordable products, services, loans and communities at large through goodwill and philanthropy. The cooperative nature of credit unions has held strong for decades and is not only admired today, but is in heightened demand from both small business owners and multiple generations of consumers (member-owners) alike. Credit unions are not-for-profit cooperatives that serve a unique economic niche in the financial institution industry. They are held in high esteem and are near and dear to their member-owners and their communities at large. Credit unions fill a niche that today's consumers need more than ever before- financial options and low fees. **But can they thrive- or even survive- in today's economic climate?**

STATE OF THE FINANCIAL MARKET

Financial institutions nationwide are feeling the pain of dwindling revenues and higher expenses due in large part to fewer loans and perpetual low interest rates. To offset this, financial institutions have been consolidating, a practice which has been rampant over the past few years. While large financial institutions have been able to gobble up the smaller ones to leverage their expenses, working capital, and buying power, this option seems out of reach to the moderate-sized credit union, which is at risk of becoming irrelevant or worse, disappearing altogether. Consider this: over the past 10 years, credit unions have dwindled nationwide, but in the State of Wisconsin, they have decreased at a greater rate from 300 to 190!

The biggest threat to the moderate-sized credit union, by far, is the increased regulation being imposed by the federal government in the wake of the 2008 recession. This regulatory burden includes security updates, mandatory ATM and equipment updates, and a whole host of monetary compliance issues. For smaller and mid-sized financial institutions, it is strangling the very life out of them.

There is little relief in sight. In fact, the burden is getting heavier. There are new federal restraints on the horizon, the advent of new technology is making the market for customers more competitive, and growth will continue to be stunted by the loan and interest climates. For most credit unions, scale and sustainability are distant dreams.

ABOUT THE AUTHOR

Sarah Robertson is a well-respected consultant to the financial industry through her firm *Enthusiastic Executive.* Ms. Robertson has held CEO positions in both small and mid-sized credit unions in Wisconsin. She was brought into the Credit Union 2.0 project described herein to coordinate the implementation of the Collaborative Merger Model.

INFLECTION POINT OF THE CREDIT UNION MODEL

This brings into question the entire credit union model - is it viable and sustainable? When the viability of any business reaches this strategic crossroad, it is said to have reached its "Inflection Point." Or as Andy Grove of Intel puts it, "the old way of doing business must give way to the new in order to survive." Credit union executives are kept awake at night over this Inflection Point: how can they compete and thrive? At what point does scale and improved efficiency create opportunity for success and a thriving financial organization? The business realities are daunting: revenue growth has slowed, margins have declined, and credit union operating expenses have increased. One of the most disconcerting developments of late is that the National Credit Union Administration ("NCUA") has beefed up its examiner ranks and has encouraged them to increase pressure on credit unions which are unable to comply with the annual capital requirements. The unspoken ultimatum seems to be, "find an acquisition or merger partner, or we will do it for you." Credit unions are developing strategies towards choosing merger partners, but not without discontent. This goes against the independence and autonomy enjoyed by credit unions over the past several decades.

THE PRINCIPLES OF THE CO-OP MODEL

Credit unions were founded on the 7 Principles of Cooperation (see sidebar). These principles date back to some of the earliest co-ops that formed in England in the 1800s. To this day, they still form the foundation on which co-operatives around the world operate, hence the word "Co-ops" in our lexicon. Anyone who is a member of a credit union will recognize these 7 founding values.

The most worrisome development is that the current regulatory and business climates are putting the credit union's most valued principle at risk: the Principle of Independence. In fact, credit union executives are in the same situation that our founding fathers were in when they drafted the Declaration of Independence. Consider the parallels:

The 7 Cooperative Principles

1. **Voluntary, open membership:**
   Open to all without gender, social, racial, political, or religious discrimination.

2. **Democratic member control:**
   One member, one vote.

3. **Member economic participation:**
   Members contribute equitably to, and democratically control, the capital of the cooperative. The economic benefits are returned to the members, reinvested in the co-op, or used to provide member services.

4. **Autonomy & independence:**
   Cooperatives are autonomous, self-help organizations controlled by their members.

5. **Education, training & information:**
   Cooperatives provide education and training for members so they can contribute effectively to the development of their cooperatives.

6. **Cooperation among cooperatives:**
   Cooperatives serve their members and strengthen the cooperative movement by working together through local, regional, national and international structures.

7. **Concern for the community:**
   Cooperatives work for the sustainable development of their communities through policies accepted by their members.

Source: International Co-operative Alliance (ICA)

THE DECLARATION OF INDEPENDENCE

The genesis of our Declaration of Independence is a story of courage, great vision and passion that literally changed the course of history of all human kind. In the early 18th century, our 13 original colonies were under King George III and the British Rule. Parliament enacted a series of measures to increase tax revenues, which ultimately resulted in the Boston Tea Party and other demonstrations of our discontent.

Our Founding Fathers saw an opportunity of the "most stupendous magnitude" to change the course of history and provide them a chance to be great instead of just dreaming of being great! They saw a new nation ready to take its place in the world, not an empire, but a republic. A republic of laws, not men.

They found themselves in the very midst of a revolution; the most complete, unexpected and remarkable of any in the history of the world. The Founding Fathers acknowledged that a free constitution of civil government could not be purchased at too dear a price, as "there is nothing on this side of Jerusalem of greater importance to mankind." They believed in inclusiveness, that ALL men should be afforded this republic of laws and a democratically run society. This form of government was an experiment which ultimately succeeded.

It did not come without a price. The Founding Fathers sacrificed family, careers, and businesses to make this happen. They chose to participate, set aside differences in political ideologies, personal and moral beliefs to compromise - COLLABORATE - to offer their voice and DECLARE something so profound that from that day on, the course of history was forever altered!

They passionately and eloquently crafted the essence that is woven into the fabric of our national culture, and named it the Declaration of Independence.

And that is the basis under which we developed Credit Union 2.0.

> "Collaboration is one of the first solutions offered by roomfuls of credit union CEOs and leaders: "If we would just collaborate, we could..." Insert your own answer: gain market share, drive down expenses, become consumers' favored financial institution. The list is long, and each goal comes with a grain of truth. We can do these things, but it's more fun to envision the payoff than to plan for the many intermediate steps collaboration requires."
>
> – By George Hofheimer, Chief Research and Innovation Officer & Ben Rogers, Research Director, Filene Research Institute

ENTER CREDIT UNION 2.0 – OUR DECLARATION OF INDEPENDENCE

As the Founding Fathers of our great nation recognized a need to say "enough is enough," three Wisconsin credit unions chose to create **Credit Union 2.0: A collaborative merger model by which all merger models will be judged and all future models will be emulated.** Credit Union 2.0 is a process and a belief that these brave institutions will not waiver on. The Three collaborative credit unions are:

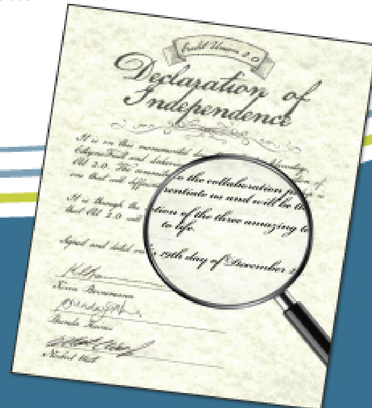
CitizensFirst Credit Union, Oshkosh, Wisconsin
Lakeview Credit Union, Neenah, Wisconsin
Best Advantage Credit Union, Brillion, Wisconsin

WHY A COLLABORATIVE MERGER?

First and foremost, the stakeholder/member-owners ultimately benefit from improvements through economies of scale brought about by a collaborative merger. Economies of scale make a difference in efficiencies, technological services, regulatory expectations, and knowledge-sharing through innovative advancement.

Merger is not a four-letter word! The word merger has received negative press as organizations have taken the "PAC-MAN" approach of gobbling up other organizations with little regard for the stakeholders, the clients or the employees. The credit union industry has not been insulated from this merger stigma, and it is begging for a more sincere and heartfelt approach. "CU 2.0 was founded for this very reason," asserts Kevin Ralofsky, CEO of Citizens First. "Consumers and members need a break today, and we're in tuned to that need."

"How few people and organizations have the opportunity to choose a system to collaborate and say 'enough is enough?'" asks Tammy Williams of Best Advantage. "We chose to take a stand and make a difference in our memberships' lives," asserts Ralofsky. "And we have one shot to do it right," summarized Pat Lowney, President/ CEO of Lakeview Credit Union.



A Tale of Three CU's

These three brave credit unions were willing to take a stand and voice a Declaration for the Credit Union Movement and for their member owners. They chose to be the Founding Presidents of Credit Union 2.0. The leaders- Ralofsky, Lowney and Williams- recognized that the industry had reached an Inflection Point. In this courageous step, they were willing to set aside egos and differences for the greater good of their organizations, members and communities. This unified front formed the basis of a collaborative relationship that would propel the new model forward.

March 2013 – The Napkin Sketch. Like most great business ideas, CU 2.0 was sketched out on a napkin between Kevin Ralofsky (CitizensFirst) and Tammy Williams (Best Advantage), but something was missing for the Collaborative Merger to really work well.

April - Building Something Better. Kevin Ralofsky meets with Pat Lowney (Lakeview Credit Union) and talks of a 3-credit union Collaborative Merger begin. Lowney had completed 5 mergers, where he prided himself on creating Partnerships, not just the "typical merger." The 3 CEO's discuss this new charge with their respective Chairmen and Vice Chairmen of their Boards of Directors.

May - Due Diligence Begins. The 3 CEO's bring Management Teams into the fold and the teams begin working in earnest.

June/July – Strategic Planning. The CEO's start mapping out strategies.

August – Enter the Enthusiastic Executive. The CEO's approach Sarah Robertson as the Coordinator of the Project. She encourages them and keeps them on task to perform Due Diligence.

The team is now "3+1= New CU 2.0 Strategy Team, committed to a Collaborative Merger." Sarah's model of High Trust and Low Ego is adopted. The Chairs begin discussions on the structure of the new Board.

September – Pillars of Success. The CU 2.0 Strategy Team outlines the framework for the project and agree on a New Business Model built on specific indicators, which they call the Three Pillars of Success. Merger models are crafted. The first Board presentations take place.

October - Need More Great Minds. Three Executive Teams are added; the Strategy team is now 7 + 1 great minds. A second presentation to the Board of Directors is made. All 3 Management Teams come together (approx. 35 individuals) for a presentation made by the CEO Team.

November – Rules of Engagement. The CU 2.0 Strategy Team is acting as one Executive Team and begins to develop Rules of Engagement. They commit to bringing the "Best of the Best'" that their credit unions can offer to collaborative merger.

December – Signing of the Declaration. Teams are developed and committees are formed to ensure employees and members are taken care of. Three Boards of Directors **UNANIMOUSLY** vote "YES" to the merger. Celebration includes a Declaration signing by the 3-Chairpersons.

I. Financial Stability and a Strong Business Model
II. Talent Management and a Strong Learning Organization
III. A Culture of the Seven Cooperative Principles

The Collaborative Merger Business Model

The framework for the project needed to include a strong Business Model to better serve the membership. This was built on specific indicators, which they call the Three Pillars of Success:

I. Financial Stability: Financial Strength and commitment to a pre-determined set of performance metrics was non-negotiable to the team. In a collaborative effort, the financial "Box" model was designed to align the financial philosophies. The "Box" compared all three credit union financials in a very transparent way; and allowed for frank discussions of how to capitalize on their financial strengths, while helping to fill the gaps. This was done for the greater good of the new organization, because together they are better. "Stronger financials allow us to be good stewards of our credit union dollars," asserts Bob Matz, CFO of CitizensFirst Credit Union.

II. Talent Management and a Strong Learning Organization: The greatest asset of the credit unions are their employee teams. The teams were hand-picked and have been loyal for many years of service to their credit unions and member owners. All agreed that the new organization must hold dear its talent and recognize that in today's market, great talent is a precious commodity.

III. The 7 Cooperative Principles: The CEOs will continue to maintain the existing culture of the 7 Cooperative Principles, and to weave them into the very DNA of the new CU2.0 organization.

MAKING HISTORY TIMES THREE

HIGH TRUST - LOW EGO

One of the most significant collaborative achievements was the three Chairmen coming to an agreement on a new Board of Director structure. They delivered this with dignity and class. The next event of significance was to see all three Board of Directors teams vote unanimously in favor of the CU 2.0 project. At a celebration meeting following the unanimous Board votes, the three credit union Chairpersons inked the "deal," signing their own version of the Declaration of Independence in unanimous support of Credit Union 2.0. "We wanted to build something better together," stated Brenda Haines, Board Chair of CitizensFirst Credit Union.

Next, the three CEOs began working together in a collaborative setting, putting their egos aside for the greater good and leading by example with the collaborative charge. Then, their 4 Executive Vice Presidents were brought into the fold, cross-pollinating the collaborative effort and creating synergies to achieve positive planning results.

PROACTIVE APPROACH

Finally, the CEOs took an unprecedented approach and presented their CU 2.0 Collaborative Merger model to the State Department of Financial Institutions (DFI). The DFI was so impressed that they encouraged them to proceed and commended the 3 CEOs for their proactive consideration. No credit union merger team ever considered getting the DFI 's acknowledgement prior to the voting process.

BEST AND HIGHEST USE

It is also important to note that in the spirit of putting egos aside, the new CU 2.0 would only have one CEO, Kevin Ralofsky. The CEO's of the two merging organizations agreed to accept collaborative positions of purpose utilizing the "Best and Highest Use" of their talents. The collaborative goal in doing so was to capitalize on their strengths, and to fill in any gaps that the newly collaborated organization may require. This demonstrates their stated value of creating a win-win opportunity for all, starting at the top of the organization.

> “Credit Union 2.0 not only declares our responsibility and charge to profoundly impact our communities and hold true to the 7 Cooperative Principles; it is a model for all people, businesses and groups to reset their sights on what matters most. The rest will follow.”
>
> -The Founding Presidents of CU 2.0

END OF PART ONE

This completes Part One of the CU 2.0 story. The Team will continue planning, and refining the roles and model in anticipation of a positive vote of the members. The memberships of Best Advantage and Lakeview Credit Unions will have the opportunity to vote on the proposed merger at their Annual Meetings in February and March 2014.

Once finalized, the newly merged credit union will undergo a name change reflecting the collaborative spirit. The members of CitizensFirst Credit Union will vote on a name change rather than a merger, since the charter number of CitizensFirst Credit Union will be used for the new credit union. Once finalized, this collaborative partnership will leverage $600 million in combined assets, with 10 branch locations serving 47,000 members throughout 15 counties in Wisconsin. This historic merger will be the first of its kind in the state of Wisconsin, according to the Department of Financial Institutions.

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