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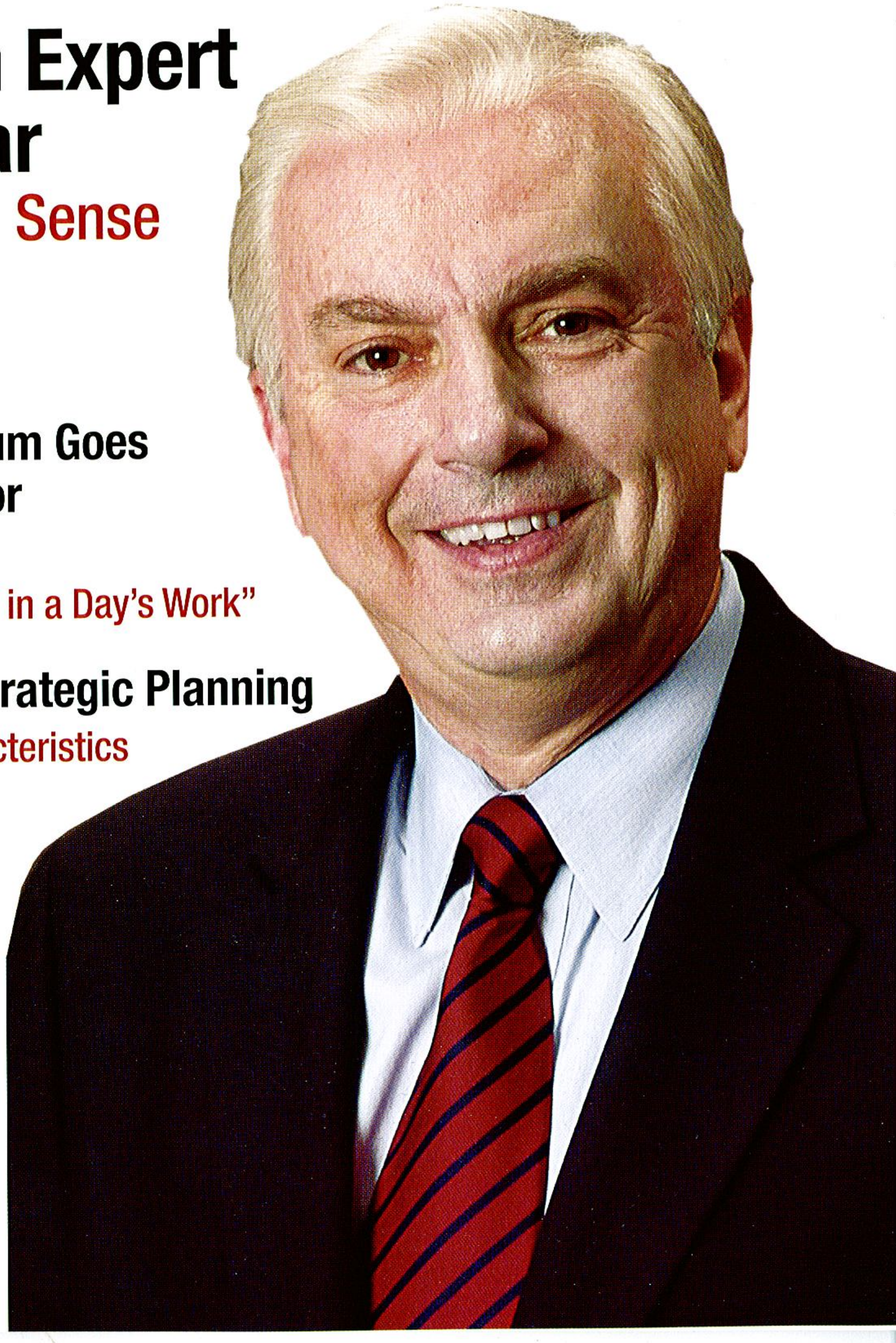


CU Star William Bynum Goes Above and Beyond for CU Members

Hope CU CEO Says It's "All in a Day's Work"

Striking Gold With Strategic Planning

The Top 4 Common Characteristics of First-Quarter 2010 ROA Performance

Planning for 2011:

Credit Union Remodeling Projects

Credit Union Expert Dennis Dollar

Talks Dollars and Sense for 2011

Credit union guru, former NCUA Chairman Dennis Dollar, recently sat down with ***Credit Union BUSINESS*** to talk about strategic planning for 2011, which he says is "absolutely essential, but it is more like throwing darts in the dark than at any time in the past two decades." Still, says Dollar, credit unions can't afford to sit idle or go into reverse waiting for the "Fog of the Future" to dissipate.

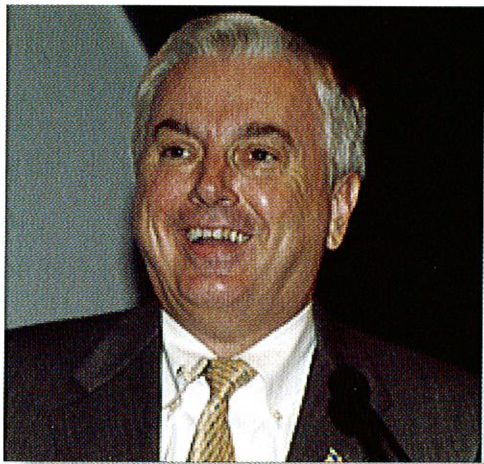
By LaRita M. Heet, Managing Editor

Dennis Dollar's résumé inspires awe: Former Chairman of the National Credit Union Administration (NCUA). One of the youngest legislators ever to serve in the Mississippi State House of Representatives. Former credit union CEO and president. Current principal partner in Dollar Associates, LLC, a full-service consulting firm specific to the credit union arena.

Yet, Dollar's genteel Southern charm and down-to-earth observations make it clear that he hasn't let his lofty CV go to his head. In fact, once you've gotten to know Dennis Dollar, it's easy to see how his career went from amazing to exceptional in just a few short years: the man is whip-smart and keenly intuitive, especially when it comes to credit unions.

The History of the Dollar

Dollar's career beginnings were anything but humble. In 1975, at a mere 22 years old – at an age when most of us are still sleeping off college party hangovers – Dollar was elected to the Mississippi House of Representatives. "I was the youngest legislator in the state, and one of the youngest in the state's history, so I literally grew up in the public policy arena," says Dollar. "I spent eight years in the House of Representatives, and was a part of making the law of the State of Mississippi at the formative years of my career. So, I understood the public policy ramifications of law and regulation at an early age."



Dennis Dollar – Principal Owner, Dollar Associates, LLC, and Former NCUA Chairman

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–Dennis Dollar

the concerns that I see is the tendency of credit unions, who are very conservative by nature, to use today's economic uncertainty as an excuse to become ultra-conservative to the point of closeting themselves away. Credit unions cannot afford to closet themselves away until the fog lifts, because when the fog lifts for credit unions, it also lifts for Chase and Wells Fargo and Bank of America, and all of their competitors."

"At this point in credit union history, credit unions are looked upon much more favorably by the consumer than their banking competitors. The news has been filled for the last 18 months with terms associated with banks such as 'failure,' 'bailout,' 'takeover,' [and others], and the public has a bad taste in its mouth for profit in any cost type of mentality. Credit unions have the perfect marketplace opportunity to seize the mantle of consumerism at this particular juncture."

Pursuing Your Strategic Plan

"One of my concerns about a credit union deciding to closet themselves away until the fog lifts is that they may miss the best 18-month period in history to grow their marketplace footprint. When the signs are coming down from Wachovia and they're going up for Wells Fargo – in Alabama, for example, the people in Alabama have never heard of Wells Fargo… so those accounts are up for grabs. Credit unions are well positioned to seize some of that market share, but they can't do it if they are afraid to branch or afraid to offer new products for fear of the uncertainty associated with the current crisis," says Dollar.

"This does not mean that a credit union should go helter-skelter, and put their financial position at risk. If a credit union's capital is marginal, that credit union may have to postpone some branching or some new products. But if a credit union's capital is strong – and most credit unions' capital is strong – they do not have to sacrifice their strategic goals simply because there is some uncertainty in the marketplace."

Dollar calls this one of the biggest issues of strategic planning going into 2011, and says Dollar Associates have conducted a number of strategic planning sessions this year that focus on this issue for 2011. He says, "Usually the issue is not, 'Do I need a new strategic plan?' [because] most credit unions have a strategic plan. The question is, 'Do I proceed with it in these uncertain times, or do I pull back and wait until the fog clears?' That is the crucial issue right now – and it is complicated by the fact that earnings are tighter, insurance premiums from NCUA are increasing, and new regulation is impacting their bottom lines. So you throw those things into it, and it becomes even more difficult to strategically plan for 2011."

Coping with the Uncertainties

Dollar notes that credit unions are adapting to the uncertainty of the economy. "They were originally very hesitant when the economic downturn began, but they have come to grips with the economic uncertainty and have adapted their underwriting and their dividend rates accordingly. But the uncertainty that is causing them the most consternation is the regulatory environment, and the prospect of ever-increasing premium assessments from the National Credit Union Share Insurance Fund. These are the two areas that are impossible for them to predict, and therefore very difficult for them to adapt to," he says.

"You can look at the changes at the employment rates in your community; you can look at layoffs, you can look at unemployment rates, and you can begin to adjust your underwriting standards on your lending, for example, accordingly. You can look at how much deposits you have coming in versus the lending that you are able to do, and adjust your dividend rates accordingly to either bring in more deposits or to be less attractive for deposits," says Dollar. "These are things that credit union managers know how to manage and have managed for years. It's a tough market to manage in right now, but they can manage it and are managing it."

> "All of us save for rainy days, and then when it starts raining, sometimes we're afraid to use the savings."
> –Dennis Dollar

"Where the uncertainties are – and this really impacts the planning for 2011 – is that they don't know what new regulations are coming down the line, what they will cost, and whether the insurance premium assessments that they have to pay to the National Credit Union Share Insurance Fund are going to be 15 basis points, or 50 basis points. And the difference in that is a major difference in how many new branches you can open, how many new products you can provide, and so that overlay of uncertainty, on top of the general economic uncertainty, is making a lot of credit unions tend to take that more conservative view of 'I'm just going to try to hang on until [the fog lifts].'"

Rainy Day Savings

The top challenges for credit unions today are the combination of regulatory uncertainty and earnings that have entwined to simultaneously impact a credit union's three primary sources of earnings: overdraft income, interchange revenue and mortgage uncertainties, says Dollar.

"Again, it's a case-by-case basis – or a credit union-by-credit union basis – as to whether or not [credit unions] should do that, largely determined by where their capital level is. If their capital level is hovering near the seven percent requirement in order to be considered well-capitalized by their regulators, then they have to be much more judicious about continuing to invest in their strategic plans. But if they are at 10 percent capital, even if that's down from 11 percent, they are still very well capitalized, have plenty of cushion, and should not be abandoning well thought-out strategic plans simply because there is uncertainty," says Dollar.

"Yes, there is uncertainty, but it is uncertainty that you have saved for," says Dollar. "All of us save for rainy days, and then when it starts raining, sometimes we're afraid to use the savings."

"I can understand why there is that hesitancy to move forward with a branch, or to move forward with a new product, but what I caution credit unions is this: Judge that based on your capital – on your rainy-day fund. If you have saved for the rainy day, then okay, the rainy day is here now. We don't quite know how long the rainy day is going to last, or whether it is going to rain an inch per hour or three inches per hour, but we *do* know how much we've got in our rainy-day fund. And if you've got enough in your rainy-day fund, don't miss this opportunity to expand your marketplace footprint."

> "What is the real challenge of 2011 is not to go into a default position of hiding out, when the market opportunities are as good as they are right now, and they really are good for credit unions."
> –Dennis Dollar

"What is the real challenge of 2011 is not to go into a default position of hiding out, when the market opportunities are as good as they are right now, and they really are good for credit unions," says Dollar. We're willing to bet our bottom dollar that Dennis is right.

LaRita M. Heet is the Managing Editor of Credit Union BUSINESS magazine. She has been a freelance writer and editor for nearly 20 years, and has written more than 1,500 articles and instructional design courses throughout her career. When she is not writing or editing, she daydreams about sleeping at night "like a normal person."