



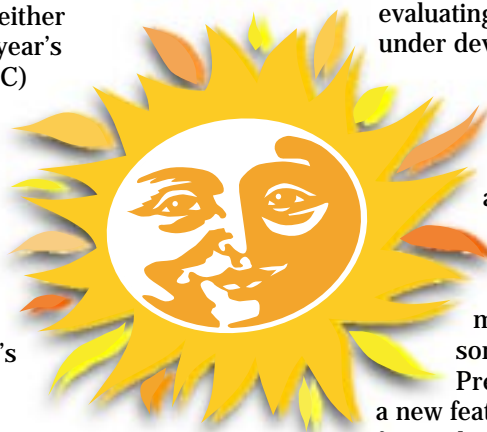
SPECTRUM

AN ELECTRONIC REPORT FROM THE CUNA LENDING COUNCIL

LENDING TOPICS SIZZLE IN ORLANDO SUNSHINE

There was no shortage of either experts or expertise at this year's CUNA Lending Council (CLC) Credit Union Conference. The group's main event convened November 14-17 at the Hyatt Orlando in lovely Lake Buena Vista, FL. A wide array of topics and industry seers made for what conference evaluations have shown to be CLC's best conference to date.

One of the most exciting aspects was the announcement of a joint lending research and award initiative between CLC, CUNA & Affiliates and CUNA Mutual Group (CMG). CUNA president Dan Mica and the CMG Lending Lab's Bill Klewin were on hand to discuss the program and introduce research showing how current lending trends could have a negative impact on the future of credit union lending. The awards program, currently under development, is designed to honor strategies that reverse that trend and position credit union lending as the best consumer alternative in the marketplace. A comprehensive scorecard, to be used in



evaluating candidates, is currently under development.

Sessions focused on both consumer and mortgage lending, with special emphasis on new lending alternative and technology. Desktop underwriting/loan process, call center lending and sub prime mortgage loans were just some of the specialty topics. Pre-conference workshops, a new feature for the conference, focused on FHA/VA loans and business services.

Dr. Randy Harrington, founder of Extreme Arts & Sciences, opened the conference with an admonition that new techniques focusing on technology, partnerships and strategies would characterize lending in the years to come. The event closed with sports fitness consultant Dr. Jack Groppe's assertion that even executive athletes will need to become executive Olympians in order to stay competitive in the future. After two-and-a-half days of invigorating, exciting sessions, the nearly 200 lenders present agreed wholeheartedly. ♦

WHEN REAL ESTATE LENDING TRIGGERS BALANCE SHEET RISKS

In August, the NCUA issued its first letter on mortgage lending since 1994.

Letter CU-99-12, *Real Estate Lending and Balance Sheet Risk Management*, emphasizes this point: If credit unions want to continue mortgage lending, they need to understand the inherent risks and must have the tools in place to adequately measure and manage such risks.

Because a great deal of fixed rate mortgage lending has occurred over the past two years, credit unions have taken on a significant interest rate risk. Fixed rate first mortgages account for 64% of all mortgage loans in credit unions; federally insured credit unions now hold \$62 billion in first mortgages, making it the largest single loan category. And, as of

December 1998, 22% of assets were defined as long term. These assets are being funded by shares, of which 90% have a maturity or repricing frequency of less than one year.

RISING INTEREST RATES = DECREASING ASSET YIELDS

Due to this mismatch in maturities, and a rising interest rate environment, the amount credit unions pay for deposits will rise more quickly than the yields on assets, due to the long-term nature of loans. This will cause a decrease in earnings, which could cause some credit unions to incur losses and negatively impact their capital position. Also, as interest rates rise, the market value of the existing real estate portfolios declines. If these mortgages are salable in the secondary market, they may have to be sold at a loss.

ASSET LIABILITY MANAGEMENT

The NCUA letter also states that, "In order to sufficiently measure, evaluate, and report interest rate risk exposure, credit union management should utilize an adequate interest rate risk management system or asset liability management (ALM) model." More specifically, the credit union must be able to determine if an interest rate fluctuation of up to 300 basis points will adversely affect profitability and capitalization given its concentration of mortgage-related assets.

The NCUA letter appendix further discusses three tools available to measure interest rate risk: Gap Analysis, Income Simulation, and Net Economic Value (NEV) Analysis. If these are performed and the credit union continues to operate within its stated interest rate risk limits, credit unions will be able to continue making mortgage loans.

WHAT SHOULD CREDIT UNIONS DO?

1. Set prudent portfolio concentration limits

If the credit union does not have the capability to measure risk on a balance sheet level, prudent portfolio concentration limits for loans and investments should be part of their ALM policy. This means putting a cap on the amount of mortgage loans that can be made. Most credit unions will measure this cap by Real Estate Loans/Total Loans or Total Assets ratio.

2. Establish appropriate interest rate risk

management systems

Credit unions need an ALM model to measure and monitor their interest rate risk. Credit unions need to perform sophisticated forms of financial analyses to measure interest rate risk. This includes GAP Analysis, Income Simulation, and Net Economic Value (NEV) analysis. If these analyses are performed, credit unions will be able to continue making mortgage loans within acceptable interest rate risk limits.

3. Considered solutions offered by CMG

CMG can help credit unions with mortgage lending and asset liability management in at least three ways:

CUNA Mortgage Corporation stands ready to purchase loans on an individual or bulk basis from credit unions that are concerned about holding long term fixed rate mortgages. CUNA Mortgage is also able to service and sub-service loans for credit unions that wish to outsource this function.

CMG Mortgage Insurance Company (CMG-MIC) can help credit unions manage the credit and default risks associated with mortgage lending. In addition to mortgage insurance coverage, CMG-MIC provides contract underwriting to ensure compliance with secondary market standards.

Model Management for Windows can help credit unions with asset liability management. Offered by CUNA Mutual, this sophisticated software tool performs the necessary interest rate risk management requirements NCUA is asking for, including GAP Analysis, Income Simulation, and Net Economic Value Analysis.

Historically, NCUA has predicated the main thrust of its examination process on the comprehensive review of credit quality.

Examiners will continue to thoroughly evaluate this area. However, the new NCUA letter reminds credit unions that interest rate and liquidity risk must be handled with the same prudent attention that's been given to credit risk. NCUA has made it clear that they'll "... evaluate a credit union's understanding and methodology for measuring interest rate risk relative to the balance sheet risk the credit union has elected to acquire." ♦



ORGANIZATIONAL TIME MANAGEMENT QUIZ

Bruce Breier, President BHB Consulting Services

To assess your organizational status, answer the following questions with a “yes” or a “no”.

1. Do you and your management team have too much to do and not enough time to do it?
2. Is there too much paper and not enough place to put it?
3. Are there too many projects and not enough uninterrupted time to work on them?
4. Are there too many meetings that are disorganized, unfocused, and run too long?
5. Is the day filled with too many interruptions?



How many questions did you answer “yes”? See below for your score:

0: *Excellent.* You are a time management expert.

1: *Very good.* Your time management system only needs a minor tune-up.

2: *Good.* You are probably more productive than most, but could still use improvement.

3: *Average.* You could use some tuning up in all five-time management areas.

4: *Poor.* You probably need major tuning up in all five-time management areas.

5: *Disaster.* You are in constant crisis management. Your time management systems need a complete overhaul. ♦

FORMULA FOR SUCCESS

Today’s formula for managerial and executive success is based on three elements:

1. **Passion:** Passion includes two components—loving to work, and loving what you do.

2. **Discipline:** Discipline requires having an effective system of managing these five key areas:

- Time
- Paper flow
- Projects
- People
- Strategic planning and managerial goal setting

3. **Implementation:** Implementation is the follow-through, the putting into action of the first two points.

It’s essential to have all three elements working together. If you are passionate but undisciplined, or if you are disciplined but lack passion, you will probably have trouble following through on what you hope to accomplish.

Organized executives are very pleased and delighted (not just satisfied) with their systems, methods, and procedures for time, paper flow, project, people management and the strategic planning process. They are very pleased and delighted with how effectively their systems and methods perform on a daily

and weekly basis.

In the ‘90s, your goal should not be just to satisfy customers but to delight them. If you aren’t very pleased or delighted with how organized you are, how will you please and delight your customers or clients? It is difficult to delight customers if you feel disorganized at any level. ♦



THE TOP 10 CHARACTERISTICS OF AN ORGANIZED EXECUTIVE

1. An organized executive is acutely clear regarding the description and definition of success for his or her position, and is technologically literate to ensure success on a daily and weekly basis.

Job descriptions are often ineffective in helping managers be successful. In the first place, they are typically not done for CEOs or senior level executives. When they are, they get reviewed so infrequently that they become meaningless documents.

More useful are managerial or executive goal programs, lists of priority goals that clarify the expectations of your position. Unfortunately, for lack of time and motivation, goal programs are rarely put in place at the top and middle levels of management. Crisis management has become so habitual that there is no time to strategize the position. A success description is vital for any management person to be organized on any level.

There are many tools available today to increase the control we have over time, paper, and projects. Yet we have so little time to learn how to use them. Personal computers, software, voice mail, and electronic mail are all great tools, if we know how to use them. The organized executive knows how to use these efficiently and effectively.

2. An organized executive is timely and responsive with all requests because he or she has adopted a personal policy of under-promising and over-delivering.

Responding to requests in a timely manner is critical for achieving and maintaining high levels of integrity within an organization. People who over-promise and under-deliver destroy trust and morale. A good organizational technique is to say “yes” to the things you are assured of delivering, and to commit to realistic target dates or time frames for those things you might have difficulty delivering.

3. An organized executive consistently allocates 30 minutes a day to perform daily planning.

During this 30-minute planning time, three things must happen:

- A recap of the day
- The processing of all paper that came in that day
- The planning of tomorrow

Daily planning is best done the night before. Allocating the last 30 minutes of your workday to recap that day, planning tomorrow, and processing paperwork will reap a number of benefits:

- You drive home slower and arrive in a better frame of mind
- You relax more and sleep sounder
- You wake up refreshed and arrive at the office in a better frame of mind
- Things tend to go smoother and more efficiently

You also reduce overall stress and chronic preoccupation, which is an obstacle to effective communication, especially as it relates to listening. The daily planning meeting with yourself clears the mind, clears the desk, clears the spirit, energizes for evening leisure activities, and helps the next day start off effectively.

4. An organized executive is uncluttered and stack-free in the working environment.

In the past five to eight years, the amount of paper coming into our lives has overtaken the amount going out. There is so much coming in that we have literally run out of space for it.

The “computerized society” was supposed to be a paperless society. Instead, we have become an automated society with more paper than ever. The average mid-size company receives 300 pages a day from the fax machine alone. When combined with how infrequently we purge file cabinets, desk drawers, bookcases, and closets, we quickly run out of space. This leads to stacking and piling which causes clutter in the workplace.

There are many consequences to clutter. The main consequence is “subliminal screaming”, the feeling of being grabbed at all day by the clutter that is constantly clamoring for your attention. Clutter can sap your passion, drain your energy, and reduce your productivity and effectiveness.

Allocate time to purge your office at least every six months. Start in the northeast corner and work your way down. Go through everything. You will be amazed (especially if you have not done it in a while) at how much stuff there is that you no longer need.

The tools of purging are simple: trash bags for papers you no longer need and want to recycle and Kleenex tissues for the tears that



come out when you find things that you haven't seen in a while that bring back fond memories.

An organized executive believes that clutter and stacks produce a chronic feeling of demoralization, one that reduces passion for the job and the workday. Being uncluttered and stack-free allows you to work without distractions and interruptions from screaming papers.

After purging, set up good filing systems so there is a place for everything. You should be able to access any piece of paper within 20 seconds.

5. An organized executive is acutely clear regarding what constitutes a justified interruption, and only interrupts others when it is important and urgent.

Most managers cite interruptions as the number one reason they are not as productive as they would like to be. Interruptions can be managed effectively by using the following process:

Diagnose and interruption. If it is important and urgent, interrupt. If not, use voice mail or E-mail. If those are not available, write down the issue. When you have three or four of these non-urgent messages, interrupt the person once and cover all the issues. The key is to be clear about the consequences of interruptions and develop a good system for managing them.

6. An organized executive allocates time to prepare for meetings and appointments, and never leads an unprepared meeting.

A meeting that is unprepared should be postponed. Time is too precious these days; people don't like to sit in meetings and feel their time is being wasted. A meeting leader should:

- Organize an agenda
- Clarify the purpose of the meeting
- Takes good notes
- Prepare summations
- Have everybody who attends participate on some level

7. An organized executive consistently allocates time to meet one-to-one with direct reports.

Provide each direct report with 15 to 30 minutes per week of your undivided attention. Allow them to bring progress reports, questions that need answers, problems that need solutions, and offer you an overview of the

next seven to 14 days. Direct reports that get 15 to 30 minutes of your undivided attention will feel a sense of calm, control, clarity, and confidence for the days ahead. You can accomplish a great deal in a half-hour as long as you schedule it consistently and allow no interruptions whatsoever.

8. An organized executive is an active goal-setter who understands that, once goals are finalized, they must be converted into projects that need to be managed.

Having a good project management system to manage goals is essential. An active goal-setter understands that goals are actually projects in disguise. They also make use of the software available to help manage projects.

9. An organized executive is very clear as to when a project sets in.

Busy executives tend to have very little uninterrupted time to work on their own projects. Overloading on projects can be demoralizing, causing people to work nights and weekends and try to fit in things whenever they can.

To manage project overload, meet with people every week to get a status report on their projects. This helps to keep confidence and motivation levels high and stress levels low.

10. An organized executive is passionate, motivated, and enthusiastic about his or her position within the company.

The organized executive loves work and can't wait to get to work in the morning, but not to the point where burnout and high stress levels are characteristic of what they do. If you are not feeling passion, if you can't wait to go home, it might be because your systems of organization need to be restructured.

Bruce Breier is the president of BHB Consulting Services, an organizational consulting and training company located in La Jolla, California. Breier's firm specializes in inspiring busy people in leadership and management positions to become more successful by becoming more organized. Breier's experience is quite varied. His programs and methods have been presented to hundreds of companies and organizations since 1978, the year in which his company was formed. Perhaps the most valuable aspect of his work is the link he sees between managerial organization and delighted companies. ♦

CREDIT UNIONS FACE LENDING CHALLENGES

The passage of HR 1151 was a significant milestone for the credit union movement. As the movement celebrates that legislative success, a new challenge has emerged: the financial services marketplace is changing at a very rapid pace.

"It is time to face the fact that there are great changes sweeping over credit unions and their lending operations," says Bill Klewin, Staff Director CUNA Mutual Lending Lab. "And those changes might be contributing to the current lending slowdown."

The erosion in credit union lending can be found in installment credit, new car loans, used car loans, and credit card debt/credit card deployment. For current credit union lending statistics, visit the CUNA & Affiliates Web site at www.cuna.org. The site contains information on current lending loan growth rate, loan-to-share ratios and other information.

The credit union lending changes can be attributed to several factors including changes demographics, technology and competition. As America ages, member demographics and needs are changing. "The tradition of loyal credit union members is moving to a new dynamic," says Klewin. "Credit unions must serve the very different needs of all segments of their membership." Borrowing by Baby boomers' will slow, and the borrowing patterns and needs of Generation X will be different.

Technology and the Internet are changing the way business is conducted. Traditional and new financial services providers such as State Farm, Sony, Sprint and Merrill Lynch are stepping up efforts to capture market share within the generally more-affluent credit union membership. And, a growing host of Internet-based companies are offering a wide range of financial services.

Credit unions were among the first in the financial services industry to go on-line. However, only a few hundred credit unions offer on-line transactions, and only a handful provide loan approval and servicing on their Web sites. Meanwhile, giants like Wells Fargo and Citicorp have used technology to their advantage. They continue to successfully snare consumers through well-developed financial service Web sites. And, Internet-only start-ups like *Net.B@nk, Inc.* which opened 8,000 accounts in first-quarter 1999 and cur-

rently has \$388 million in assets, are popping up on a monthly basis. In addition, credit card companies like NextCard offer consumers instant, customized on-line credit in most states.

"E-trade is a big threat to credit unions and other traditional lenders as well," says Klewin. "The company started with on-line trading but their long-term business strategy is to become a financial supermarket. E-trade plans to become the primary financial institution of all consumers. The recent acquisition of TeleBank, a major Web band nearly completes the E-trade's plan to become an on-line financial community."

To stay competitive, credit unions must: understand member's needs and expectations, develop an interactive and useful Web site, evaluate their product lines, better understand product cost structures, consider noninterest income development, and consider partnering with the CUNA Mutual Group. CUNA Mutual has the tools and expertise to help credit unions stay competitive and meet the lending challenge. For more information, call 1-800-333-2644 or visit the CUNA Mutual Web site at www.cunamutual.com. ♦

Y2K

It's my guess that Y2K will pass without a hitch:

No power out, no gloom and doom, and no computer glitch.

We've made the plans, and written reams, should disaster strike,

We won't have to post the signs, telling members to "take a hike."

The ATMs will still work, savings won't disappear,

Investments and loans will be safe, at the beginning of the year.

The hours of meetings, and tons of work, haven't been in vain,

And most of the committee members, are still relatively sane.

Thanks to our leader for chairing our group, and keeping us in line,

But now we're left wondering, "What will we do with our extra time?"

—Janis Heppell
Branch Marketing Specialist
USE Credit Union

BULLETIN BOARD

The Daily Starting Point

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A Car is Legally Considered A Lemon If...

- Three or four repairs were attempted for the same problem... or
- The car was inoperable for 30 days within the first year or within 12,000 miles of the warranty period.

In both cases the problem must substantially lower value, use or safety.

Example: cigarette-lighter problems would not qualify, but power windows could.

To Prove Your Car Is A Lemon

- Keep accurate records of the number of repair attempts and the time the car is out of service
- Give the dealer a dated, detailed list of problems each time you bring the car in and keep a copy for yourself
- Obtain a copy of repair orders to prove when the car was not driveable

Source: *Lemon Book: Auto Rights for New & Used Cars* by Ralph Nader and Clarence Ditlow, Moyer Bell, Ltd.

Something to Think About...

"Running an organization is easy when you don't know how, but very difficult when you do."

—Price Pritchett

Startling Statistic—

Chance that an American declared bankruptcy during the Depression: 1 in 215.

Chance that an American declared bankruptcy in 1997: 1 in 225

Source—*Health Insurance Underwriter*



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