2008 National Credit Union CEO Growth Study©

CEO Advisory Group, LLC

Trusted Advisors to Credit Union CEOs & Boards

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CEO Advisory Group serves as a trust-based advisor to credit unions providing mergers and acquisitions, growth planning, valuations, career and succession planning. CEO Advisory was the first M&A consultancy with an exclusive focus on the credit union industry. Our goal is to successfully ensure members, communities, board and staff all win in mutually beneficial mergers.

CEO Advisory Group, based in Kent, Washington, was founded in 2004 by three of the credit union industry's most trusted advisors, helping boards and CEO's wrestle with the challenges of growth planning, marketing and competitive positioning, branding and staff culture building, and management succession planning. We've worked with 12 of the nation's top 100 credit unions and advised credit union CEO's and boards of all sizes on how to not just succeed, but thrive in these challenging times.

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Executive Summary

The trend of declining credit union membership, coupled with an aging population is a dire warning sign for the long-term growth and health of the industry. There are signs our industry could be in a downward spiral.

When the growth of indirect lending members (which are not necessarily "real" members) is separated from total member growth, the results are even more dismal. Recent member gains in 2007 are highest among a smaller handful of large and medium sized credit unions with some anomalies driven by mergers.

Community charter expansion, still thought by many CEO's and boards to be a panacea for fast new member growth is not providing most CU's the results they had hoped for. In fact, the data suggests it is not yet proving a viable growth strategy for the majority of credit unions gaining the FOM expansion and failing to fully capitalize on it.

Massive bank and non-bank (ING, GMAC Bank) competition, aggressive deposit pricing, a robust bank branch building renaissance, and strong investments in marketing, branding and technology are a few of the factors impacting either positive or negative growth results for many CU's today. These factors will only increase in the years ahead.

To be successful at turbo-charging membership growth, credit unions must successfully grow the bottom line with existing member relationships while carefully managing expenses, but also allocate adequate resources to growth strategies that truly make a difference.

In our White Paper study, we look at the factors which are most strongly driving successful performance, the strategies being pursued by the nation's CEO's and contrast the vital strategies that may not be getting prioritized for long-term growth and success.

Approach

CEO Advisory Group conducted the 2008 Credit Union CEO Growth Strategy Survey to identify the range of growth options and strategies being considered and utilized among the CEO's of credit unions across America. A total of 118 CEO's from credit unions ranging from $5 million to $2 billion provided insights, challenges facing the industry and growth problems they see that will impact the success of the industry overall.

Those leaders' questionnaires were combined and analyzed and the results were added to data from national research and analysis of the performance and trends among credit unions the past three and five years, and long-range trends we've found emerging that could have great bearing on the health, growth and sustainability of the credit union industry.

CEO Advisory conducted an analysis to gain insight on the strategies that drive credit union membership growth. The 5300 Report provides an excellent proxy for understanding credit union strategy. We performed a variety of data analyses to glean insight into membership growth differentials among credit unions. Among other analyses, we conducted a regression analysis of the 5300 reports for credit unions over $500 million in assets. Our regression analysis indicated that there were very few factors that were statistically significant in their contribution to membership percentage growth.

One of the driving factors facing leaders of the credit union industry is the poor relative performance of growing core new members to credit unions. While there are a number of individual success stories, as an industry the trend of declining membership is an ominous sign and a warning to be aggressively dealt with.

This White Paper attempts to quantify the most important issues CEO Advisory Group sees facing leaders seeking to ensure the growth of their organizations, and the movement as a whole.

Overview

SUMMARY CONCLUSIONS – 7 KEY DRIVERS TO ACCELERATED GROWTH

Results from the 2008 National CEO Growth Survey were combined with an in-depth industry analysis of 5300 Call Reports conducted by CEO Advisory Group. This analysis of national trends data has helped us **identify at least 7 significant variables** that are demonstrating increased growth performance and **potential "growth keys to success" for generating higher productivity**. They include:

- *Focus on a niche*
- *Build brand awareness & effective sales/service culture*
- *Expand and enhance delivery systems*
- *Competitive deposit rates & differentiated product offering*
- *Make mergers a priority*
- *Focus on Achieving Economies of Scale and Scope*
- *Strong Leadership*

As we approach 2010, the credit union industry is faced with a delicate balance of needing higher growth for survival, and a banking lobby trying to limit and curtail that growth and related powers. Embattled regulators are taking a very cautious and conservative political stand that is clearly hindering some credit unions in pursuing what they believe to be the most advantageous FOM's, growth markets and strategies available to them. The resulting limited growth of membership in the industry since 2000 must be addressed with a well-focused growth strategy, not simply the prevailing exodus to community charters alone.

STATE OF GROWTH IN THE INDUSTRY

The rate of membership growth has been declining steadily since 2000 and has sunk to low single digit growth levels. There has been a recent 2007 surge just in the last three quarters.

CEO's were generally pessimistic for new member growth of credit unions in the future. Many noted that credit unions would prosper only if they had four key strengths: **1) a strong market position and FOM, 2) regulatory relief so they can spend more time running the credit union, 3) stronger branding and marketing, and 4) solid expense management** – a challenging combination without adequate scale and with an increasingly challenging economy. One CU CEO shared this comment:

- *"The future for small to mid-sized credit unions ($10-50MM) appears very dim. Increasing cost of doing business as a full service CU coupled with increasing compliance/regulatory and fraud control issues are major constraints. Only CUs with a good market positioning and strong branding will be able to prosper."*

Real new member growth this decade is worse than the old 80/20 rule

The top 20% of credit unions accounted for 97% of asset growth and 99% of all member growth the last three years as demonstrated in Table 16 - Growth Attributed to Largest CUs. The twenty-five largest credit unions generated 30% and 27% of membership growth the last three and seven years, respectively. This three percentage point differential may be an indication that the largest credit unions are becoming even more dominant in generating member and asset growth. **The top 5% of credit unions gained three-quarters (74%) of all new members in the three year period ending 2006**.

The membership growth situation is quite dire for a very large segment of credit unions. **Since 2000, 45% of credit unions have had negative membership growth** and over half (57%), have averaged less than 1% annual growth as shown in Table 1 - Membership Growth by Asset Size.

Table 1 - Membership Growth by Asset Size

Annualized Membership Growth by Credit Union Asset Size Since 2000						
	Percentage of Credit Unions					
Annualized Growth Rate	Total	<$10MM	$10MM - $50MM	$50MM - $100MM	$100MM - $500MM	$500MM Plus
Less than 0%	45%	59%	41%	29%	20%	8%
0% - 0.5%	6%	6%	7%	6%	5%	2%
.05 - 1.0%	6%	6%	7%	7%	6%	5%
1.0% - 2.5%	15%	13%	17%	18%	18%	16%
2.5% - 5.0%	15%	9%	16%	22%	26%	33%
5.0% - 10%	10%	5%	9%	15%	20%	29%
10% Plus	2%	1%	3%	3%	5%	7%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Sources: SNL & CEO Advisory Group						

Smaller credit unions are particularly struggling. **Over half of the credit unions below $10MM in assets have had negative membership growth.** The situation isn't much better for credit unions between $10MM and $50MM, where 41% experienced negative membership growth since 2000.

Who is Really Growing New Members?

Only 12% of credit unions the past seven years have sustained a membership growth rate exceeding 5% annually. The largest credit unions, those over $500MM in assets, have consistently higher growth rates. The majority of this peer group (33%) grew between 2.5% and 5.0%.

Do CEO's Believe Low Growth is a Problem?

We were somewhat surprised in the 2008 CEO survey to see that a handful of credit union CEO's believe growth is not important to their future:

- *"We are a single sponsor credit union and focus on providing a benefit to the members and employees of the company. We are not concerned about growth."*

There still remain a number of advantages to being a single sponsor, narrowly-focused credit union that help maintain the common bond and drive some new member growth, but generally only if they are in an industry, state or area with stable to growing trends. In today's volatile economic times and shrinking state, federal and county budgets, that remains a significant challenge.

Faced with rising costs of funds and lower margins, a competitive credit crunch magnified recently by sub-prime lending losses and resulting member payment impacts and bankruptcies, growth has been incredibly difficult for all but a minority of credit unions in 2007 and this will extend into 2008. These trends suggest most credit union leaders should be worried about future growth over the long and short term – and doing something besides simply talking about it.

Are Credit Unions Reaching a Mature Stage or Even Peak to Future Growth?

CEO Advisory Group believes the data and trends suggest the credit union industry could be reaching a mature stage of its evolution that requires a much stronger look at productive growth strategies to reverse this low growth trend.

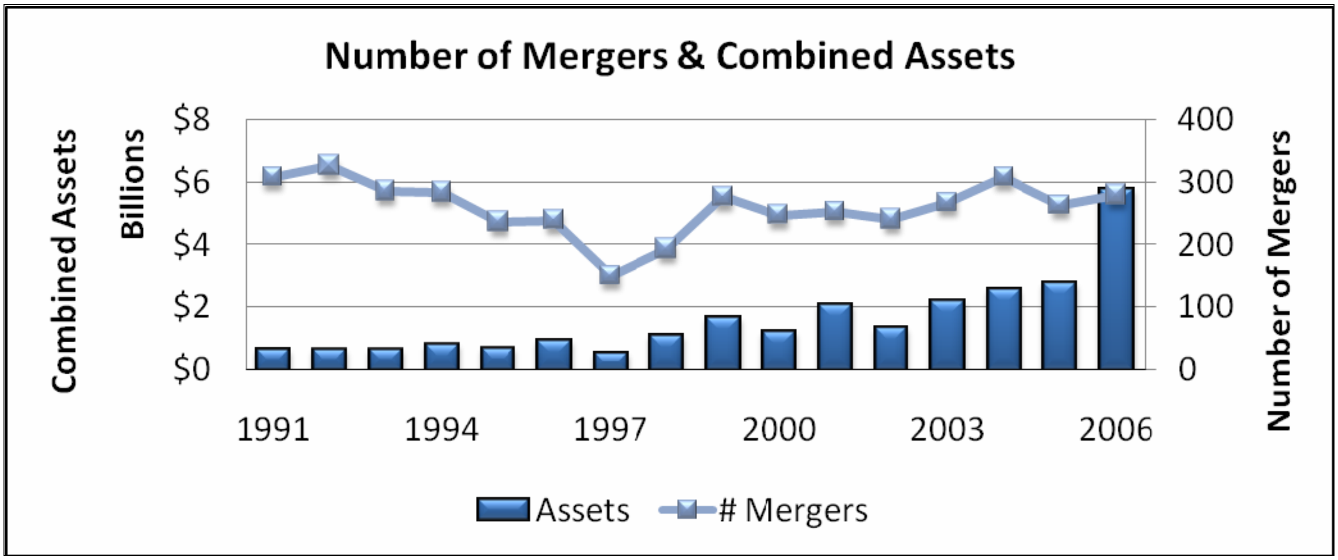
In some aspects the trend resembles at least in part, the savings and loan and insurance industry challenges that watched as their products and customers matured, earnings grew thin and they began aggressive shifts to alternative growth strategies, new product development and profit enhancement programs. These included higher risk lending into markets beyond their core competency, some with successful results and some with disastrous consequences. **The potential for credit unions to enter such higher risk markets lacking the necessary leadership skills, risk controls and resources is very real for some credit unions, as already seen from losses in indirect lending, sub-prime mortgage portfolios and business lending activities.**

INDUSTRY CONSOLIDATION

Facing negative membership growth, high operating expenses, and regulatory burdens credit unions are turning to mergers not just as a last ditch effort, but as a strategic means to enhance the value proposition to their membership. We are seeing many of our credit union client CEOs and boards realizing the strategic importance of mergers and the ability to combine forces with another credit union to gain economies of scale and scope as a viable strategic option. These credit unions are often not satisfied with the incremental gains of organic growth, but want to supercharge their credit unions to truly have an impact on their market and their members lives.

Consolidation of the industry is occurring at a rate of about 3% of credit unions per year. The average asset size of mergers has also been steadily increasing. In 2006 the combined assets of merged credit unions nearly doubled to nearly $6 Billion. A large part of this increase, but not exclusively, was the consolidation of State Farm credit unions into a single entity. We expect the average asset size of mergers to continue to grow as more and more credit unions realize the benefits of strategic partnering in their ability to compete.

Figure 1 - Number of Mergers & Combined Assets

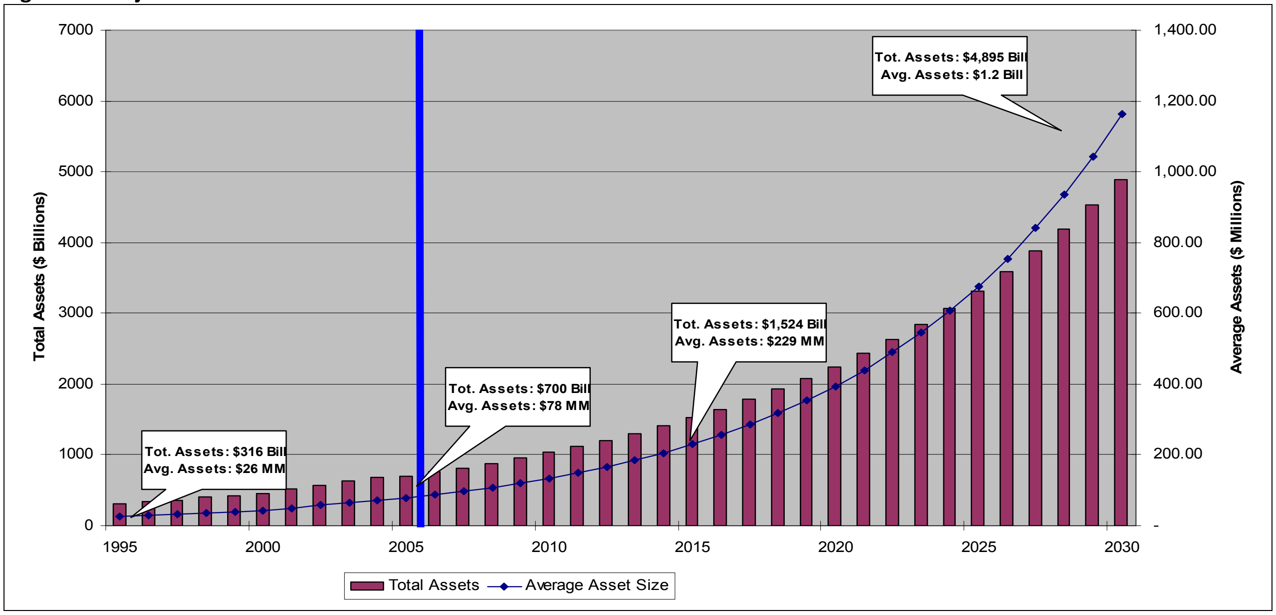


PROJECTED INDUSTRY/CREDIT UNION GROWTH

The credit union industry of the future will look very different from the industry of today or as we knew the movement just 10 years ago. As the credit union movement continues to consolidate and the strong credit unions add members and deposits we will see a continued consolidation of the industry's resources among mega credit unions.

In 2005 the credit union industry had a combined $700 billion in assets and the average credit union asset size was $78 million. Looking out 10 years to 2015 we project an average asset size of $229 million. Extrapolating out only 25 years to the year 2030, we project credit unions with an average of $1.2 billion in assets. This suggests we are about to see significant changes that will reshape the industry forever in the next five years.

Figure 2 - Projected Asset Growth



With the changing structure of the industry where growth has occurred primarily among the largest credit unions combined with a strong value proposition these credit unions are able to offer members, it has become imperative for credit unions to aggressively pursue growth in order to be positioned for the future. We believe maintaining parity with peer group credit unions, or the "status quo," is no longer enough to survive the future and retain increasingly demanding members amidst aggressive competition. Credit unions will need to pursue aggressive growth strategies to thrive in an environment of mega credit unions, internet banks, aggressive local banks and emerging alternative financial providers like ING and USAA who have captured hundreds of millions of deposits with their online high rate savings and checking products.

In the sections that follow we outline the high level strategies we believe will be imperative to successfully position your credit union to thrive amidst the challenges ahead.

Seven Key Growth Drivers

The purpose of this white paper is to bring a focus to the industry leaders and volunteer boards of why growth is vital to turning the declining trends around and building a thriving industry. This will require new growth models using the most effective methods and tools available to succeed. Our research and analysis has identified what we believe to be the 7 Key Drivers to Healthy Growth.

The seven key growth drivers include:

- *Focus on a niche*
- *Build brand awareness & effective sales/service culture*
- *Expand and enhance delivery systems*
- *Competitive deposit rates & differentiated product offering*
- *Make mergers a priority*
- *Focus on Achieving Economies of Scale and Scope*
- *Strong Leadership*

Growth Key #1 - Market Selection – Niche Focus

Key to credit union success is selecting the appropriate field of membership (FOM) and the market segments within that market they can be successful at attracting. Further, credit unions must delve into the sectors of the market that are perhaps being underserved, and where their strengths can be leveraged. Credit unions must find their niche and fully align their organizations around serving that niche with an unparalleled value offering. The market and the niches can be segmented effectively on the basis of geography, demographics, lifestyles, attitudes/beliefs, ethnic groups, occupations, employer groups, etc.

Credit union growth is fueled according to healthy and growing fields of membership. Struggling credit unions often have stagnant or declining sponsor companies, are located in geographic markets with poor demographics, or have poor locations, or market position in a hyper-competitive market. Credit unions with large or rapidly growing sponsors, or fast growing market areas seem to be able to do no wrong; they are able to leverage the success of their sponsors. Credit unions with growing FOM's that also have solid demographics they can capitalize on with family member growth are able to thrive even deeper in market share penetration with well focused marketing and referral programs.

As stated by one of the responding CEO's: *"Our growth will occur with a broadening of our FOM to a community, but will require increased and creative marketing to be successful."*

Many smaller credit unions are struggling with how to compete once they've lost the support of their original sponsor. Often, they apply for and receive community charters in the vicinity of their headquarters, but too often this is a poor geographic or demographic market, yet regulations restrict them from neighboring communities with outstanding demographics that could fuel their growth and financial performance.

When considering their primary growth strategy, survey respondents **gave the highest ratings to deepening penetration of their members over markets, with "*increasing market share*" (4.35) falling second to "*higher share of wallet*" (4.65) on a five point scale.** Significantly lower in importance is "increasing the market size" (3.4).

Do some FOMs have better performance than others?

Table 2 illustrates growth among different FOMs for credit unions with assets exceeding $500MM. **Education based credit unions lead the pack with 11% asset growth.** Credit unions serving the transportation industry on the other hand had negative growth. **Community credit unions were among the top in growth for large credit unions at 9.6% growth.** However, community credit unions rely heavily on indirect lending to fuel their membership growth. **When adjusted for indirect loans, net membership increased 6%,** which is about average with the peers. *CEO Advisory Group's growth strategies for our clients have begun to prioritize direct membership growth tracking as a key component of healthy growth so that most credit unions unable to retain indirect members as core members, are not "fooling themselves' by a constantly churning membership base as single service indirect members pay off loans generally within 24 months or less and end their membership.*

Overall field of membership expansion is a low priority for most credit union CEO's; **only 1/4 of the survey respondents are considering a change to the credit union's FOM within the next three years.** And of those considering a change, nearly **nine-tenths (88%) are considering a community charter.** ***This continued reliance on community charters to fuel new member growth will prove challenging for many credit unions in the absence of sound growth strategies, convenient branches and ATMs , well funded marketing budgets, and a well focused business development and brand programs.***

Table 2 – Growth by Field of Membership

Growth by Field of Membership Credit Unions Over $500MM in Assets						
Field of Membership	**Count of FOM**	**Average of Total Assets 2006**	**Average of Mbr Growth**	**Average of Net Mbr Grwth**	**Average of Yield on Loans (%) - 2006**	**Average of Cost of Dep - 2006**
Associational - other than religious, fraternal, or low-income	1	562,243	1.4%	1.4%	5.59	3.54
Community, urban or rural, not low-income	26	1,168,983	9.6%	6.0%	6.42	2.70
Educational	1	6,815,130	12.9%	12.1%	6.14	3.25
Federal, State, Local Government	3	1,295,356	9.5%	8.4%	6.30	2.43
Manufacturing - all other	1	961,668	-2.8%	-2.8%	5.76	3.55
Manufacturing - chemicals	1	671,548	-3.6%	-3.6%	6.25	3.38
Manufacturing - petroleum refining	1	963,217	8.8%	8.7%	5.65	2.98
Military	1	27,121,892	12.3%	12.3%	7.02	2.78
Multiple group - other	11	1,152,754	9.5%	7.4%	6.43	2.72
Multiple group - primarily chemical	2	1,829,340	6.5%	5.1%	6.59	3.38
Multiple group - primarily communications and utilities	3	2,328,554	5.2%	1.7%	6.06	2.78
Multiple group - primarily educational	15	1,286,498	11.0%	9.1%	6.51	2.61
Multiple group - primarily federal, state, local government	12	1,196,758	6.9%	7.4%	6.34	2.73
Multiple group - primarily finance, insurance, real estate, trade	3	650,425	-0.3%	-6.1%	6.25	2.93
Multiple group - primarily military	18	1,979,744	5.4%	4.3%	6.36	2.62
Multiple group - primarily other manufacturing	9	933,827	4.5%	3.3%	6.01	2.41
Multiple group - primarily petroleum refining	1	582,992	4.3%	3.1%	6.19	2.49
Multiple group - primarily transportation equipment	7	1,598,373	-7.5%	-8.5%	5.93	2.68
Other	126	1,342,103	7.6%	5.3%	6.31	2.76
Service - finance, insurance, real estate, trade	1	2,166,601	6.9%	6.9%	5.31	2.98
Service - transportation	2	2,874,711	-2.1%	-2.4%	5.81	3.65
Grand Total	**245**	**1,482,213**	**7.1%**	**5.0%**	**6.31**	**2.74**
						Sources: SNL & CEO Advisory Group

Which market segments should the credit union pursue to succeed?

In the hyper-competitive markets in which credit unions are competing, credit unions must have clear goals for market share penetration and target market expansion. Consumer segmentation, targeting selected demographic groups and establishing a meaningful, differentiated brand position and tailored service strategy are key determinants in generating increased market share.

Seizing the market opportunity to bring meaningful and relevant products and 24/7 access to an emerging "unbanked" younger generation (Gen Y, aged 14-29) that doesn't yet know or prize credit union brands is one of the more significant demographic segment challenges faced by credit unions. Reaching these younger markets will also require a sound technology plan, robust online services and savvy marketing strategies.

While smaller- and medium-sized credit unions are the ones that struggle the most with new member growth, within each peer group there are numerous credit unions that have generated successful member and asset growth. **A key ingredient to their successful growth is finding and nurturing a unique market niche. The statistics show that Community Development credit unions are, in fact, among our fastest growing credit unions.**

Somewhat surprisingly, **credit unions under $100MM held the top five spots for the fastest growing credit unions since the beginning of the year 2000.** Following is a list of the five fastest growing credit unions for new member generation:

- *Credit Unions United of Kansas, $92MM in assets, had the highest membership growth rate of 2061% or 55% annualized since the beginning of 2000. During that time the credit union grew from 760 members to over 16,000 members.*
- *Second on the 21st Century Membership Growth List with $19MM is Generations Community CU based in North Carolina. This community development credit union has grown membership at an impressive 47% annualized rate, growing from 778 members at the start of the century to 11,800 members at the end of 2006.*
- *Hope Community Credit Union, a community development credit union serving Mississippi, Louisiana, and Arkansas, was ranked the third fastest growing credit union this century growing at a 42% annual rate. The $50MM credit union has grown from nearly 800 to over 9000 members, this, in the first 7 years of this century.*
- *Services Credit Union, in 4th place, is a credit union organized by the Illinois Credit Union League's Service Corporation to provide credit card services for members of participating credit unions.*
- *Rounding out the top five for membership growth this century is Philcore Credit Union. Based in Puerto Rico, this $5MM credit union is a multiple common bond credit union focusing primarily on the refining industry.*

In which geographic markets should a credit union compete?

Market selection should complement a credit unions' desired market segments in order to gain maximum leverage on delivery and marketing strategies. Successful credit unions have core competencies, or hire consulting expertise to conduct a geo-demographic market assessment to identify desirable local market characteristics to match their strengths. The market selection may focus on one of the following:

- ***High growth markets with desirable target markets the credit union has success attracting***
- ***Infill key markets for deeper market share penetration***
- ***Organic expansion from core market to take advantage of target market adjacencies and efficiency***
- ***Or, expand into new small markets with limited competition in a wide geographic area***

What tactics are credit unions using to serve niche markets?

Survey respondents are using a wide variety of tactics to select and serve their target markets and grow new members, including:

- *"Strengthening relations with SEGs and sponsors"*
- *"Building relationships with high schools and colleges"*
- *"Recruiting student members from universities"*
- *"Serving the underserved, including those with poor or no credit"*
- *"Lending to the youth market"*

Credit unions seeking to attain robust growth should focus on gaining a strong and growing Field of Membership (which may **not** be community charter for many who can't support the hard work and cost). Expanding market share with a strong focus on specific targeted demographic groups that compliment the credit union's brand is of paramount importance. **Many credit unions should consider pursuing more limited competitive markets, including less "overbanked" locations.** Credit unions are uniquely positioned to seize the market opportunity to bring meaningful and relevant products and 24/7 access to an emerging "unbanked" generation (Gen Y) that doesn't yet know or prize credit union brands, but is seeking education, information and guidance to make decisions.

GROWTH KEY #2 - BRANDING, MARKETING & SALES FUEL POSITIVE GROWTH

Many CEO's share the opinion that a unique brand, name recognition, backed by adequate resources for aggressive marketing will be keys to success in the future for all credit unions. This remains a major challenge to most smaller- and medium-size credit unions competing in a growingly aggressive marketplace. Two CEO's shared their perspectives of these challenges:

- *"The biggest challenge for credit unions competing in the "open market" (community) is lack of name recognition & understanding of what credit unions are. In our market, for example, we have several large banks with branches near our own. Although we have better rates, better service and lower fees than these banks - we struggle to gain market share. Despite our marketing efforts, consumers still tend to go with what they know and the brands they are familiar with."*
- *"Our growth will occur with a broadening of our FOM to a community, but will require increased and creative marketing to be successful. Branding and uniqueness is critical to our success. Diversity of our subsidiary companies will also play a hand with growth. We have been fairly successful over the past six years with use of subsidiaries."*

Credit union leaders in the 2008 Growth Survey recognized strong marketing and branding are essential ingredients for success. Our 5300 Call Report research also supported a positive correlation between marketing expenditures and positive growth.

Credit unions that achieve a consistent level of media saturation in their markets generate higher awareness and facilitate brand preference to accelerate their new member growth. There is already a barrier of mis-information in the public about the ability to join a credit union that must be overcome and marketing helps play a role in overcoming that hurdle to create awareness first, then interest and action.

Key to branding success most leaders agree, is finding those meaningful characteristics on which to differentiate the credit union's unique strengths. **Self-Help Credit Union and Hope Credit Union are examples of two community development credit unions that highly differentiated their brands, focused on unique niches and have achieved exceptional new member growth.** They found underserved market niches and have completely aligned their organizations on serving the specific needs of these markets.

Service quality has traditionally and will continue to play a key role in credit union's brand value, but increasingly, friendly service has become the norm at most credit unions and community banks, not the exception. Higher service quality ensures retention, but without a sales culture, does not necessarily increase product purchase likelihood, or automatically increase referrals. As identified by the credit unions participating in the survey, **not just service alone, but a sales culture is a key ingredient to success.** This allows product and service opportunities to be uncovered with smart questions and dialogue with members and converted into sales. **Unfortunately, however, "sales" is still perceived negatively by many of the credit union CEO's that may need it the most to grow.**

Neglecting the vital "service moments of truth" can be detrimental to your credit union's growth. We find this particularly common for many smaller struggling credit unions. **How many boards are patting themselves on the back for the "friendly service" they are providing members, yet scratching their heads wondering why they have had low to negative new member growth for years?** *Simply walking into a poorly designed and antiquated credit union branch, or going to a poorly branded and confusing web site quickly reveals they do not promote the brand promise, or value proposition they must convey to attract new and younger members.*

How do CU CEOs perceive marketing's importance in facilitating growth?

Credit union CEOs indicated that *marketing, branding and advertising,* together with *internal sales culture* and *expanded web and online banking* are the most important business strategies driving their growth efforts as shown in Table 4 -- Business Strategies to Facilitate Growth. **Nearly 50% of CEO respondents indicated that they had a high level of focus on marketing and/or internal sales culture.** These strategies are consistent with the primary growth strategy reported by the majority of respondents to increase relationships with existing members.

The challenge for many credit unions will be to allocate sufficient resources to build awareness, or make an impact in over-banked, or bank saturated media markets.

Will increased marketing drive additional growth?

We conducted an analysis of the credit union industry to uncover correlations between higher investments in marketing and higher growth rates and found this correlation is neither instant, nor automatic with vast differences in market sizes, marketing costs, and varying degrees of marketing strategies. Our findings were somewhat mixed as illustrated in Table 18 -- an analysis of growth among credit unions with over $500 million in assets.

This table segments credit union into quartiles on the basis of their four year growth rate. Faster growth was correlated with total marketing expenditures. However, there was an aberration when marketing expenditures were analyzed as a percentage of assets. The slowest growth quartile, which also contained the smallest credit unions, had a higher marketing expense-to-assets ratio than the credit unions in the second and third quartile.

A regression analysis of the same data suggested a lag effect between marketing expenditures and growth.

Small credit unions have the greatest correlation between the marketing expense ratio and growth. In a study we conducted of growth rates among credit union over a six year period starting in 2000, credit unions with negative membership growth during this timeframe had a marketing expense ratio of 0.06% of assets. High growth credit unions (with annualized growth exceeding 5%) had a marketing expense ratio twice as high, 0.12%. Credit unions in the larger peer group asset sizes, spent more on average on marketing, but did not always show as direct a correlation between growth and marketing expense ratio.

What marketing, branding and sales tactics are credit unions using to generate growth?

- *"Emphasizing that every employee provides the very best personal service with every opportunity."*
- *"Bank at work – External sales reps will spend time at our SEGs and Core sponsor groups in excess of 50% of the week with abilities to open accounts, complete apps and complete simple member tasks, saving members trips to our office. Members make appointments for more complicated matters."*
- *"Involvement of Volunteer-representatives from FOM-chartered communities by appointment to the Board of Directors. That assists the Board and Sr. Management to create new opportunities in communities for growth and greater share of market penetration."*

Growth will be attained by differentiating a credit union's brand and value proposition both internally and externally to the marketplace. Long-term significant investment in marketing (not just a modest percentage of assets) must be made to generate brand awareness of your credit union in the market and create "switching" decisions. This marketing must be complimented with a robust sales culture and business development focus with targeted goals and plans.

GROWTH KEY #3 - BRANCH/DELIVERY SYSTEM CONVENIENCE EXPANSION

Our research confirmed our hypothesis that membership growth is very highly correlated with branch expansion and convenience. This aligns with national studies and our clients' member research concerning the importance of branch convenience to selecting a PFI (Primary Financial Institution).

Is branch expansion an important facet of future CU growth plans?

Branching growth ranks surprisingly low among CEOs on strategies for fueling growth, despite the fact members are increasing their demand for branch convenience, in addition to 24/7 technology. Oddly, only a small percentage (14%) of credit union CEOs surveyed agreed that "*branches are a major driver of membership growth*". Furthermore, less than 50% reported having no market analysis or branching plan for their credit unions. Half of the survey participants had not added branches the last three years. The good news is that a number of credit unions indicated a substantial increase (21%) in new branches the next three years.

Increasingly larger credit unions are systematically planning for branch expansions and are using sophisticated market analysis and location planning to optimize their branch networks. Yet, in many cases credit unions' expansions are constrained by regulatory requirements that limit the ability for more advantageous and timely property purchases and greater use of capital.

For many smaller credit unions branch expansion or relocation may be one key to their survival. Yet, they do not have the financial resources, marketing or expertise to successfully expand. While a credit union may have a high capital ratio and a low fixed asset ratio, the total amount available is small relative to the capital costs of a new branch which can run between $1 and $2.5 MM. The risks of these branch investments can be enormous relative to their financial capabilities.

Attaining robust growth will entail ongoing branch expansion for member and prospect convenience close to home and repetitive retail shopping.

GROWTH KEY #4 - SUPERIOR DEPOSIT PRICING & PRODUCT DIFFERENTIATION

Competitive rates and fees will continue to be key components of the brand value offered by credit unions. Our analysis of the 5300 Call Reports showed that superior deposit pricing is one of the few strategies proven to impact member growth. Larger credit unions and high growth credit unions tend to offer higher deposit rates (such as term CD's) as seen in Table 19 - Financial Performance by Growth Rate. The average cost of deposits was 2.16% for negative growth credit unions and 2.52% for high growth credit unions.

Member research we have conducted for credit unions indicates the importance of rates and fees varies significantly by market segment, and is not always the most important. Consequently, credit unions should align their strategies according to the market niches they are pursuing -- as **not all consumers are "rate shoppers".**

Strategically, credit unions must develop the financial structure, efficiency ratio and economies of scale that will allow them to offer competitive pricing to the niches they are pursuing, especially with the growing challenge of generating positive earnings.

Is Deposit Pricing Perceived as a Critical Business Strategy?

Pricing and Fee Advantage **ranked 4th among ten business strategies** in importance as shown in Table 4 -- Business Strategies to Facilitate Growth. *Product Differentiation* was ranked the fifth most important business strategy for facilitating growth.

What impact do loan rates and fees have on growth?

Loan rates are inversely correlated with asset size. Larger CUs have lower rates than small- and medium-sized credit unions as illustrated in Table 17 - Financial Performance by Asset Size. Within asset peer groups the loan rates are surprisingly higher not lower in high growth credit unions. The exception is the peer group for credit unions over $100MM where higher performing credit unions have lower rates.

Fee income is typically lower for the small credit unions. Low growth credit unions also have lower fee income than high growth credit unions by a wide margin. Interestingly, among medium-large and large credit unions, high growth credit unions generate lower fees, suggesting they must be more efficient.

What Pricing and Product Differentiation Strategies are CU's Employing?

- *Product development, including member business lending, annuities, and reverse mortgages.*
- *Indirect lending and other third party relationships to promote new membership and create lower cost loan origination.*
- *The continued penetration among small businesses for loans, deposit services, and their consumer needs as well.*
- *There is an emerging trend now towards high-yield interest checking to compete with successful financial institutions like ING Direct and USAA.*

GROWTH KEY #5 – PURSUING MERGERS

Mergers are currently one of the most significant strategic advantages credit unions have over banks. Mergers among credit unions (unlike banks) have historically occurred without a premium being paid to the members. Instead the capital of the two credit unions is combined. Banks meanwhile typically pay a premium above the book value to acquire another bank, which is often a multiple of 2 to 3 times book value. In turn, the bank must then generate even greater net income from the same assets and liabilities. From the perspective of a continuing credit union, a merger with another credit union should, in most cases, be considered inexpensive and have negligible impact on capital ratios. Yet these mergers can provide key branch locations, easy new market entry, scores of new members, trained employees and immediate low-cost penetration into new fields of membership.

From the perspective of merging credit unions, **mergers can accelerate market share growth that would otherwise take decades to accomplish.** Conversely, there can be great wins for the merged credit unions' members, staff, management, and the community, who can all reap significant benefits in increased branch and ATM convenience, new services, career opportunities, better banking choices and more.

Despite the strategic benefits of mergers and the gains for members in benefits, CEO's ranked it near the bottom in terms of importance to credit union growth strategies. Only 13% of CEOs surveyed report merging smaller credit unions into their credit union as very important. Even fewer consider a merger of equals or merging into another credit union as viable strategic options.

However, our confidential interviews with credit union CEOs, boards and feedback from strategic growth presentations indicates a shift in the openness and discussions around mergers. It is now not uncommon for "billion dollar" credit unions to consider the merits of merging into a larger or similar sized credit union. There is recognition that in many large markets even at $1 billion credit unions do not have the critical mass to be able to effectively compete with the banks. They recognize the merits of combining complimentary branch networks, technology innovation, personnel and product skill sets to better compete.

Overall, our survey indicated that only 13% of the credit unions would consider "competitive advantage" as a very important criterion for facilitating a merger. At the same time the majority of the respondents have a positive view of mergers and believe they are beneficial to the industry.

The CEO's identified financial problems, retiring CEO, downsizing of sponsor, regulatory burden or slow growth as the most common factors that cause a credit union to consider being merged. Our survey results also indicate cultural incompatibility and philosophical differences are key barriers that must be overcome to achieving a merger.

The obstacles to mergers are many. In our experience the most common barriers are the board reluctance to give up their positions despite acknowledging the benefits to members and CEO's unwilling to discuss merger solicitations with their board.

With the increasing competitive, financial and regulatory pressure on small and medium sized credit unions, positive changes in the perceived benefits of mergers, and the large number of retiring CEOs, the high volume of mergers is expected to continue. We project the average size of mergers will also continue to increase as "Strategic Mergers" and "MOE's" (Mergers of Equals, or Peers) become a strategic growth tool.

There were concerns voiced from for smaller credit union CEO's with respect to mergers. A common concern among larger credit unions is that a merger with a small credit union is not worth the effort. We see the minimum asset threshold, at which a credit union would consider acquiring a smaller credit union is continuing to rise. This, of course, limits the choices a smaller credit union has in selecting what is best for its members. We believe it is important that all credit unions understand the cost/benefit and strategic implications of a potential merger. In doing so, they are considering all the options that may be in the best interests of their members.

While most of the headlines focus on credit union mergers as a negative or simple consolidation of the industry, we believe M&A (mergers & acquisitions) competency will become a competitive edge differentiating credit union success. In order to scale rapidly into new markets or for branch infill strategies, credit unions will increasingly consider acquiring banks, then turn around and selling the bank charter or spin it into a for-profit CUSO.

Credit unions will increasingly be buying bank branches and associated customers -- and even other credit union branches, as they spin off non-strategic branches (and members groups) to other credit unions. Acquisitions of check cashers and payday lenders, mortgage companies, and insurance firms will become even more viable ways to accelerate growth and as a means of gaining critical mass.

Mergers and acquisitions will become an increasingly important part of the credit union landscape in the years ahead. Credit unions would be wise to develop a sound Merger Strategy, game plans and policies for responses to solicitation of mergers for the CEO as well as the board members. Merger advisory firms like our team, CEO Advisory Group, partner today with credit union leaders to help find merger candidates, guide smaller credit *unions considering merger possibilities, provide valuations, and facilitate acquisition of branches and related businesses.*

GROWTH KEY # 6 - ACHIEVING ECONOMIES OF SCALE

The largest credit unions offer better overall value to members and grow faster accordingly. The 5300 Call Reports show these credit unions pay better deposit rates, offer lower loan rates, charge lower fees, are more profitable, and grow members and deposits substantially faster. Credit union size is important to developing economies of scale. Developing scale will be essential to developing the financial structure that will allow credit unions to compete in a future of mega credit unions where the average asset size will exceed $1 Billion.

Unfortunately, the financial situation of efficiency and scale is particularly bad for small credit unions and is likely to get increasingly worse. As one CEO stated, *"The future for small to mid-sized credit unions (10-50MM) appears very dim"*.

Already, half of all credit unions under $50 million have experienced declining memberships this decade. With increasing member demands, expanding competition, increasing operating costs, regulatory burdens, and managers and staff demanding salary increases, many of these credit unions will find it more difficult to deliver a competitive package of value members expect and deserve and employees will increasingly expect.

Ultimately, credit unions will need to address the point at which the disparity in the value proposition offered by their credit union and that which could be obtained through a strategic partnership/merger with another credit union is no longer justifiable. At what point is the value of being "small" offset by the dollar value of better rates, lower fees, greater convenience, and superior products to members? Increasingly members have expanded their share of wallet to a wide variety of banks, insurance firms, investment advisors and even non-banks like ING. Can these small credit unions continue to survive? The answer is Absolutely Yes with sound strategies and unique brand and service differences. But, the question more and more credit unions are asking is "how many can achieve economies of scale enough to survive, or thrive?"

Fortunately, for those willing to adapt, change, or focus there is an opportunity to build a bright future. To survive and thrive many of these credit unions will need to fully reinvent themselves for a new competitive world and some may need the financial and regulatory burdens lifted to do so.

We found many semi-large credit unions ($300MM - $600MM) have great concerns for the future. Today they may be faring well and perhaps growing successfully in a relatively closed market. But, they know when new large credit union or bank competitors, with superior cost structures, enter the market, suddenly erect multiple branches, buy market share with superior rates, and launch massive marketing campaigns to generate immediate awareness and brand preference, they are in trouble.

The critical issue for credit unions will be to manage the delicate balance of driving down the expense ratios while simultaneously investing in new branches, aggressive marketing, excellent rates and top notch member service quality.

The 5300 Call Report shows high growth credit unions typically have these key efficiencies:

- *Lower capital to asset ratios*
- *Lower operating expense ratios*
- *Higher ROA*
- *Lower Net Charge-offs (with the exception of the smallest CUs)*
- *Higher fixed asset ratio*
- *Higher marketing expense ratios (with the exception of the largest CUs)*
- *Higher loan-to-share ratio*
- *Higher number of products per member*
- *Higher average deposit balance*
- *Greater number of branches*
- *Much higher number of branches opened since 2003*

One of the CEO respondents stated, "*CU's, in general, are far too conservative when it comes to growth. As a result, we are, in my opinion, excessively capitalized"*.

GROWTH KEY # 7 – STONG LEADERSHIP

Successful growth begins with strong leadership. Credit union leadership must be committed to growth, execute efficiently on the most advantageous strategies, establish and monitor performance benchmarks and institute the proper executive reward systems to retain key employees. But perspectives on growth vary greatly:

What are CU CEOs perspectives about growth?

- *"It's really all about change. It's going to happen and you really have to decide if you want to lead, follow, or get out of way."*
- *"Many leaders in our movement, business, or whatever you want to call it, won't make the necessary difficult decisions they need to and are sliding fast toward oblivion. I think most call it retirement."*
- *"Directors are not dealing effectively with CEO inadequacies."*
- *"Volunteers are a key component of our Movement, and mergers result in the loss of about 4,200 volunteers per year."*
- *"The aging of Credit Unions' members, boards, and management teams should be a concern to many credit unions big or small."*
- *"Darwin called it natural selection. It's inevitable."*

<u>These comments by credit union CEOs are quite alarming for the future of credit unions. However it may be the wake up call that the industry needs to take action on the growth dilemma.</u> Leadership issues apply to executive teams, directors, industry associations and our regulators.

Many struggling credit unions are being choked by regulatory burdens and hindered from expansion into fruitful markets due to regulatory constraints. As one survey respondent stated: "*Our Regulator is achieving perfect safety and soundness -- and is killing us fast in the process."*

How is credit union leadership planning for growth?

The key question leaders must answer is the resource allocations and growth options between organic growth strategies of building deeper and richer relationships with existing members, increasing market share, exploring mergers and expanding the overall market they operate within.

Presently, most all credit unions in the survey are focusing on expanding share of wallet. The 2008 CEO Growth Study confirmed other national credit union industry studies, which concluded that healthy long-term growth of credit unions is primarily driven by positive membership growth. This seems only logical, that if the credit union is delighting members and deepening their relationships, referrals and new members would flow. Yet as members age (and now averages almost 50), new members are needed to replace older members disappearing.

And while national studies continue to show convenience is the key driver to choosing a PFI institution, disturbingly, many credit unions lack strategic branching plans to plan or guide the application of new branches to their markets in the future with half (49%) of survey respondents indicating they did not have a market analysis or branching plan.

What are the board and executive responsibilities concerning mergers?

<u>Paramount for leadership is to evaluate the best strategies for maximizing the value proposition and the best interest of members</u>. Mergers should be on the table for discussion as one strategic alternative, whether it is to acquire or be acquired and then considered or not, based on the merits. ”*Some who are avoiding mergers, are doing so because of obstinacy”* was a comment shared by one of the CEO respondents. Merger discussions are often uncomfortable for both CEOs and directors as it may directly impact their positions, but directors and executives have a basic fiduciary responsibility in representing members to adequately and intelligently address this issue, especially in light of the high level of mergers being offered in the industry today.

There should be clear policies for the CEO and board members on how to address merger solicitations as well as opportunities. Additionally, credit unions would be wise to be informed about “Change of Control” agreements to provide protection and retention for executive teams and ensure any bias is minimized in potential merger discussions.

Growth Strategies

Most Credit unions are focused on deepening relationships with members, not membership growth

The primary growth strategy being pursued by credit unions is to increase relationships with existing members.

- *Nearly three-quarters (72%) rated higher share of wallet as their primary growth goal.*
- *Expansion through mergers & acquisitions was considered only moderately important (13%).*
- *The majority (40%) considered mergers to be of average importance.*
- *Growth through CUSOs, business purchases or non-traditional services was of low importance.*

Table 3 -- Importance of Growth Strategies

	Rating Average (Scale 1 - 5)
Higher share of wallet	4.65
Increase market share	4.31
Increase market size	3.40
Mergers	2.92
CUSO & non-traditional services	2.64

Source: CEO Advisory Group LLC

Business Strategies

Sales culture and increased marketing are the key strategies for fueling growth

Increasing marketing, building an internal sales culture and expanding web presence are considered the business strategies most likely to facilitate a credit union's growth.

- *Increased marketing, branding & advertising is the strategy receiving the highest degree of focus.*
- *Nearly half (49%) reported a "High Focus" on internal sales culture.*
- *Almost a third (30%) have a "High Focus" on expanding Web and online banking services.*
- *Half reported "Low" or "Somewhat Low" emphasis on Outbound Member Calling Programs.*

Some of the tactics used by credit unions to fuel growth include the following:

- *Strengthening relationships with SEGs and Sponsors.*
- *Building relationships with high schools and colleges.*
- *Product development, including member business lending, annuities, and reverse mortgages.*
- *Member segmentation.*
- *Emphasizing that every employee provide the very best personal service with every opportunity.*
- *Recruiting student members from universities.*
- *Serving the underserved including those with poor or no credit.*
- *Bank at work - External sales reps will spend time at our SEGs and Core sponsor group in excess of 50% of the week with ability to open accounts, complete apps and complete simple member tasks, saving them trip to our office. Members make appointments in office for more complicated matters.*
- *Involvement of Volunteer-representatives from FOM-chartered community's level by appointment of the Board of Directors. Assists the Board and Sr. Management to create new opportunities in communities for growth and greater share of market penetration.*
- *Indirect lending and other third party relationships to promote membership and create lower cost delivery channels.*

- *Continued penetration among small businesses for loans, deposit services, and their consumer needs as well.*
- *Lending to the youth market.*

Table 4 -- Business Strategies to Facilitate Growth

	Rating Average (Scale 1 - 5)	High Focus %
Increased marketing, branding and advertising	4.23	43%
Internal sales culture	4.16	48%
Expanding Web and online banking services	3.84	30%
Pricing and fee advantage	3.67	16%
Product differentiation	3.58	19%
Upgrading existing branches and locations	2.96	8%
Expanding new branches	2.94	16%
Shared branching network	2.74	14%
Outbound member calling program	2.59	7%
Expanding ATM's	2.57	5%
Source: CEO Advisory Group LLC		

Field of Membership

Field of membership expansion is a low priority. For those credit unions considering an FOM expansion, Community Charter is hands down the favored approach.

- *A quarter (24%) of the respondents are considering a change to the credit union's FOM within the next 3 years.*
- *Nearly nine-tenths (88%) are considering a community charter.*
- *Only one respondent expressed an interest in a TIP charter.*

Branch Structure

Branch convenience remains one of the primary reasons consumers continue to select one financial institution over another. Additionally, branches are one of the key drivers of new and existing member development in terms of increasing deposits and loans, promoting non-traditional products and services while enhancing member satisfaction. Credit unions that lead in member and asset growth are increasing the rate at which they are expanding their branch and ATM networks. Branching is a competitive necessity and the highest operating cost for most credit unions. Unfortunately, many credit unions lack the accurate and unbiased analysis required to develop effective strategic and tactical plans to ensure wise spending of credit union funds and the highest possible target market growth.

- *While only 14% strongly agreed that branches are a major driver of new member growth, 75% agreed that they are an important factor.*
- *Twenty-four percent felt branches where highly effective in increasing loans and deposits, 80% felt they were a positive to important factor.*
- *Nearly a fifth indicated they have not yet developed a branch system and that appears to reflect their smaller size.*

Table 5 - Branch Tactical Hierarchy

	Rating Average (Scale 1 - 5)	Very True %
Our branches are a major driver of increased loans and deposits.	3.51	24%
Our branches effectively and conveniently serve existing members.	3.45	21%
Our branches are a major driver of new member growth.	3.27	14%
We have not yet developed a branch system.	2.06	18%
Source: CEO Advisory Group LLC		

Branch & ATM Expansion

Credit unions are increasing the rate at which they are expanding their branch and ATM network.

- *Nearly half (46%) of the respondents indicated that they have not added any branches in the last three years. There appears to be an understandable correlation between branch size and the ability to add physical delivery systems.*
- *Over 10% had added four or more branches in the last four years.*
- *Two-thirds of the respondents indicated they'd added at least one ATM in the last 3 years.*
- *Branch expansion is expected to accelerate over the next three years with increases in new branches up 21%.*
- *ATMs deployment is projected to increase by 14% compared with the previous three years. This compares to the national average over the past ten years of 8% to 10%, suggesting that ATMs continue to fill a needed convenience niche while providing marketing and income generating opportunities.*

Delivery System Planning

Disturbingly, many credit unions lack strategic branching plans to guide the application of new branches to their markets or guide the ROI of their investments.

- *Surprisingly half (49%) of the respondents did not have a market analysis or branching plan.*
- *Less than a third reported having both a market analysis and a branching plan.*

Mergers & Acquisition Strategies

A lower than expected number of credit unions consider mergers an important part of their growth plans.

- *Acquisition of smaller credit unions is the most prominent merger strategy, yet just 36% of the respondents signified this as very important or important.*
- *Only 4% indicated that it was very important to merge with an equal sized credit union.*
- *Although low in importance to the overall growth strategy, surprisingly some credit unions are open to considering a merger with 11% rating this a 3 and above on the 5 point importance scale.*
- *Very few credit unions consider acquiring branches or accounts of other credit unions or banks as an important part of their strategy. Credit unions may feel this is just not what credit unions should do or it may be a new idea that needs further industry vetting. In reality, it can be a way for one credit union to recoup its assets in a remote market while improving services to members through an in-market credit union.*
- *Expanding business through the acquisition of business lines was not on the radar for most credit unions with just 12% responding that it is important.*
- *Well over one-third (37%) of the credit unions had completed 1 or more mergers, with 6% having completed more than 3 mergers in the last five years.*
- *A large number of credit union mergers fail to materialize, with over 36% of credit unions reporting more than 1 failed mergers in which they were deeply involved.*

Table 6 - Merger Rationale

	Rating Average (Scale 1 - 5)	Very Important %
Acquire smaller credit unions	2.81	13%
Merge with an equal or similar sized credit union	2.29	4%
Acquire branches and/or accounts of other CU's and/or banks	2.11	4%
Acquire business lines (e.g. mortgage brokerage, insurance agency, escrow, check processing)	1.94	4%
Divest or close some of our existing branches or ATM's	1.49	3%
Merge our CU into a larger one	1.45	3%
Divest ourselves of existing business lines or services (e.g. sell, close insurance CUSO)	1.17	0%
Source: CEO Advisory Group LLC		

Drivers of Mergers

There are four key issues that will continue to drive future consolidation of the credit union industry:

- *Rising costs of operations, technology & facilities*
- *Competitive pressures*
- *Rising cost and challenge of marketing and branding*
- *Inability to grow*

Table 7 - What Drives Mergers

	Rating Average (Scale 1 - 5)	Very Important %
Rising cost of operations, technology, facilities	3.99	34%
Competitve pressures	3.98	35%
Rising cost and challenge of marketing, growth, branding	3.97	33%
Inability to grow	3.89	32%
Philosophy of organizations	3.69	31%
Regulatory burdens and pressure	3.55	32%
Shrinking earnings and/or capital	3.53	26%
Retiring CEO	3.51	28%
Succession Planning, or lack of	3.44	20%
Source: CEO Advisory Group LLC		

Merger Prospecting

Increasingly credit unions are turning to third party advisors to help facilitate mergers.

- *Nearly one-eighth (12%) of the credit unions had used an advisor or consultant to facilitate a merger with another credit union.*
- *Nearly two-thirds (62%) of the credit unions had been approached by another credit union or merger advisor on one or more occasions to discuss the acquisition of their credit union.*

Key Issues Influencing Whether or Not to Merge Their CU

By far, the key issue impacting credit union's desire whether to merge the respondent's CU into another credit union is the board's desire to "*not give up*".

- *Over a quarter of respondents indicated The Board does not want to "give up" as the key factor influencing any decision on merging into another CU.*
- *Growing financial challenges would be a key consideration for 14 percent of the credit unions surveyed.*
- *One-eighth (13%) stated that "gaining an overall competitive advantage" would be a key consideration for a merger.*

Table 8 - Merger "Influencers"

	Rating Average (Scale 1 - 5)	Very Important %
The Board does not want to "give up"	3.24	28%
Growing financial challenges of earnings, capital, growth	2.99	14%
Strategic decision to gain overall competitive advantage for CU's	2.74	13%
Lack of growth and need for greater branding and marketing to	2.64	11%
Need to expand member convenience via branches, ATM's,	2.64	9%
Concern about staff welfare	2.61	6%
Retirement of current CEO, management	2.38	15%
Downsizing of our SEG's, sponsor and limitied growth potential	2.17	12%
Need to upgrade costly data processing system, technologies	1.78	2%
Need to build/lease costly headquarters/operations building	1.73	2%
Source: CEO Advisory Group LLC		

Obstacles to mergers

Incompatible cultural and philosophical differences are the greatest obstacles to mergers.

- *Lack of cultural fit between credit unions was considered a large obstacle by nearly half (44%) of the respondents.*
- *The CEO's decision was cited by three-eighths of the respondents as a large obstacle to being acquired by another credit union.*
- *Surprisingly, the voluntary board was rated lowest on the scale as an obstacle to a merger, which is contrary to much of our direct experience.*

Table 9 - Obstacles to Merger

	Rating Average (Scale 1 - 5)	Large Obstacle %
Lack of cultural fit between organizations	3.93	44%
Philosophical differences	3.86	39%
CEO decision	3.85	38%
Different vision, mission	3.78	32%
Gain for members is unclear	3.60	29%
Voluntary board	3.54	31%
Source: CEO Advisory Group LLC		

Attitudes concerning mergers

Mergers are generally viewed as healthy for the industry and will make it stronger.

- *Over half (51%) of the respondents view mergers as favorable to the industry.*
- *One-sixth (17%) consider mergers a Major Industry Problem.*

Table 10 - Attitudes Concerning Mergers

What is your opinion about the growing trend of mergers in the credit union industry?	Response Percent
Generally Positive	23.30%
Necessary	28.16%
Ambivalent	16.50%
Not Positive	13.59%
Major Industry Problem	17.48%
Undecided	0.97%
Source: CEO Advisory Group LLC	

Branch acquisitions

Branch and member/customer acquisitions are not yet commonplace within the credit union industry and when they do occur credit unions are giving up a valuable asset without compensation.

- *Over four-fifths (83%) of credit unions have not been involved in a branch and/or member acquisition.*
- *Less than 2 percent had purchased a credit union branch and the members' accounts were transferred at no charge.*
- *Bank branches had been purchased by less than two percent of respondents.*

Table 11 - Branch Acquisitions

Has your CU ever acquired any CU or bank branches and associated accounts?	Response Percent
No	83.33%
Yes, a CU Branch and its Members were transferred to your CU with no compensation paid	13.73%
Yes, a CU Branch was acquired for compensation and its members transferred at no charge	1.96%
Yes, your CU purchased a branch and its members from a CU	0.00%
Yes, your CU purchased a branch from a bank	1.96%
Source: CEO Advisory Group LLC	

Loan portfolio purchases and participations

While loan portfolio purchases are not commonplace within the credit union industry, portfolio participations are quite popular.

- *Just over 10% reported ever having purchased a credit union loan portfolio.*
- *No credit unions reported having invested in a bank loan portfolio*
- *Business loans are the most common (37%) loan participations by reported respondents.*

Table 12 - Loan Portfolios

Has your CU ever done a loan participation before?	Response Percent
No	47.57%
Yes, your CU participated in a consumer loan portfolio	19.42%
Yes, your CU participated in a business loan portfolio	36.89%
Yes, your CU participated in a home loan portfolio	23.30%
Source: CEO Advisory Group LLC	

CEO Age & Career Ambitions

CEOs have a strong desire for continued career progression. Younger mobile CU CEOs will consider mergers as a form of career and salary advancement.

- *One-quarter of the credit union CEOs are in the prime age (30 – 44) where merging into a larger credit union might expand their career opportunities.*
- *A high 60% of CEOs reported that they'd consider working for a larger credit union in the future.*

Table 13 - CEO Ages

What is your age?	Response Percent
Under 30	0.00%
30 - 44	24.47%
45 - 54	39.36%
55 - 64	32.98%
65+	3.19%
Source: CEO Advisory Group LLC	

Table 14 - CEO Working At A Larger CU in Future

Will you possibly work for a larger CU in the future?	Response Percent
Yes	60.22%
No	39.78%
Source: CEO Advisory Group LLC	

CEO Retirement & Succession Planning

Mergers may accelerate in the next ten years as credit unions use mergers as a form of succession planning. Change of Control Agreements would ensure proper treatment for the executive team in the event of a merger.

- *Nearly one-tenth (9%) of CEOs are expected to retire within 3 years.*

- *Over one-fifth (21%) are expected to retire within the next 5 years.*
- *Approximately 42% of responding CEOs will retire in the next 10 years.*
- *Just under one-third (29%) of CUs indicated they had no succession plan.*
- *Over half (54%) of the CEOs reported not having a comprehensive retirement program in place for the CEOs.*
- *Over 80% of CUs reported having no Change of Control Agreements for the executive team.*

Table 15 - Retirement

When will you potentially retire?	Response Percent
< 3 years	8.70%
3 - 5 years	11.96%
6 - 10 years	21.74%
10 - 15 years	22.83%
> 15 years	34.78%
	Source: CEO Advisory Group LLC

Survey - Respondent Verbatim Quotes

WHAT CREDIT UNION CEOS ARE SAYING ABOUT GROWTH*:*

- *"The future for small to mid-sized credit unions ($10-50M) appears very dim. Increasing cost of doing business as a full service CU coupled with increasing compliance/regulatory and fraud control issues are major constraints. Only CUs with a good market positioning and strong branding will be able to prosper."*
- *"CU's, in general, are far too conservative when it comes to growth. As a result, we are, in my opinion, excessively capitalized."*
- *"It's really all about change. It's going to happen and you really have to decide if you want to lead, follow, or get out of way."*
- *"Regulatory compliance is becoming a huge burden. Too many CEO's focused on growth via merger rather than organic growth. Regulators need to be more flexible."*
- *"The race to growth is causing the once cooperative movement to be less so. The industry is lacking in a unified vision. Small credit unions (the majority of all) are suspicious of large credit union rhetoric and why wouldn't we be with what all is going on - we are looked at as though we are just another merger opportunity or credit unions that don't have sufficient knowledge nor talent to run our own shops. Yes, it's business, but that's not what we sell our members."*
- *"The aging of Credit Unions' members, boards, and management teams should be a concern to many credit unions big or small."*
- *"Our membership has grown by 9% each year for the past 5 years but our assets keep shrinking. More members are doing less with the credit union."*
- *"If large credit unions are taken out of the mix the growth rate for credit unions has been negative for some period of time."*
- *"Net worth ratio of NCUA at 7.0%. I would like to see it lower."*

- *“We compete in a saturated market”*
- *“Too many CUs are moving away from the CU mission and becoming too much like the banks. They are making commercial loans, they are transitioning to mutual banks, some are aggressively trying mergers. We are losing what makes us different and if that is lost, all is lost - we might as well be banks. Banks will also have more leverage to get the laws changed to eliminate any deserved advantage we now have.”*
- *“ A big concern is that not all credit unions have the same goals anymore. The really large CUs have a different agenda than the small CUs to the detriment of the small CUs and to the detriment of CUs overall.”*
- *“The biggest challenge for credit unions competing in the "open market" (community) is lack of name recognition & understanding of what credit unions are. In our market, for example, we have several large banks with branches near our own. Although we have better rates, better service and lower fees than these banks - we struggle to gain market share. Despite our marketing efforts, consumers still tend to go with what they know and the brands they are familiar with.”*
- *“Our growth will occur with a broadening of our FOM to a community, but will require increased and creative marketing to be successful. Branding and uniqueness is critical to our success. Diversity of our subsidiary companies will also play a hand with growth. We have been fairly successful over the past six years with use of subsidiaries.”*
- *“There needs to be an Associate Director Program put in place. CEO compensation is not objectively ascertained. Directors are not dealing effectively with CEO inadequacies.”*
- *“The regulatory requirements make it very difficult for a credit union under 20 mil in assets. As a CEO I spend a significant amount of time on regulatory issues...time that could be much better spent on growing my credit union into a successful institution for the benefit of the membership and credit union!”*
- *“We are a single sponsor credit union and focus on providing a benefit to the members and employees of the company. We are not concerned about growth.”*

WHAT CU CEOS ARE SAYING ABOUT MERGERS: – *VERBATIM QUOTES:*

- *"There are a lot of small credit unions going out of business by not growing and don't even recognize it."*
- *"Regulatory and governmental demands will force smaller CUs to consider consolidation."*
- *"CU's are merging because of weakness, not strength. Some who are avoiding merger, are doing so because of obstinacy. The strategic advantages for doing so are often unclear. For some, it has become either a survival strategy or and exit strategy. But the truly strategic merger with clear member benefits seems to be relatively rare in the CU industry."*
- *"Lack of growth and income, regulatory burdens and competition will make it very difficult for small and mid size credit unions to survive in the long term. Because mergers are happening more frequently it is easier for CU CEO's to discuss mergers with other CUs and their board. "*
- *"From a review of the recent mergers announced in the CU trade publications, not a very good showing overall. However, from quiet discussions with CEOs of mergers, it can be a very beneficial action for a membership and staff alike. I am generally positive from the quiet successes I have learned about of several mergers of equal-sized CUs."*
- *"When small credit unions are gone, we have very little defense against taxation, etc. we should encourage them and support them, rather than merging them out of existence. It seems the cu industry is moving rapidly toward becoming a bank environment. "*
- *"Volunteers are a key component of our Movement, and mergers result in the loss of about 4,200 volunteers per year."*
- *"Our Regulator is achieving perfect safety and soundness and is killing us fast in the process."*
- *"Many leaders in our movement, business, or whatever you want to call it, won't make the necessary difficult decisions they need to and are sliding fast toward oblivion. I think most call it retirement."*
- *"I think more energy should be spent in learning how help credit unions thrive without merging. If the movement is left with only very large credit unions then I think at some point the credit union movement will no longer exist. From a strategic standpoint I think credit unions should look at how to change the business model without losing the mission and philosophy of a member owned financial cooperative.*

Maybe something along the lines of a federation which would handle back office tasks that allow credit unions to focus on member service in a more cost effective manner."

- *"Growth difficult, cost to compete rising, competition for consumers increasing - merger will be necessary to the extent sufficient mass is obtained to gain economies and be able to compete - the question remains "how big is big enough?". Not convinced it is $10 billion."*
- *"I don't like the fact that Credit Unions are giving up their identity but on the other hand I understand that on occasion it may be the best for the membership. But unless there is a pressing need I am not in favor of it. I do though think it is unfortunate for CEO's of the merger or merged Credit Union to be compensated directly or indirectly (present or future) as a result of the merger taking place."*
- *"Credit unions will need to add economies of scale to be able to be competitive in the financial market. Members do not have the same loyalty to credit unions they once had."*
- *"Darwin called it natural selection. It's inevitable."*
- *"Many smaller credit unions simply do not have the resources to grow or to offer the products & services that members demand - especially electronic services & branch locations. Ultimately, the market will dictate the future of smaller credit unions. Those who serve a niche and are fulfilling the needs and wants of the membership will grow & prosper. Those who cannot meet the changing needs of their members will shrink or be forced to merge as their members go elsewhere to get the services or rates that they desire."*
- *"I think the trend of mergers is generally positive. Most situations are where a smaller credit union cannot exist on their own merit or two larger credit unions decide to pool their resources for economies of scale. I must say that the recent attempt by Wings CU to take over Continental CU was very disturbing. I don't think it is a good trend for credit unions to be merged in a hostile fashion."*

Conclusion

Credit unions must make growth an imperative.

"We don't want to grow for growth's sake" is a slogan repeated endlessly throughout the years in credit union board rooms – a simplistic cop out to the detriment of the movements future success. Achieving quality growth, generating new members and building economies of scale and scope are essential to the long term viability, efficiencies and relevance of most credit unions.

Credit unions must select the proper market niches and wisely differentiate themselves by creating market awareness and meaningful brand differences. They must align strategies with consumer needs and wants which include investing in branches and ensuring quality and access in all touch points. Credit unions must excel at providing financial value to their members, and should weigh merger and acquisitions that expand product lines and enhance branch and ATM convenience, bring efficiencies and build shared values and vision.

Unless credit unions focus on growth, the gap to the largest credit unions and value disparity will continue to widen.

Following are the most successful strategies credit unions can undertake to position themselves for building a credit union that will not only be able to survive but thrive in the future.

- *Focus on niche – Credit unions must define a niche and not try to be all things to all people.*

- *Build brand awareness & preference -- Credit unions must develop a crystal clear value proposition that is meaningful to the niche they are serving. Retaining members, deepening relationships and acquiring new members means living your brand and developing advocates.*
- *Expand and enhance delivery systems – Credit unions must invest in market analyses and branching plans to ensure optimal resource allocation to new branches, ATMs and Kiosks. The web and home banking must be first class to appeal to the many consumers who begin their purchase decision-making on the web.*
- *Use Competitive Rates & Product Differentiation – Competitive rates and fees are a key component of credit union brand value.*
- *Mergers – Credit unions should make mergers a priority. Merger strategies should be developed and resources allocated to effective execution of plans. Credit unions should consider accelerating growth through acquisition of branches, banks, and companies with key product lines.*
- *Focus on Achieving Economies of Scale and Scope – Credit unions must invest in achieving quality growth with a long term eye towards driving down their expense ratios.*
- *Grow Leadership -- Leadership is an essential ingredient to successful growth. CEOs and boards must demonstrate that growth is important by aligning the organization around quality growth. This means developing a growth strategy, measuring growth using key performance indictors, and designing appropriate compensation systems for performance and retention. Industry and entrepreneurial leadership is also required to address the regulatory and financial challenges of smaller and medium sized credit unions, as well as*

Appendix – CU Financial Performance Analysis

The strategies used by credit unions to achieve success are as varied as the number of credit unions. There are several common business strategies credit union employ. Credit unions continually seek to apply just the right quantity of each strategy ingredient to find the perfect mix for their market.

CEO Advisory conducted an analysis to gain insights on the strategies that drive credit union membership and asset growth. Using 5300 Report data we performed regression analysis and cross tab analysis to glean insight into membership growth differentials among credit unions. In all, over 50 financial variables were tested. Our analysis included multiple time frames going back as far as year end 1999. This longer time frame leveled out the impact of the credit union practice of sporadically purging inactive accounts.

The strategies we examined included:

- *Deposit Pricing*
- *Loan Pricing*
- *Branch Network*
- *New Branch Openings*
- *Marketing Expenditures*
- *Staffing Levels*
- *Field of Membership*
- *Indirect Lending*

The regression analysis of the 5300 reports indicated that there were three factors that were statistically significant in projecting growth among credit unions with over $500MM in assets, these include the number of new branches opened during the 3 year analysis period, the total number of branches, and the credit union's pricing strategy.

Our analysis included in-depth review of growth trends among different sized credit unions.

The following tables summarize some of the key findings of our analysis:

During the last three years, and seven years, credit union assets grew $120 billion and $330 billion, respectively. Membership growth during the same time period was $6.5 million and $16 million. Table 16 - Growth Attributed to Largest CUs indicates the percentage distribution among the largest credit unions.

Table 16 - Growth Attributed to Largest CUs

Asset & Membership Growth Attibuted to Largest CUs						
	All Cus	Top 25	Top 1%	Top 5%	Top 10%	Top 20%
Count	8,536	25	85	427	854	1,708
%Tot Growth 3 Years	100%	29%	45%	76%	89%	97%
% Tot Growth 7 Years	100%	23%	39%	69%	82%	92%
% Tot Members 2006	100%	13%	24%	49%	65%	79%
% Tot Member Growth 3 Yrs	100%	30%	44%	74%	88%	99%
% Tot Member Growth 7 Yrs	100%	27%	40%	70%	84%	95%
Sources: SNL & CEO Advisory Group						

Membership and asset growth rates are directly correlated with asset size. The value proposition offered by credit unions follow a similar pattern with the larger credit unions having more advantageous loan yields, higher deposit rates, and generally lower fees. Economies of scale and scope provide larger credit unions with an operating expense advantage. This in turn translates to a higher ROA enabling the credit unions to sustain a higher rate of growth.

Table 17 - Financial Performance by Asset Size

Financial Performance by Credit Union Asset Size (Avg. 2000 - 2006)							
	Financial Ratios						
Asset Size	Membership Growth	Asset Growth	Yield on Loans	Cost of Savings	Fee Inc/ Assets	Op Exp/ Assets	ROA
<$10MM	-0.64%	2.21%	8.43	2.20	0.36	3.70	0.56
$10MM - $50MM	0.97%	5.07%	7.71	2.28	0.69	3.79	0.73
$50MM - $100MM	2.01%	6.74%	7.43	2.34	0.81	3.83	0.77
$100MM - $500MM	2.99%	8.43%	7.26	2.43	0.89	3.68	0.89
$500MM - $1 Bill	3.69%	10.10%	7.04	2.62	0.76	3.23	1.01
$1Billion Plus	5.16%	11.55%	6.92	2.78	0.73	2.89	1.08
Total	**0.68%**	**4.50%**	**7.94**	**2.28**	**0.58**	**3.71**	**0.69**
Sources: SNL & CEO Advisory Group							

The importance of a credit union's branching strategy, deposit pricing and marketing expenditures is further illustrated in Table 18 – Drivers of Growth for Credit Unions Over $500MM. The table segments credit unions by membership growth and their performance on key financial indicators.

Table 18 – Drivers of Growth for Credit Unions Over $500MM

Drivers of Growth										
Credit Unions over $500MM in Assets										
Quartile	Average of Total Assets 2004 ($000)	Average of % Chg Members	Average of Yield on Loans (%)	Average of Cost of Tot Shrs & Deps (%)	Average of # of CU Maintained Branches (Actual)	Average of Total New Branches	Average of New Branch Growth	Average of Assets/ FTE Employees ($000)	Average of Mrkt/Asst - Tot 4 yrs	Average of Mrkt - 0 ($000)
1st	936,688	-4%	6.33	2.62	12.79	1.3	13%	5,115	0.47%	1,281
2nd	1,090,898	4%	6.20	2.80	12.68	1.6	16%	5,281	0.42%	1,330
3rd	1,486,543	10%	6.38	2.68	18.07	2.9	23%	4,088	0.46%	1,765
4th	1,648,266	19%	6.32	2.83	21.97	5.1	35%	4,916	0.48%	1,973
Grand Total	**1,287,356**	**7%**	**6.31**	**2.74**	**16.33**	**2.7**	**22%**	**4,860**	**0.46%**	**1,584**
Sources: SNL & CEO Advisory Group										

While smaller and medium-sized credit unions often struggle for growth, there are successful and poor performing credit unions across all asset peer groups. Table 19 - Financial Performance by Growth Rate illustrates the financial indictors that are most likely to impact growth. Please note however, that illustrative of general trends the ratios in this table do not necessarily have the same patterns across all asset categories. A more in-depth peer analysis should be conducted to ascertain the strategies most suitable for your credit union's particular situation.

Table 19 - Financial Performance by Growth Rate

Financial Performance by Member Growth Rate (2000 - 2006)			
	Financial Ratios		
	All Cus		
Asset Size	Neg Member Growth	Avg. Member Growth	High Member Growth
Membership Growth	-2.69%	2.01%	8.34%
Asset Growth	1.56%	5.75%	10.83%
Yield on Loans	8.16	7.92	7.97
Cost of Savings	2.16	2.41	2.52
Fee Inc/Assets	0.50	0.60	0.82
Capital/Assets	17.64	14.69	13.10
Op Exp/Assets	3.81	3.64	3.89
Op Exp/Income	59.28	53.32	52.57
Op Expense/AA Change Since 2000	0.07	0.11	0.27
ROA	0.52	0.79	0.96
Total Delinquent Lns/Total Lns (%)	2.68	1.84	1.70
Net Charge Offs/ Average Loans (%)	0.72	0.57	0.63
Assets/FTE ($000)	2,008	2,500	2,507
Fixed Assets/AA	1.18	1.72	2.28
Emply Comp & Benefits/AA	1.86	1.76	1.90
Education & Promo Exp/ AA	0.07	0.09	0.12
Office Occupancy Exp/ AA	0.21	0.20	0.24
Credit Card Lns/Total Lns	3.21	3.74	3.51
Unsecured Lns/Total Lns	17.78	13.70	11.37
New Vehicle Lns/Total Lns	24.99	22.86	19.59
Used Vehicle Lns/Total Lns	27.14	27.03	26.56
1st Mortgage Lns/Total Lns	9.96	14.00	19.19
Other RE Lns/Total Lns	8.05	10.34	10.75
Total RE Lns/Total Lns	18.02	24.34	29.94
Total BL/ Total Lns	0.33	0.54	1.01
Loan-to-Share Ratio	66.23	72.91	79.36
Shr Drafts/Deposits %	6.91	8.82	10.00
Reg Shares/Deposits %	67.77	56.73	46.52
Money Market/Deposits	4.93	7.21	9.32
Certificates/Deposits	13.56	19.45	24.89
IRA Keoghs/Deposits	5.11	5.90	6.38
# Dep & Lns/Member	1.73	1.96	2.07
Avg Loan Balance	6.94	7.77	8.92
Avg Dep/Member	3.83	4.86	5.30
Incr Avg Loan Since 2000	1.87	2.31	2.92
Incr Avg Dep Since 2000	1.02	1.15	0.88
Change # Dep & Lns/Member Since 2000	0.07	(0.04)	(0.25)
Shr Drafts Penetration	17.74	26.30	31.57
# Branches	1.53	2.42	4.26
New Branches Opened Since 2003	0.05	0.30	1.10
% New Branches Opened Since 2003	5%	14%	40%
PT Employees/Total Employees	34.48	25.83	19.34
Members Per FTE	505	487	447
Total Number of Credit Unions	**3,761**	**3,629**	**1,022**
Sources: SNL & CEO Advisory Group			

About CEO Advisory

CEO Advisory Group serves as a trust-based advisor to credit unions providing strategic and business planning, mergers and acquisitions, growth planning, operational and tactical implementation, branding and marketing and valuations.

CEO Advisory was the first M&A consultancy with an exclusive focus on the credit union industry. Its principals all have vast experience working inside credit unions, at state credit union leagues, on boards and as successful business owners.

CEO Advisory Group, based in Kent, Washington, was founded in 2004 by three of the credit union industry's most trusted advisors, helping boards and CEO's wrestle with the challenges of growth planning, marketing and competitive positioning, branding and staff culture building, and management succession planning.

Our advisors have worked with 25 of the nation's top 200 credit unions and advised credit union CEO's and boards of all sizes on how to not just succeed, but thrive in these challenging times.

What Makes Us Different?

1st M&A Firm for Credit Unions

CEO Advisory was the first merger and acquisitions advisory firm dedicated to the credit union industry. We were formed at the request of several credit union client CEOs who had expressed the need for a trusted M&A firm dedicated to the credit union industry. These credit union CEOs recognized the need for a firm that understood the motivations, philosophy and inner workings of the credit union industry. These CEOs also expressed the need for a firm where the core competency is mergers, not a side business to strategic planning or human resources.

High Level Industry Knowledge and Experience

The partners of CEO Advisory each have in excess of 25 years working for and within the financial services industry. Our experience includes executive level management positions in credit unions and credit union trade associations. Our partners are renowned for their expertise in mergers, finance, growth, marketing, strategies, branching, branding and technology.

Trusted National Industry Leadership

The partners are nationally recognized credit union speakers on the topics of mergers, finance, marketing, branding, technology, and branching. We are frequent authors to industry publications. Our team has written the most comprehensive book on retail branch, operations planning and financial analysis for the credit union industry, in partnership with CUES. In 2008, we conducted a national survey of credit union CEOs on membership growth and mergers that was published in an industry white paper. One of our partners was named the 2006 CUES Supplier of the Year, based on service, leadership, and commitment to improving the credit union industry. Again in 2007, another of our partners was named the 2007 CUES Supplier of the Year.

Merger & Acquisition Expertise & Successful Processes

We've developed an exceptionally unique and comprehensive merger process by managing every step of the merger for both parties in a trust-based, highly confidential and unbiased manner. We guide and assist our clients through both sides of the delicate discussions and negotiations in order to navigate the process to a successful outcome that ensures wins for members, staff, board and communities. Our assistance ranges from board education sessions to full merger project planning and oversight, from seller representation to acquirer representation, and from credit union merger to bank branch, asset and CUSO purchases.

National Network of Credit Unions Interested in Mergers

CEO Advisory maintains a national source of credit unions and related interests in mergers as potential acquirers. Our web site has become a destination for credit unions seeking news and information on credit union industry mergers, strategic growth planning and membership growth. Furthermore, our national speaking and writing generates an ever-growing network of credit unions with merger interests. Additionally, our background as an executive within credit union leagues provides unique connections within the industry.

Our Trusted Advisors

Guiding credit union leaders through complex growth issues and towards bold new strategies and vision requires insights gleaned from working inside credit unions and with the nation's top leaders.

All of our Advisors have been leaders inside credit unions, state leagues, banks and technology companies at the highest management and board levels, giving our clients tremendous expertise and knowledge.

Glenn Christensen, Managing Director

Glenn was the Senior VP of the WA Credit Union League. He launched innovative new technologies while at Microsoft. Glenn served as the VP of Finance and Marketing for a credit union and was on the management team of $8 billion Pacific First Bank.

Glenn has been a strategic planning consultant and senior advisor to credit union boards and management teams for 25 years. He has focused on strategic planning, merger advice, asset liability management and technology plan development.

Glenn has led a number of organizations through strategic growth planning, as well as successful merger and acquisitions at the board and management planning level all the way through implementation.

Paul Seibert, CMC/CPMC, Managing Director

Paul directed branch planning for WA State's largest bank, the $21 billion Seafirst Bank. He was the VP of properties for a $32 billion Texas bank. He has worked with credit unions across the nation for 20+ years.

Paul is the principal of EHS Design, a strategic branch planning, strategic operations occupancy, architectural, interior and facility planning firm of 50 employees, who was awarded the **2007 CUES Supplier of the Year** award. Paul and his firm are nationally recognized as the leader in credit union strategic branch planning, facility planning, and developing innovative new retail branch prototypes. He has designed over 1,400 high-performance financial retail branches, winning countless awards, as well as headquarters facilities.

Paul has written CUES ***Credit Union Facility Strategies, Planning and Management,*** and is a frequent author and speaker at national credit union conventions.

Mark Weber, Managing Director

Mark was the VP of Marketing for a community chartered credit union, as well as for the 10th largest savings bank in the nation. He was actively involved in successful mergers and acquisitions.

Mark is the CEO of Weber Marketing Group, a branding and marketing consulting firm working with some of the nation's leading credit unions. WMG was awarded the **2006 CUES Supplier of the Year** award, and has helped his clients win over 140 national marketing and brand awards for high impact marketing programs. He has helped over 20 credit unions change names, and re-branded over 100 credit unions.

Mark serves on the board of a publicly traded company, a non-profit micro-credit finance organization working with the poor in Central America and is a frequent national speaker at CUES, CUNA, NAFCU and many other credit union conventions.

John Parsons, Strategic Director

John served as a COO of the Connecticut Credit Union League. His 30 year financial career included roles as the EVP of $2 billion Mission Fed Credit Union, as well as the VP Marketing of Technology Fed in San Jose. He has been catalytic in sparking member growth, while sustaining bottom line performance at credit unions of all sizes.

As President/CEO of Cooperative Strategies, he works with credit union CEO's, their Boards and leadership teams in strategic assessment and planning, tactical prioritization and business plan execution, organizational efficiency and performance.

John assesses market, operational and environmental challenges, then works with credit union leaders to clarify strategic direction, prioritize growth approaches and advise them on organizational execution.

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