CFCFE Member Conference

Successful Lending for Credit Unions

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Summary of Proceedings

By Nick Money

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CFCFE is rooted in values of co-operation, participation, social and financial inclusion, transparency, integrity, and excellence. Much of its work is done in collaboration with Liverpool John Moores University.

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Acknowledgements. CFCFE would like to thank our members and other attendees for their contributions, and in particular the speakers at the conference who were: Karen Bennett (Enterprise Credit Union), Catherine Byrne (Health Services Staffs Credit Union), Michael Byrne (Core Credit Union), David McCauley (Donore Credit Union), Teresa Manning (Clockwise Credit Union), John Meagher (Central Bank of Ireland), and Richard Munro (Commsave Credit Union).

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Table of Contents

1. Introduction

This is a summary of the presentations and panel discussions from the CFCFE General Conference, Successful Lending for Credit Unions, held on 21st May 2019 at the Red Cow Moran Hotel, Dublin, Ireland.

The purpose of the conference was to stimulate thinking about how member borrowing needs could be met more effectively and consistently by credit unions and to share practical, actionable guidance from credit union people who have success stories to tell.

The conference was attended by over 90 delegates from credit unions, trade associations, regulatory bodies, credit union providers, and universities in England, Ireland and Scotland.

This summary does not seek to repeat the PowerPoint presentations, which can be viewed from the CFCFE website, but rather to draw out the main headlines from the speakers and the question and answer sessions. Speaker biographies can be found in the conference programme, which is also available on the website.

2. **Welcome,** Dr Paul A. Jones, Reader in the Social Economy at Liverpool John Moores University and Director of Research at CFCFE

Paul welcomed everybody to the conference, and expressed CFCFE's excitement to see such a diversity of member and non-member credit unions in attendance. He thanked CFCFE's corporate members for their continued support.

Paul noted that the Irish and British credit union movements shared a common challenge: to meet more effectively the borrowing needs of their members, as reflected in low loan-to-share ratios. Member research by two large CFCFE member credit unions[1] has confirmed what we all know – that members are borrowing, but not from their credit union. Paul reflected on Filene research which has shown that the characteristics of a strong credit union invariably included a good performance on lending. He explained the purpose of the conference was therefore to enable credit

[1] This member research, by Core Credit Union (Ireland) and Capital Credit Union (Scotland), is summarised in the CFCFE report *Borrowing from a Credit Union: Messages from Members* (2018), which can be downloaded from the CFCFE website.

union personnel and stakeholders to explore collectively how the sector can improve its lending performance by more effectively addressing member needs.

3. **An insider's outsider perspective**, Pádraig Enright, CEO, Clonmel Credit Union

Pádraig opened the presentation by noting he was just eight months into his role at Clonmel Credit Union, after many years in retail banking with KBC Bank, Bank of Ireland, and ICS Building Society. His reflections were based on this external perspective. Clonmel Credit Union has more than 30,000 members, €207m of assets and €68m on loan.

Padraig's key reflections included:

- The importance of improving the cost: income ratio, so that investment could be afforded in a fuller service model)
- Young adults today have a different set of expectations, in particular that they interact with their service providers on their own terms and at their own convenience. Are credit unions relevant to these potential members?
- The need for speed ('five clicks, five minutes, €5,000')
- A payment account is necessary to provide insight into member behaviour and that can be used to provide more timely and better services and drive loyalty
- Ireland has very high mobile phone penetration, and credit unions have to be accessible on this device; it's what people want
- Credit unions need good analytics to evaluate and anticipate their members' needs to support an effective and systematic member engagement model
- There is an opportunity for credit unions to partner with universities to gain access to the expertise and perspectives of undergraduate and postgraduate students
- Similarly, credit unions embody a socially responsible approach to business, and tech firms could be keen to work with partners with this positive image

In summary, Pádraig stated that credit unions need to define (and stick to) a digitally-enabled proposition that makes sense in a rapidly changing world, communicated consistently and persistently across all channels.

4. **'Over to you'** – group discussion

Paul Jones led a discussion by all participants on the following questions, in both Irish and British contexts:

- What are the barriers to successful lending?

- What are the opportunities for successful lending?

Working in groups of six to eight, attendees were asked to identify their top three barriers to and opportunities for successful lending by credit unions. Each group presented one of these top three to the conference. The results are summarised here.

Barriers

- The lack of a digital suite of services (need to be where the member is when they need credit)
- Negative perceptions because of rules / policy (saving and borrowing constraints)
- Fragmentation – can't advertise on a national level
- Members don't understand how they can get a loan – think they have to save etc.
- Full and successful implementation of an IT strategy: how to do this without leaving members behind?
- Lack of expertise in new market segments – need internal knowledge and back office support (a CUSO?)
- Speed and convenience
- Perception of 'poor people's bank' (UK)
- People not registered on the electoral role / identity unverifiable (UK).

Opportunities

- A credit union offer like the fintechs
- The large member base and further market opportunity
- Getting young people in at the beginning of their use of financial services
- Revolving credit
- Collaboration with other credit unions
- Simplifying the benefits proposition
- Building on trust in credit unions, and the interest in ethics (especially young people)
- Share efforts and costs; collaboration / CUSOs
- Engagement and communication – why are members going elsewhere?
- Maximising the attraction of our community focus and impact.

5. What are we doing right in Ireland?

Examples of successful lending practice from Irish credit union leaders.

5.1. **Maximising Limits,** Michael Byrne, CEO, Core Credit Union

Mick summarised some of the activities which enabled Core Credit union to grow its loan book by 19.3% to €47m in the year to September 2018. Core is a community credit union in County Dublin, with 35,000 members.

- Core invested in external market research to understand better members' borrowing from other providers
- The credit union had to address the perception that its rates on standard loans were higher than competitors – 83% of members who had borrowed elsewhere had not enquired at the credit union first[2]. One step was to say, "rates from …" and lead with the lowest
- Core had focused on reaching its policy limits for different loan types (primarily based on term), e.g. longer term lending (home loans) to a maximum of 10% of the loan book value, medium term (home improvement) to 20% and short term to 70%
- A current account will be coming online soon (via Payac) to provide critical member behaviour insight and to deepen the member relationship
- Lending in different categories, e.g. 10 years plus, was now close to policy limits and Mick's level of comfort
- It's the members in working class areas who benefited most from a wider product range.

5.2. **Growing the Loan Book – a Perspective**, David McAuley, CEO, Donore Credit Union

David started his presentation by stating his pride in working for a credit union, and in particular the first ever credit union in Ireland! He had been recruited to merge the credit union in 2016 into a neighbouring credit union due to the decline of the organisation and questions of its viability. However, the credit union still enjoyed strong fundamentals, including a loyal membership, a growing population in its common bond and very strong financial reserves. So instead of merging out of existence, Donore Credit Union decided to significantly improve its performance, which it did last year with 24.5% loan growth to €7.8m. This has continued with the March 19 loan book increasing to €8.8m, and loan book growth projected as at least 20% for year-end 2019. Membership has risen to 4,600 members. Challenges remain, however the updated Strategic Plan now targets managed growth, cognisant of environmental threats and weaknesses, while leveraging off the credit union's unique advantages.

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[2] Summarised in *Borrowing from a Credit Union: Messages from Members* (2018), CFCFE

Some features of this recovery included:

- Remembering the great work for the community of 60 years that has led to tremendous member loyalty, and a determination to re-establish the credit union into the social fabric of the community
- Taking advantage of the strong sense of attachment from younger generations to their local institution and their obvious enthusiasm for an ethical, not-for-profit co-operative
- Recognising that a standard 12% loan wasn't the only product that members needed – they wanted home loan, car loans etc.
- Updating old-fashioned policies and procedures, for example moving to ability to repay rather than shares-based decisions
- Being physically visible in the community and talking to members, including students
- Having staff who are skilled at identifying members' needs and meeting them (selling)
- Having a clear strategy with associated key performance indicators which are monitored and reviewed by the Board regularly
- Collaboration with other Dublin credit unions for cost-effective, impactful marketing
- Injecting energy and positivity into the organisation.

5.3. Successful Lending at Health Services Staffs Credit Union (HSSCU), Catherine Byrne, General Manager, HSSCU

Catherine summarised the history of HSSCU, which incorporated several mergers, leading to a national common bond, primarily industrial but with two community common bonds. HSSCU now has €170m in loans, supported by nine lending staff, with 51,000 members. The key takeaways from Caroline's presentation were:

- A commitment to a multi-channel 'bricks and clicks' strategy – digital capability (first credit union in Ireland with a website in the 90s) but retaining a branch presence for visibility
- Continuing innovation, e.g. introducing e-signatures
- A lending process improvement review, leading to the introduction of a triage process to determine the best means of dealing with loan needs based on complexity
- Recognising the diverse needs of the members – 12% of HSSCU members are not Irish
- Driving down the refusal rate – meeting as many needs as possible - to 3%
- Making considerable efforts to reduce all barriers to application, e.g. offering postage paid envelopes, e-signatures (as above)

- Empowering all frontline staff with some level of lending discretion.

5.4. Panel discussion

The previous speakers, together with Ralph Swoboda (CFCFE's Chair) as moderator, took questions from the floor and discussed the issues raised. Key points emerging included:

- Responding to a question on reducing the cost: income ratio, Pádraig noted that a payment account would reduce the number of branch cash transactions. Mick said that counter transaction costs are very high, so there would be a big focus on automation at Core in the next two years. David pointed out the challenges of reducing operational cost in small credit unions, and the difficulty of affording new services – he looked forward to new services cascading to small credit unions following investment by larger ones
- Mick was asked about managing the limits on loan types in light of the Central Bank of Ireland consultation paper CP125. He expressed concern that it would not enable more flexibility on longer term ending in particular.
- One participant noted that in the U.S., c.20% of credit union income is non-interest based (fees). Pádraig commented that it is a massive risk to have all income dependent on one product (loans), and gave the example of life assurance as an alternative new offer that would be of great benefit to members. Ralph summarised how first mortgages were introduced in the U.S. movement: first, through a centralised credit union-owned mortgage bank to gain experience and scale, then introducing the product for sale via individual credit unions[3]
- There was discussion of the value of short term lending. Mick stated that members needed short term lending, so this would always be a key part of the portfolio
- The failure of the Irish building societies during the financial crisis was raised, with the risk of reputational impact on credit unions as current account providers. David explained that Donore Credit Union would focus on what it is good at - savings and loans – unless or until current accounts for credit unions became a proven, affordable product, and member demand was clear. Mick felt that there is an opportunity to learn from the errors of others. Core Credit Union is proceeding cautiously into this area, but 95% of member transactions are with banks, and Core wanted to bring some of those to the credit union.

[3] CFCFE has published a report on this subject, *Lessons Learned by US Credit Unions in Mortgage Lending* (2018), which can be downloaded from the CFCFE website.

He added that it is now possible to access Europe-wide economies of scale by partnering with the right service providers

- In response to a question in relation to open lines of credit such as overdraft or revolving credit facilities, the panel agreed that a responsible approach to offering these products was vital.

6. **A Regulator's Perspective on Credit Union Lending,** John Meagher, Registry of Credit Unions, Central Bank of Ireland

John is a member of the Business Model & Engagement team (BME) at the Registry and expressed his support for credit unions looking to strengthen their lending capability. He considered some of the issues from a regulator's perspective, including:

- The importance of risk management through the organisation, not just in marketing
- The role of the BME team in helping credit unions and the regulator engage more effectively around new proposals and developments
- Some key considerations in relation to new products and business growth, such as
    - The possibility of short term lending subsidising the short term economics of mortgages, and these interactions needing to be properly understood and managed
    - The responsibility each credit union has to other credit unions in terms of maintaining the sector's reputation
    - The need to expect a marketing response from deep-pocketed private sector competitors as credit unions move into new areas
    - The need for caution initially when moving into non-standard services that are new to credit unions – building and developing the requisite capability takes time and patience.

7. What are we doing right in Great Britain?

Examples of successful lending practice from British credit union leaders.

7.1. **'Benefit' or Family Loans**, Karen Bennett, CEO, Enterprise Credit Union

Enterprise Credit Union is a community credit union in Knowsley, Merseyside, one of the most economically deprived communities in England. Enterprise has 21,000 members and £18.4m on loan. Karen presented the experience of Enterprise in offering Family Loans (where the repayments are made directly via the government's child benefit payments). Karen explained that Enterprise has been offering these loans since the investment from a government-funded scheme called the Growth Fund[4]. They had gained the experience and confidence to offer this product from lending to higher risk / lower income members and during the period had built up the members shares to over £14 million. 95% of the members continued borrowing over the period since 2006 and had collectively repaid over £100 million pounds in that time.

Karen noted:

- The significant popularity of the product with members
- That Enterprise has found these loans to be lower risk than other direct debit or payroll deduction repayment products (the current bad debt provision is less than 2%)
- The competition was not the banking sector but from rent-to-buy and home credit providers.

Karen concluded that the success of the credit union's business model is its operational simplicity. The credit union's members are not demanding that it offer current accounts or other non-traditional credit union products.

7.2. **Digital Lending**, Teresa Manning, CEO, Clockwise Credit Union

Teresa introduced Clockwise, a community credit union in Leicester with 13,000 members and £4.6m on loan. Teresa opened by explaining the significant and innovative investment in IT development that Clockwise had made since 2016 and ongoing, and outlined the rationale and benefits for lending:

- Four key areas of focus: security (to mitigate risk and externally verified), integration (in particular the use of APIs), digital services (high quality and 24x7), people focused not finance focused (adopting a CRM approach)
- This enabled seamless online loan origination to eliminate 'pain points' for members, including real-time automated decisioning leading to a decision in one minute (two if through open banking) and an overall turnaround time from application to funds being sent out averaging 20 minutes
- Developments were in-house due to finding a highly-skilled and motivated member of staff, reducing dependency on external suppliers and increasing flexibility. The credit union now has two additional IT staff to support the work
- The office remains open for those members preferring that channel, but Clockwise would be overwhelmed by transaction volumes without the digital alternatives – over 80% of all loan applications now are online.

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[4] The objective of the British government's Growth Fund, which ran from 2006 to 2011, was to raise levels of access to affordable credit by building the capacity of credit unions and other "third sector" lenders to serve financially excluded households.

Teresa closed by stating that Clockwise did not consider itself a bank, but it was determined to provide the best service possible to its members in the areas it covered.

7.3. **Successful Lending at Commsave Credit Union**, Richard Munro, Executive Director, Commsave Credit Union

Richard introduced Commsave as an employee credit union originating in the postal service but now with 40 companies in its common bond, 23,500 members and £43m of loans. Richard noted that Commsave has a lending strategy of “shamelessly” picking up other people’s ideas and recognising that should focus on what it does well and not try to serve everyone. He explained:

- Revolving credit has been successfully introduced
- Commsave does not compete for people with the best credit records because it can't match the cheapest rates. However, it is now offering a 0.5% per month loan as a promotion to members who have been with the credit union for at least a year and have no current outstanding loan balance
- The search for the credit risk appetite ‘sweet spot’ is ongoing. A principle imported from credit unions in the U.S.A. of ‘if they’re alive, give ‘em five hundred’ has been adopted by Commsave. It has minimal risk, and it supports the credit union’s mission of 'Helping People Afford Life'
- Commsave’s response to a competitive threat from private sector payroll deduction providers included the rapid testing and introduction of consolidation loans. A review is now underway to look at how effective this product has been in reducing people’s overall debt burden
- A survey of members showed that 19% were not aware that Commsave offered loans, which gave the credit union an immediate marketing opportunity
- The credit union benefits from an individualised orientation to members, which includes tailoring itself online to not offer products to members for which they don’t qualify, and to send individualised messages based on member history, as analysed from the database. These have been delivered by working closely with Commsave’s IT provider
- 90% of applications are now web or mobile app-originated
- Ongoing process improvements include that in the last two years, same day decisions on loan applications lifted from 40% to 90%.

7.4. Panel discussion

Nick Money (CFCFE's Director of Development) facilitated a Q&A session with the last group of speakers:

- Teresa was asked about the individual who built the IT infrastructure at Clockwise. She acknowledged that it was good fortune that the credit union had a volunteer with a strong IT background, who gained valuable knowledge of internal processes and then obtained further relevant experience elsewhere. That individual created the credit union's member-facing mobile capability, a solution not easily replicated by other credit unions
- Richard noted that credit unions should not take payroll partners for granted. People within organisations move on and relationships need to be maintained and cultivated. The credit union now produced an annual report by each employer partner showing the number of members, total savings, loans and an estimate of how much loan interest their employees had saved through using the credit union. Added benefits such as the Commsave’s inclusive Bereavement Fund, children’s savings accounts and financial education were also highlighted to employers.

8. **Summary and conclusions,** Dr Paul A. Jones

Bringing the conference to a close, Paul identified a number of key points that had emerged from the day. Given the time constraints, he was not able to note all the key themes, practical insights and learning outcomes of the day.

In the short time available, he stressed the importance of:

- Good analytics to evaluate and anticipate the needs of members in order to support an effective and systematic member engagement model
- Rigorous analysis of loan performance to reveal effectiveness and profitability service delivery
- Realising that much can be done to improve loan products and delivery within current legislative and regulatory constraints – demonstrated by the range of good practice described by presenters
- Speed, efficiency and convenience of loan application and delivery channels
- Ensuring our credit unions have a modern, digital suite of services to compete effectively in the market place
- Working with Government and the regulator in the respective jurisdictions to ensure that legislation and regulation in relation to lending is fit for purpose.

Paul ended by thanking all participants for coming to the conference and making the day such a success.

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