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Switching to a Community Charter Does Not Mean They Will Come

By *Joyce Moed*

Throughout the past 10 years, many vendors and CUSOs have witnessed credit unions convert from SEG-based charters to community-charters. This change involves adjustments for both the vendors and CUSOs. And for the credit unions themselves.

"There are significant pros and cons to the charter-change question that need to be heavily weighed by credit union executives and boards," said Lisa Renner, CEO of CU Holding Co. LLC in Lenexa, Kan. "Just because you change the charter, it does not mean they will come."

First, consumers must be educated about what a credit union is, Renner said. Second, they need to have a compelling reason to join the credit union over another financial institution. And third, they need to be made aware they are eligible to join.

"This is a lot of information that has to be communicated to the new target audience, so it has to be broken up into small bites. And one bite isn't enough," Renner said. "It takes many exposures to a consistent message to cut through the clutter. Therefore, the process of attracting new members takes time and substantial investment. Additionally, the financial service market space is saturated, and consumers demand high levels of convenience, superior service and vast product offerings."

Renner advises credit unions to evaluate their offers against the market before making the change and be prepared to make adjustments that will provide competitive differentiation. She said this is where vendors can help.

"CUSOs can be a resource for broadening the offer without building from scratch," she said. "Changing to a community charter typically broadens the market potential significantly for a credit union–so much so that it can certainly be worth pursuing. If the credit union is committed to a long-term growth strategy, and is willing to make the investment, it can absolutely pay off."

David McConney, executive vice president, client services for Harland Financial Solutions in Orlando, Fla., said that as many of his company's credit union clients expand their membership footprints, Harland Financial Services is experiencing increased demands to serve as the primary partner. CUs want delivery of the solutions and services necessary to ensure they remain competitive and have the ability to serve this growing member base.

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"This broader and more diverse member base requires that the credit union have additional options and delivery channels in various areas, including business intelligence and marketing, in order to assist the institution when communicating and promoting to various member segments effectively," McConney said.

This includes self-service, particularly in the areas of Gen X and Gen Y, he said, business services for small businesses and outsourcing to help offset many of the day-to-day burdens credit unions are currently facing.

"To accommodate this trend, we have had to reprioritize in these areas to ensure our time to market is met for the client base, as well as rethink and expand our service offerings," McConney said.

Larger member bases are also resulting in additional challenges for credit unions and vendors, particularly in the areas of regulations and compliance.

"With the onslaught of regulations, and a foreseeable continuation of this trend, we've shifted our focus in order to commit our efforts and resources largely to helping our clients manage this risk and remain in compliance," McConney said. "Credit unions also persist in looking for ways to gain more efficiencies, which has driven us to focus on delivering solutions and services that assist in these strategic areas. And helping our clients offload some of the operational and security burdens has led us to develop new outsourced services to support these tasks so the credit unions can focus on what they do best–serving their members."

GrooveCar Inc., in Hauppauge, N.Y., has had many of its credit unions change to a community charter.

"We were then faced with the challenge to change with the times or get washed away by them," said David Jacobson, president of GrooveCar. "We spent each day researching and fine-tuning how we would continue to be the solution credit unions required in order to service their members and grow their auto-lending business."

The strategy they came up with was to provide each credit union with a personal identity while still using the power of the credit union movement as the driving force.

"Like a football team, each player has critical personal goals, but the championship belongs to them as a team," Jacobson explained. "The team provided the ability for the individual to succeed. Many in the banking community believe community charter credit unions will cannibalize themselves. However, our credit unions did not forget that gaining market share as a movement and to continue to build the credit union brand as a whole continues to be critical to them individually."

Jacobson agreed that the transformation of credit unions from SEG-based charter to community charter comes with many new challenges but said that GrooveCar's ability and the credit unions' willingness to maintain this cooperative environment in spite of these challenges has paid off.

"GrooveCar's credit union market share is at an all-time high and the dealer network is more cooperative than ever," Jacobson said. "The only thing that is certain is change and the challenges that come along with it. The key is not to fear change but to embrace the opportunity that change provides. A prepared and proactive environment is necessary in order to meet them head on."

William McGuire, CEO of McGuire Performance Solutions Inc. in Scottsdale, Ariz., said the one area where there are no transition challenges is in the service culture.

"Fortunately, the high service culture characterizing successful credit unions seems to readily translate when entering the community charter world," he said.

But that doesn't mean there's adjustments needed in other areas.

"The most obvious change from narrow SEG to community charter involves returning service delivery solutions–no more in-factory, narrow-hours-only branches, for example," he said. "I suspect the cost of being service competitive in what is the community bank space that community charters play in has surprised many credit unions."

It's not just branches to build, staff and operate, he explained, but also more full function websites, and Web-service capabilities–where costs can add up quickly.

McGuire said the most interesting thing he has observed about community charter versus SEG credit unions is the behaviors of core deposits.

"We long ago noticed that forecasts of future supply and retention behaviors based on statistical analyses of historic credit union data showed that core deposit behaviors for community charter credit unions were much more comparable to core-deposit behaviors for similarly sized community banks and thrifts than to behaviors for size-comparable, narrow SEG credit unions, which are very specific to the type of member," he said. "That tells me that community charter credit unions very quickly adapt to competitive conditions in their deposit markets. Since market conditions are usually set by banks, some of the uniqueness of the credit union experience is lost, at least with respect to core deposits."

One advantage of a community charter that McGuire thinks is not given enough emphasis is that it removes potential SEG-based constraint on growth.

"The whole community, not just the SEG can join," he said. "In the current environment this is very important, as the minimum survival rate of credit unions is shooting up in light of new regulations, service and delivery expectations, and regulatory preference for few credit unions. Bigger is indeed better here because mass generates the needed income to fund costs and create increased equity. Without the community charter I don't see how many credit unions can attain a large enough size to survive."

That said, McGuire noted that growing larger can actually bring challenges, such as the credit union message of small credit unions getting lost.

"I would also expect more regulatory scrutiny as asset size rises, especially related to being able to quantify how balance-sheet risks–such as interest rate, liquidity and credit exposure–are being measured," he said.

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