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The Exchange

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“Lending & Collections”

Two Years In: Continued Advocacy on All Levels

By: Greg Michlig, NJCUL President/CEO

As we jumped into 2015, we were still reeling from the huge data breaches that have credit unions and members on edge. With cyber security a heavy concern, the NCUA's risk-based capital plan overreaching, and our tax exemption continuously threatened, it was more important than ever to bring credit unions' voices to the forefront to be

...specifically to our interactions with you here at NJCUL, I see significant increases in engagement, and that is extremely gratifying.

-- Greg Michlig

heard loud and clear at CUNA's Government Affairs Conference (GAC) in Washington this past March. New Jersey credit unions were well represented at Hike-the-Hill meetings with lawmakers and their staff by 21 professionals and volunteers from credit unions across the Garden State. Participants included some NJ Political & Legislative Action Network (NJ PLAN) members and our “Crasher” from New Jersey, Grant Gallagher of Affinity FCU.

The huge, unfair liability placed on financial institutions, as well as the reputation risk associated with data breaches, was a key message on Capitol Hill. We also continue to actively support state legislation in this regard on the home front in Trenton. In addition, through a joint effort with CUNA, the League



Michlig (left) with the NJCUL team donning “Banking You Can Trust” t-shirts at a collaborative planning session during his first year at the helm.

continues to raise awareness around cyber security with its “Stop the Data Breaches” campaign.

This year started off with a legislative bang with a new Congress in session and CUNA's GAC taking place in March, but rest assured the NJCUL—along with CUNA on the national level—is pushing forward with all levels of advocacy on your behalf.

In terms of consumer advocacy, the NJCUL late last year converted one of the bank branches at Junior Achievement's unique hands-on financial learning experience “BizTown” into a credit union. Now young students will learn about credit unions as they work and play in the hypothetical world of “BizTown”. This is one way we're raising the awareness of credit unions amongst youngsters.

BizTown is somewhat similar to the familiar Reality Fair program, which continues its success in 2015. The program

continued on page 2

continued from page 1 reached about 230 high school students at Jackson Liberty High School in January and about 80 college students at Ocean County College in April. Look for more Fairs coming up this spring.

Another way we're pushing awareness is through the Banking You Can Trust (BYCT) consumer campaign and through our continuation of the successful BYCT internship program (started in the summer of last year) that's generating buzz to help raise awareness via social media and the www.BankingYouCanTrust.com Web site. Hop on over to the BYCT Facebook page and Twitter page to see some of the messages we're promoting and information we're gearing towards New Jersey consumers. We're also planning on spreading the word guerrilla marketing style in the coming months. Stay tuned.



During his second day on the job, Greg Michlig introduces himself to the membership at the League's 25th Annual Gold Tournament, held last May.

Through our reorganized Member Experience & Education department, we continue to give our member credit unions the EDGE (education, development, growth, and essentials). We started this year off strong with an Executive Leadership Series session led by Joel Abramson on cyber security and a Compliance Roundtable led by FBI special agents and CUNA Mutual Group on robbery prevention. The League is dedicated to bringing you the latest information to keep you credit union relevant and secure.

Our service corporation, Professional Services Group of New Jersey (PSG), continues to bring you vetted and trusted vendors that offer products and services we feel



During the 2014 NJ Day at CU House, Michlig and credit union advocates briefed then Rep.-Elect MacArthur was briefed on the CU difference, and the full array issues and priorities for credits unions in the coming Congress.

will help you with day-to-day operations as well as keep you ahead of the game with technology and marketing.

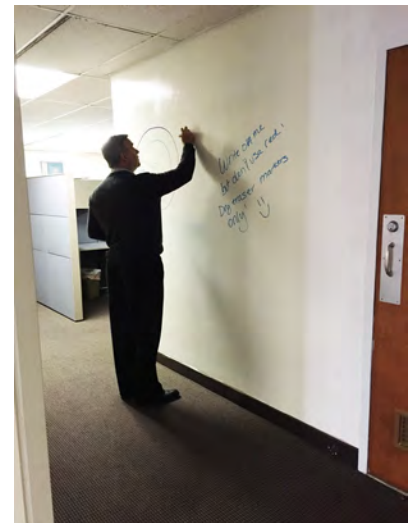


Representing the League, Michlig (right) meets with NCUA Board Member Richard Metsger at his swearing-in ceremony back in 2013.

We have been working more closely with our partners to provide information and best practices, such as with CU Wallet and Your Marketing Co., two PSG Business Partners that credit unions had the opportunity to

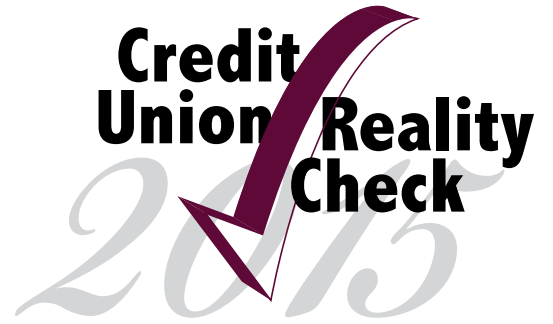
meet and speak with at the League recently.

With Q1 of 2015 behind us and nearly two years in as the president/CEO of your association, I am pleased with where we are heading. The business climate has been a challenge, and continues to be difficult, but credit unions are starting to see improving numbers in 2015. More specifically to our interactions with you here at NJCUL, I see significant increases in engagement, and that is extremely gratifying. Whether through attendance at education sessions, increased usage of affiliate benefits like CU Policy Pro, inquiries about our Business Partners, NJ PLAN participation or use of our Shared Compliance Program, we are seeing more of you and we like it. I thank you and hope to see this trend continue.



Michlig putting the League's white board wall to good use. It's a space, new for 2015, for the NJCUL team to use to collaborate, share, and be creative.

Valuable Takeaways and Networking



ATLANTIC CITY, N.J. – This year’s CU Reality Check conference held April 13-15 delivered top-notch speakers who took on hot topics and gave credit union attendees from seven states, as far away as Oregon, relevant and tangible takeaways and valuable networking opportunities.

From the energetic Lee Wetherington who gave attendees much to think about when it comes to sparking innovation and preventing payments fraud, to Bill Stainton, who used the success of The Beatles to drive home relevant concepts of committing to a shared vision and mission (and called

a few credit union folks to stage to sing a tune), to Dr. Randy Thompson, who gave lenders a dose of reality when it comes to members’ credit and their lending needs (see more on page 7), the line-up of speakers gave attendees much to think about and ideas to bring back to the office.

Jim Morrell introduced Masai Mara Leadership and gave an extensive look at political advocacy for the “Credit Union Party”, Crystal Jonas engaged the audience to drive home the importance of employee engagement, and Joe Sullivan gave attendees



Lee Wetherington drives home the warning that there is competition from outside the financial industry, not just from banks.

a wake-up call to the realities of a consolidating industry.

From leadership to lending, from technology to innovation, the 2015 CU Reality Check covered all the hot topics for credit unions to remain relevant.

New Jersey’s two impressive and innovative Creative You teams, Team First Force and Team CU Innovate NJ, knocked it out of the park at the onset of the conference, presenting their unique mobile app ideas. The next step in the Creative You



Creative You Team First Force (left) and CU Innovate NJ (right) play nice after introducing their innovative mobile app ideas.

competition includes Filene Research Institute representatives choosing which team they’d like to mentor and help develop the idea.

The new venue for the conference, the Golden Nugget Atlantic City, was also a great success!

For additional photos from the conference, [click here](#).

Thank you to the generous sponsors who made the 2015 CU Reality Check conference possible: Alloya Corporate FCU, CO-OP Financial Services, Credit Union Journal, CUinsight, CUNA Mutual Group, Federal Home Loan Bank of New York, Financial Services, Inc. (FSI), LendKey, and UBS.



Quizzing a panel of attendees on their Beatles knowledge, Bill Stainton illustrated how the fab four made a lasting impact, and what we can learn from them.

See You Next Year!

Financial Literacy Month: Spotlight on Reality Fairs

In the spirit of Financial Literacy Month, which also coincides with CU Youth Month in the month of April of each year, the New Jersey Credit Union League and the New Jersey Credit Union Foundation would like to highlight the growing success of the Financial Reality Fairs Program here in New Jersey.



During the most recent Reality Fair, Ocean County College students visit the various lifestyle booths and build their monthly budget.

The program began back in 2010 with a mock Fair held at the League's annual Convention for credit union leaders to experience the hands-on financial literacy lesson. Fast forward five years, and the program has grown to an impressive and collaborative initiative that is bringing much-needed (and now required) financial literacy education to students across the Garden State.

New Jersey schools are now required to provide high school students with financial literacy. A Reality Fair is a unique way for credit unions to help schools fulfill this requirement, allowing students to have fun while learning about finances in a hands-on, real-life way, while also teaching them the benefits of joining a credit union.

Since its inception in 2010, the Financial Reality Fairs program, supported by the League and the Foundation, has reached over 4,400 students. In early 2013, the

program modified its offering to be relevant to college students at New Jersey City University and Ocean County College as well as for the junior high school students at the Thomas Wallace Junior Middle School.

As of this month, April 2015, New Jersey credit unions have held a total of 33 Reality Fairs across the state.

The program will be making four stops at schools this spring. On May 15th, the program is heading back to Barringer High School in Newark for a second year in a row; on May 21st, the program also returns to Shawnee High School in Medford for a second year; for a third time, students at the Thomas Wallace School in Vineland will get the experience on June 5th; and Ewing High School will have us back again for a third year (though Ewing students also participated in a fair back in 2012 where they were bussed to Lawrenceville High School).

If you'd like more information about the program or would like to volunteer for one of the spring Fairs, please contact Marissa Anema at manema@njcul.org or 800-792-8861 ext. 117.



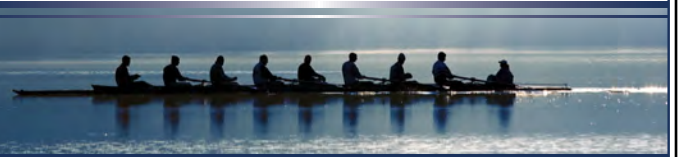
FHLBNY Credit Union Members Doubled Since the Start of the Financial Crisis.

At a period of unprecedented stress in the capital markets, when our members needed liquidity, we were able to step up and meet the demand. With new regulatory and interest rate risk concerns, having access to reliable wholesale liquidity is essential.

Like you, we are privately owned by our members and accountable to them, so we fully understand the cooperative business structure. We strive to offer quality credit products at flexible terms, mortgage finance products, and correspondent services to meet the financial needs of local community lenders like you.

More credit unions are realizing the power of membership in the FHLBNY.

Contact us to see how our partnership can help you better serve your members.



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CUNA, NJCUL File RBC2 Comment Letters

MADISON, Wis. – As of Monday, April 27th, credit unions, state credit union leagues, CUNA and other stakeholders had sent over 1,900 comment letters on the NCUA revised risk-based capital proposal (RBC2), including the New Jersey Credit Union League, whose comment letter was submitted on April 23rd.

Member credit unions can download the NJCUL comment letter at www.njcul.org/RBCtools.aspx. Access to the League's comment letter and RBC2 resource packet is limited to members only and requires a password. To request a login, visit www.njcul.org/Secure/Register.aspx.

CUNA submitted its [comment letter](#) on April 17th. While holding firm to the view that the rule is unnecessary and should be tabled, the letter offers a number of constructive suggestions to improve the rule since the agency appears determined to move forward.

Among the points made in the trade association's letter, CUNA President/CEO Jim Nussle emphasizes that the proposal, as well as other recent NCUA initiatives, goes way too far in treating credit unions like banks: It ignores the importance of the credit union difference as cooperative, not-for-profit, member-owned and directed institutions.

Other top points in Nussle's letter include:

- CUNA holds hold firm to our view that NCUA does not have the legal authority to impose a two-tiered RBC system.
- The strong performance of credit unions and their federally backed share insurance fund during and after the financial crisis demonstrates there is no need for a major overhaul of NCUA capital requirements, and CUNA finds no evidence that had RBC2 been in place before the crisis that it would have reduced National Credit Union Share Insurance Fund losses in any noticeable way;
- CUNA therefore requests that the rule be withdrawn, but in the event the NCUA moves forward, the association urges a number of changes and further improvements;
- The new proposed capital adequacy provisions, beyond net worth and RBC ratio requirements, should be dropped;
- A number of the risk weights should be reduced;
- The identification of "complex" credit unions should be based on something more than simply asset size, and should include only credit unions of at least \$500 million in assets;
- The conditions under which goodwill could be included in the RBC ratio should be expanded;
- The NCUA should minimize the burden on credit unions of expanding the Call Report for purposes of RBC2;
- The agency should allow credit unions to use supplemental capital in meeting RBC requirements;
- A separate interest rate risk rule is NOT necessary; and,
- The implementation of RBC2 should be delayed until 2021, to coincide with expected refunds from the Corporate Stabilization Fund.

"We listened to our members in developing this letter. We heard from CUNA's Governmental Affairs Committee and its Examination and Supervision Subcommittee, from members of CUNA's CFO Council, from many credit union CEOs and volunteers, and from leagues.

Take the CUNA/League Credit Union Exam Survey

This is your chance to provide feedback to CUNA and your league on your most recent exam by either NCUA and/or your state regulator. The information, which will be kept anonymous, will help CUNA and the leagues hone their advocacy efforts on exam-related issues.

Survey replies are confidential, and identifying information from individual credit union respondents will not be seen by individuals outside of CUNA's Market Research Department. Only summary results will be reported. Please click the button below to complete an important survey concerning that exam. If you have any questions about the survey, please contact mktresearch@cuna.com. [Take the survey here](#).

[First Quarter 2014 Exam Survey Report](#). Summary of results from Exam Survey as of February 2014.

[First Quarter 2015 Exam Survey Report](#). Summary of results from Exam Survey as of January 2015.

[Complete Tables](#). Detailed data tables for the First Quarter 2015 Exam Survey.

League Meets with Assembly Speaker to Discuss Key Priorities & Concerns

SECAUCUS, N.J. – NJCUL met with Assembly Speaker Vincent Prieto (D-32) on Thursday, April 16th to discuss a number of key priorities and concerns to N.J. credit unions including prize-linked accounts, electronic lien/filing (ELT), remote disabling device (“kill switch”), and ATM-911 call capability legislation. The third highest ranking state official, Speaker Prieto began serving in the state Assembly in 2004 and became speaker in 2014. He is a supporter of credit unions and the sponsor of a League-supported data breach bill.

The League's Government Affairs Department coordinates all legislative and political activities for New Jersey's credit unions by establishing effective involvement and participation in the public policy process which includes monitoring, developing, and advocating for (and against) legislation in Trenton and Washington to enhance the operations of both state and federally chartered credit unions. Proceeds from the NJCUL's annual golf outing enable the League to retain Katz Government Affairs, which is among the most highly respected contract lobbying firms in Trenton.



Pictured left to right is Carol Katz, the League's contract lobbyist in Trenton, Speaker Prieto, NJCUL President/CEO Greg Michlig, and NJCUL Vice President of Corporate & Governmental Affairs Chris Abeel.

CFPB Releases Policymakers' Guide to Financial Ed. in Schools

WASHINGTON – The Consumer Financial Protection Bureau (CFPB) has launched a resource [guide](#) for policymakers containing strategies for implementing financial education in states. According to the bureau, the guide is not meant to be an exhaustive overview of current financial education efforts, just a working document that will be revised and updated on an ongoing basis.

The guide features a framework with three main sections:

- “Laying the Groundwork,” designed to help policymakers make the case for K-12 financial education, set a strategy for initiatives, define the structure for initiatives, foster partnerships and secure resources;
- “Building the Initiative,” focusing on key components of K-12 financial education including standards and requirements, classroom resources, teacher training and initiative evaluations; and
- “Extending the Impact,” containing guidance on how to effectively carry out and expand K-12 financial education initiatives, including information on the resources to support the advancement and recognition of efforts and improve and scale existing initiatives.

Each section contains guiding questions, case studies and a resource directory with additional information. According to the bureau, each state's unique circumstances may require different approaches.

The nationwide [Stop the Data Breaches](#) grassroots campaign continues.

CUNA and the NJCUL are encouraging all credit union professionals, volunteers and members to [email their lawmakers in Congress.](#)

Lending Takes Center Stage Locally & in A.C.

It started back in the fall with one credit union professional sharing his interest in bringing Brett Christensen, owner of CU Lending Advice, to New Jersey to train his staff. What followed was a very successful collaboration project involving three credit unions and the League.

On March 31 and April 1, 2015, live at the League Office and remotely to Atlantic FCU and Members 1st of NJ FCU, Brett Christensen presented a One Day Lending School to over 80 credit union professionals.

Christensen, a veteran in the credit union world, held a very informative and interactive lending session. From the beginning to the very end, Christensen captured attendees' full attention with his entertaining speaking style that fully engaged from morning to afternoon. His presentation style made it effortless to absorb the wealth of knowledge in his training session.

Using his consumer lending and sales training, Christensen broke down each section on how credit unions can find themselves in a "lending box" that can put their lending process and initiatives in a bind, missing great potential opportunities in lending. He tore down the barriers of what traditional lenders look at and expanded the scope to look more in-depth than just at debt ratio and loan to value. He told attendees to get themselves out of the A-paper thinking box because the reality is around 47% of the population is under a 650 FICO score.

And can you guess the percentage of the population that lives paycheck-to-paycheck? A whopping 78%! Therefore, understanding high-risk members is an absolute necessity in expanding your loan growth within your credit union.

Essentially, credit unions were formed to serve these under-served members, educate them, and point them in the right direction. There are successful keys to lending to D and E paper, if done properly through knowledgeable and well-educated staff members in the lending and underwriting department.

"People bring business to people they like," Christensen says. So make sure you develop those essential relationships with your members because a personal connection can go a long way.

To further the point of not restricting loans to A-paper members was Dr. Randy Thompson's session at the CU Reality Check. His session, "Expanding Loan Portfolios & Improving Loan Profitability Using Credit Migration Modeling" provided real credit union examples to illustrate the concept of credit migration modeling.

Painting a picture of the current conditions of the lending landscape, Thompson was able to illustrate

the cost of offering low rate loans to A-paper members...and the results were shocking.

Taking into consideration this landscape, mitigating risk, and expanding loan pools, Thompson pointed out that credit unions must realize the importance of effective life of loan management and regular stochastic credit migration analysis. He then gave an overview of the steps to take for life of loan management, including file maintenance, and credit migration, a measurement of changes in credit scores and risk for individual loans in the loan portfolio of the credit union.



Using Auto Lending Research to Better Serve Your Members' Needs

By: Arthur Shaboul

There's good news and bad news about auto sales and auto lending.

The good news first, 2014 was a great year for auto sales and 2015 looks to continue in this trend. More auto sales means more auto lending growth opportunities, and therefore more loan revenue. Now the bad news—the auto lending market is increasingly competitive. Both banks and captive finance companies have been very aggressive, and this trend is only expected to increase. Given the expectation that banks and captive finance companies will continue to act aggressively in this segment, credit unions that want to grow their auto lending revenue must prepare to combat this threat. Credit unions that approach 2015 auto lending with the same strategies as they have in the past are likely to experience a loss of market share and lower auto lending revenues.

As an example of the hard-line tactics taken by banks, Informa's research shows on the accompanying chart (see Figure 1) how banks continue offering lower new auto loan rates for 60-month terms on the top two credit tiers in comparison to captive finance and credit unions. The result is that credit unions did not provide the best auto lending rate choices for their members in the top two credit tiers where the majority of auto lending occurs.

The question still remains, how do you make it a great auto lending year for your credit union? To capture a greater share of the auto lending market in 2015, credit unions will need to price more aggressively and market proactively.

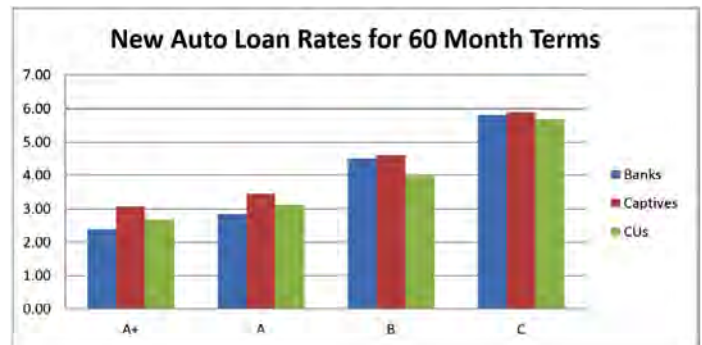
Getting More Aggressive with Your Pricing

Both for direct and indirect auto lenders, the key to success is to truly understand what your competing auto lenders are offering. You should understand both their rates and their dealer compensation programs (in the case of indirect lenders). Knowing your competition's current offerings allows you to price more aggressively and also market your direct auto lending services proactively.

Marketing Proactively

For auto loans through direct channels, reaching members shopping for autos with the right offer *before* they arrive at the car dealer is a large part of successfully originating their auto loans. Communicating a competitive offer to your members early and often allows you to sell other relationship enhancements beyond just rate. Once your members have arrived at the car dealer, without prior engagement, it is far more likely they will acquire financing through the dealer finance department.

As a credit union, you want to provide your members with the best financial products and services possible. Understanding your market and what the key players are offering enables you to better serve your members in the area of auto lending. You win too! With a better understanding of your market, you will strengthen your member relationships as you price for more profitability.



(Figure 1)

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Arthur Shaboul manages the indirect auto lending and small business lending research divisions at Informa Research Services. Mr. Shaboul joined Informa in 1999, conducting research in Informa's lending product division. With more than 15 years of financial research experience, Mr. Shaboul helps clients better understand their auto lending and small business markets. Mr. Shaboul received his BS degree in business finance with an emphasis in real estate finance from California State University, Northridge.