CREDIT UNION TRACKER®

APRIL 2021

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PSCU | PYMNTS.com

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ACKNOWLEDGMENT

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WHAT'S INSIDE

Recent membership data is delivering some good news to credit unions (CUs) during the pandemic. A March report from the Credit Union National Association (CUNA) revealed that 378,000 new members joined United States credit unions in January, representing a 2 percent year-over-year increase. The study credited the gains to job growth and predicted that CU membership would continue to rise as the economy expands and more Americans receive vaccinations.

Credit unions still have room to improve, however, particularly when it comes to rolling out innovative digital services. PYMNTS' February Credit Union Innovation Study found that many CUs are failing to meet their members' innovation expectations. Ten percent of the credit union members it polled said that they were unsatisfied because their CUs lacked enough online banking features, for example. This oversight should not be taken lightly, either, as 53 percent of CU members said they currently use credit products offered by their credit unions' competitors — indicating that any additional friction could send them elsewhere to seek the digital innovations they crave.

CUs must do more to develop the products and services that meet their members' evolving financial and payment needs, especially as they compete against the digital banks and FinTechs that typically excel in this regard. The key to attracting and keeping members ultimately rests on pairing emerging payment solutions like contactless cards and digital wallets with the credit and debit solutions that members continue to value.

AROUND THE CREDIT UNION SPACE

The pandemic pushed the digital innovation envelope, and many of the changes that CU members have adopted over the past year are here to stay. Credit union service organization PSCU's recent *Eye on Payments* survey examined how the health crisis drove digital adoption in 2020, finding that card-not-present (CNP) activity for credit and debit transactions increased by 21 percent and 24 percent year over year, respectively. PSCU's new monthly PSCU Payments Index report also revealed that contactless transactions leveraging debit and credit cards more than doubled from January 2020 to March of this year, illustrating that options like contactless cards and mobile wallets are no longer "nice-to-haves" but necessities.

Some financial institutions (FIs) are getting the message, however, and are beginning to roll out more of the digital payment tools that their members have become comfortable using during the pandemic. A recent PYMNTS study found that more than half of all payment cards will be contactless by the end of next year, for example. Jeremiah Lotz, managing vice president of digital and data at PSCU, said this contactless shift is permanent and will only accelerate when the pandemic ends. He stated that credit unions are making more investments and crafting new strategies to drive their digital plans forward.

Credit unions' earnings are expected to tighten somewhat in the next couple of years, but many CU executives are working to launch solutions and technologies to keep their membership robust. Research shows that 53 percent of credit unions have deployed application programming interfaces (APIs) this year, for example, and that 51 percent have invested in cloud-computing tools. Such innovations are becoming more and more essential to helping CUs compete with FinTechs and other digitally savvy FIs.

For more on these stories and other credit union headlines, read the Tracker's News and Trends section (p. 10).

ASSESSING AND UNDERSTANDING CU MEMBERS' CREDIT NEEDS

The pandemic is a challenging time for CUs as it not only brings banking online but also gives rise to new credit needs for members. Mortgage loans were up last year, while demand for auto loans fell and grant programs were more needed than ever, sending CUs scrambling to respond. In this month's Feature Story (p. 7), PYMNTS spoke with Wade Painter, president and CEO of California-based San Mateo Credit Union, on the CU's efforts to tap into member insights and quickly roll out the appropriate products and services to keep them engaged.

DEEP DIVE: HOW CUs CAN RISE TO THE OCCASION WITH DIGITAL SOLUTIONS TO MEMBERS' CREDIT NEEDS

The pandemic has taken a toll on consumers around the globe, leaving many to seek financial assistance from their FIs to stay afloat. Customer service-oriented CUs are particularly well-positioned to communicate with their members and assess their needs during the crisis, but they still face hurdles when it comes to offering access to credit solutions and other financial tools. This month's Deep Dive (p. 14) examines the emerging payment solutions that consumers seek, credit unions' struggles to incorporate them and how such solutions could help cement the loyalty of long-term members as well as attract new ones.

EXECUTIVE INSIGHT

WHAT CAN CREDIT UNIONS LEARN FROM FINTECHS ABOUT DEVELOPING AND OFFERING INNOVATIVE CREDIT PRODUCTS?

"In any industry that is subject to disruption by technology, velocity is always a defining factor. FinTechs are known for excelling at the rapid development of new technology. Credit unions looking for innovative ways to provide value and enhance their member experience could embrace the power of collaboration with FinTechs.

In some instances, FinTechs have leveled the playing field for CUs to compete more easily against the products and experiences offered by larger financial institutions. By partnering with a credit union service organization for innovation solutions, CUs can gain access to the FinTech community, providing valuable speed to market and reducing the risk of going it alone.

It's now more important than ever for CUs to remain competitive in our rapidly evolving digital world. As they look to attract new members, it's also important to recognize the digital natives of younger generations who embrace new technologies. This is where collaboration with FinTechs can play a critical role in offering innovative products that appeal to this younger demographic."

SCOTT YOUNG,
Head of innovation
PSCU

5 FIVE FAST FACTS

35%

Share of credit union members who are interested in using contactless debit cards

31%

Portion of bridge millennial CU members who would consider switching to competitors that offer more innovative products and services

61%

Share of credit union decision-makers who say it would severely affect their bottom lines if members obtained personal loans from competing FIs

23%

Portion of CU members who want innovative mobile banking capabilities from their CUs

53%

Share of credit union members who use credit products from competing FIs

FEATURE STORY

SAN MATEO CREDIT UNION ON PIVOTING TO MEET MEMBERS' CHANGING CREDIT NEEDS

The past year challenged CUs as in-branch visits slowed while the shift to online and mobile banking accelerated. Credit unions have had to pivot to stay competitive with banks and FinTechs at every turn during the pandemic — not least of all in attempting to meet members' changing credit needs. California-based San Mateo Credit Union (SMCU) is one such CU that has had to innovate its credit offerings to fulfill its members' most pressing demands at this time.

Credit unions can determine their members' evolving needs for specific products and services in a number of ways, but SMCU president and CEO Wade Painter said in a recent interview with PYMNTS that he has found value in issuing a quarterly poll. The poll asks members to share whether they would recommend a product or service from the company on a scale from 0 to 10.

Painter also said that SMCU signed an 18-month contract with a branding company to conduct focus groups with both members and nonmembers to learn which offerings they want most in these challenging times. Mortgages were the most popular loan last year, up by 25 percent year over year in part due to the lowest mortgage interest rates in history. SMCU responded by funding about $400 million in mortgages last year, up from $300 million in 2019.

"The markets have really been focused on fixed-rate mortgages because of the low rates," Painter explained.

The demand for auto loans, on the other hand, fell in 2020. Painter said the combination of members spending less, largely working from home and not traveling much reduced the need for vehicles.

NEW LOAN PRODUCT ROLLOUTS

The pandemic tabled some plans while bringing others to the fore for SMCU, which serves more than 100,000 members across seven branches south of San Francisco. Its seventh branch was opened in Half Moon Bay just before the pandemic began, but a 30 percent year-over-year drop in branch transactions put further expansion plans on hold.

"Right now, it just doesn't make any sense to add another branch," Painter said. "But we are in the process of adding

an ATM in Brisbane, a community where we have no presence right now."

Other, unique offerings meanwhile have taken off. The CU added a new product last year for property owners who are looking to add an in-law or guest house on their property, as many families sought to hunker down and quarantine together. These Accessory Dwelling Units (ADUs) are defined as secondary, smaller dwellings on the same lot or attached to larger single-family homes. The idea came from county officials seeking to jump-start new housing construction to meet the demands of buyers faced with the high prices and low inventory in the Bay Area. SMCU's short-term financing is designed to help borrowers finance these units, as permitted by regulators, with interest-only loans, advanced monthly, for a maximum of one year. The CU has issued 10 of these types of loans to members so far.

"The various city governments streamlined the approval process to get these units built and asked lenders to provide the financing like a mini-construction loan, and we agreed," he said. "We're basically lending on the value of their primary, existing home."

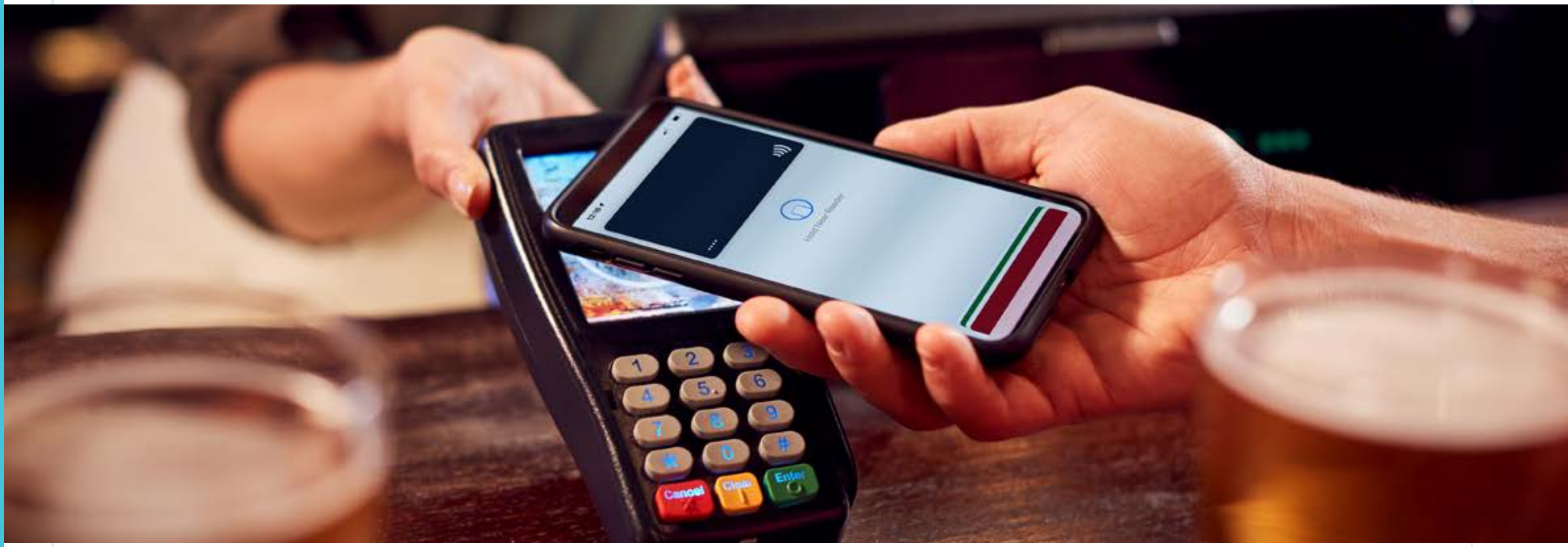
JUMP-STARTING GROWTH

With the unveiling of the Paycheck Protection Program (PPP) by Congress last year, SMCU's local government also looked to roll out its own relief program to support small businesses. The fund, called San Mateo County Strong, has distributed $12 million in grants to small businesses, such as childcare providers.

"The county had the money and came to us to explore whether or not we can play a role," Painter said. "As a result, we formed our own 501(c)(3), and in a matter of weeks we received money from the county, foundations and large businesses, [as well as] entities who wanted to support this grant program."

Offering timely, relevant products and services that support local communities can go a long way for CUs looking to bounce back in 2021 as members and businesses work to recover from financial hardships. Credit union service organization PSCU recently published five recommendations to help CUs grow as they forge ahead. This advice includes evaluating operational efficiency, leaning into digital experiences, assessing your CU's customer relationship management data for insights and targeting, initiating marketing to help maintain member engagement and evaluating strategic opportunities to expand. Tips such as these can help CU decision-makers address how best to pivot their own offerings.

NEWS & TRENDS



CREDIT- AND DEBIT-ENABLED DIGITAL PAYMENT SOLUTIONS

HOW CREDIT UNIONS CAN LEVERAGE CONTACTLESS CARDS, DIGITAL WALLETS TO DRIVE INNOVATION

The pandemic has prompted a sea change in consumers' payment habits, leading many to seek out contactless experiences to avoid physical contact with others and with surfaces. This behavioral shift is significantly boosting the popularity and usage of touchless payments and digital wallets in stores, online and via mobile, with recent PYMNTS data revealing that 50 percent of all payment cards will be contactless by the end of 2022. Many of these consumer shifts are expected to stick long after the pandemic ends — and CUs' investments and strategies must overwhelmingly be geared toward driving digital innovation, according to Jeremiah Lotz, managing vice president of digital and data at credit union service organization PSCU.

Lotz said during a recent interview with PYMNTS that encouraging members to take up contactless and digital wallet solutions has numerous benefits for CUs. He explained that digital wallet-enabled credit card and debit card purchases are up more than 30 percent and 50 percent year over year, respectively. Credit unions can thus earn increased revenues via card interchange fees as consumers grow more comfortable using their contactless cards or digital wallets for purchases. These efforts can also lead to positive interactions that prompt members to seek out additional CU products and services, such as investment and lending solutions. Lotz said that outreach will be crucial for members and merchants alike to continue embracing these and other digital payment innovations in the future, however.

REPORT SHOWS MORE CU MEMBERS ARE TAPPING CONTACTLESS CREDIT, DEBIT PAYMENT SOLUTIONS

New research shows that while contactless cards and digital wallets were already making headway among consumers and FIs before the pandemic, their popularity has exploded since. More than 160 million Americans are currently using the tools, up from 30 million before the pandemic began. One recent study found that contactless transactions grew at twice the rate of those for traditional credit cards at pharmacies and supermarkets between February and March 2020 alone. This massive boost in adoption has naturally made offering contactless cards and digital wallets much more tempting for credit unions, despite earlier hurdles regarding the limited availability of point-of-sale (POS) solutions that could facilitate contactless payments.

Many credit unions also expect members to continue using these options long after the health crisis ends, and recent studies support this assertion. A Mastercard survey from November found that 51 percent of U.S. consumers were tapping contactless payments, while another study predicted that contactless card transactions would jump eightfold between 2020 and 2024. Members are growing fonder of linking their traditional payment credentials to contactless options as well, with Navy Federal Credit Union finding that almost half of its credit card users can leverage contactless payments. These trends indicate that contactless solutions will remain appealing to members as the pandemic abates and more brick-and-mortar retailers reopen.

SURVEY SHOWS SPIKE IN CU MEMBERS' USE OF CREDIT AND DEBIT CARD-ENABLED TOUCHLESS PAYMENTS

Other recent findings have also indicated that contactless solutions and mobile wallets — once considered "nice-to-have" technologies — are fast becoming table stakes for credit union members. PSCU's 2020 *Eye on Payments* survey found that the pandemic prompted CUs' card-not-present (CNP) credit and debit payments activity to jump by 21 percent and 24 percent year over year, respectively. PSCU's new monthly Payments Index report also determined that credit card- and debit card-enabled touchless transactions more than doubled between January 2020 and March of this year, further highlighting members' trends toward adopting digital solutions.

The survey did find that CU members tend to favor debit over credit, but Norm Patrick, vice president of Advisors Plus Consulting at PSCU, explained that this merely underscored CUs' need to highlight credit solutions' benefits. Some of the advantages that credit cards offer, including alerts, card lock functions and other security options, are also easily accessible via contactless methods.

MEETING MEMBERS' PANDEMIC-DRIVEN NEEDS

NATION'S CUs FACILITATE MORE THAN 121,000 PPP LOANS DURING LATEST GOVERNMENT FUNDING ROUND

The nation's small businesses are continuing to fight back from the brink of closure during the pandemic, and government-backed efforts that can keep them afloat remain popular. Recent research shows that credit unions are paving the way toward helping small to mid-sized businesses (SMBs) access critical funding, with more than 800 CUs across the nation facilitating almost 121,000 Paycheck Protection Program (PPP) loans during the U.S. government's latest round. This represents roughly $4.6 billion in funding, with an average CU-facilitated PPP loan size of $37,699, and data shows that credit unions account for 16 percent of the nation's PPP lenders.

Redwood Credit Union (RCU), based in Santa Rosa, California, has been particularly notable in its PPP efforts, as it has facilitated approximately 3,600 PPP loans with an

overall value of $193 million. Research shows that RCU's loan efforts may have saved as many as 17,000 jobs, illustrating the critical role that credit unions are filling in helping SMBs recover from health crisis-related economic uncertainty.

STUDY OUTLINES CREDIT UNIONS' STRATEGIES TO AID MEMBERS DURING THE PANDEMIC

Credit unions' efforts to assist members hit hard by the pandemic have extended beyond SMBs. One survey found that their approaches to offering relief over the past year have ranged from fee refunds, emergency loans and payment deferrals to financial counseling and community support initiatives. It revealed that 13 percent of CUs automatically enrolled their members in payment deferral programs, and 72 percent of those that did not said it was because such deferrals were not necessary for all borrowers. Seventy percent of CUs, meanwhile, have adjusted their repossession strategies during the health crisis, either by slowing these processes or halting them entirely. Many have also examined individual members' circumstances before proceeding with their repossession plans, according to the report. These moves signal that credit unions are likely to continue supporting members' specific financial needs even as the economy slowly recovers from the pandemic.

UK CREDIT UNION CREATES £2 MILLION PANDEMIC RELIEF LOAN FUND

One United Kingdom-based credit union has launched a loan fund to help members dealing with pandemic-driven strains get their finances back on track without resorting to riskier loan options. Bradford District Credit Union said its £2 million ($2.8 million USD) Unlocking Loan initiative offers a low interest rate and coincides with the nation's reopening of certain business sectors, including hospitality and retail. The loans are currently offered to employed and self-employed members as well as to payroll scheme employees, and they are available via online application only. They feature a flat monthly interest rate of 1 percent and an annual percentage rate (APR) of 12.7 percent for loans valued between £2,000 and £5,000 ($2,800 to $6,900 USD), and loan decisions will be made within three business days. The CU said the offering is intended to prevent members from turning to illegal or high-risk lenders to receive much-needed funding.

CU DEVELOPMENTS

HOW CREDIT UNIONS CAN LEVERAGE LOYALTY, CUSTOMER SERVICE TO COMPETE WITH FINTECHS

Many CUs are looking to compete with FinTechs and other digitally focused financial services providers, and research shows that they are turning to emerging technologies to do so. Recent data reveals that 53 percent of credit unions have deployed APIs, for example, while 51 percent have invested in cloud-computing solutions to stay relevant amid the influx of digital competitors.

The CUNA has spotlighted several key strengths upon which CUs can capitalize, however. It said that credit unions should make the most of their customer service-oriented business models to determine how to best connect with members and roll out the services and innovations they need. The association also pointed to fostering trust and product customization as crucial considerations for CUs as they confront the digital shift.

NCUA PLANNING SUMMER SESSION TO HELP CU LEADERS SPOT AND ADDRESS CYBERSECURITY THREATS

CUs' digital strategies could also make them more vulnerable to cyberfraud, a realization that has prompted the National Credit Union Association (NCUA) to host a tabletop exercise on cybersecurity best practices within the coming months. The NCUA has stated that pandemic-related fraud schemes, including those targeting stimulus payments, continue to plague credit unions, making it necessary for CUs to reexamine their cybersecurity training and general security measures.

Johnny Davis, the NCUA's special adviser to the chairman on cybersecurity, explained that CU employees' shifts toward remote work are also creating security challenges. He also said the NCUA hopes to hold a forum on cybersecurity this fall that can help credit union executives better identify internal fraud threats and behaviors that indicate bad actors at work.

DEEP DIVE

HOW CUs ARE BEING CHALLENGED TO **OFFER MORE INNOVATIVE PRODUCTS**

The ongoing COVID-19 pandemic has overwhelmingly affected the U.S., claiming the lives of more than 550,000 Americans and taking a massive financial toll on countless households. The pandemic's economic fallout has caused job losses and shrunk savings and retirement accounts, with few going untouched.

Recent research has revealed the depth of consumers' financial pains. Washington, D.C.- based nonpartisan think tank the Pew Research Center found that 25 percent of consumers are having difficulty paying their bills, one-third of households have experienced reduced hours or a pay cut and one-quarter of homes hold someone who is jobless. Another study by the National Endowment for Financial Education (NEFE) found that these issues are not bound by race or income levels, revealing that 79 percent of wage earners making both less than $50,000 and more than $100,000 are worried about their finances. The health crisis has also pressured many into questionable financial decisions that could have a lasting impact. NEFE's research shows that one-third of consumers are using savings or retirement funds to pay bills, while 17 percent have had to borrow money and another 12 percent are deferring payments.

It is perhaps not surprising that consumers' need for and use of credit has continued to remain at high levels over the course of the pandemic. American consumers collectively held $4.1 trillion in outstanding credit as of February 2021. Credit union members, meanwhile, owed $493 billion in outstanding credit during the same month, according to the Federal Reserve.

The ongoing crisis has given CUs the opportunity to meet the needs of these members for innovative credit offerings. A significant share of CU members unfortunately look elsewhere for credit products. PYMNTS' Credit Union Innovation Study shows that more than half of CU members use other FIs for this purpose. This month's Deep Dive explores how innovative credit offerings can help CUs manage the threat of portfolio leakage — something 51 percent of CUs identify as an invisible threat.

CU MEMBERS WANT INNOVATIVE CREDIT EXPERIENCES

Portfolio leakage represents a multifaceted threat to CUs today, with a significant share of CU members seeking credit products from other FIs. This is especially the case with credit cards, mortgage loans and refinancing and personal loans, as 86 percent, 66 percent and 62 percent of CU members use other FIs' offerings for these, respectively.

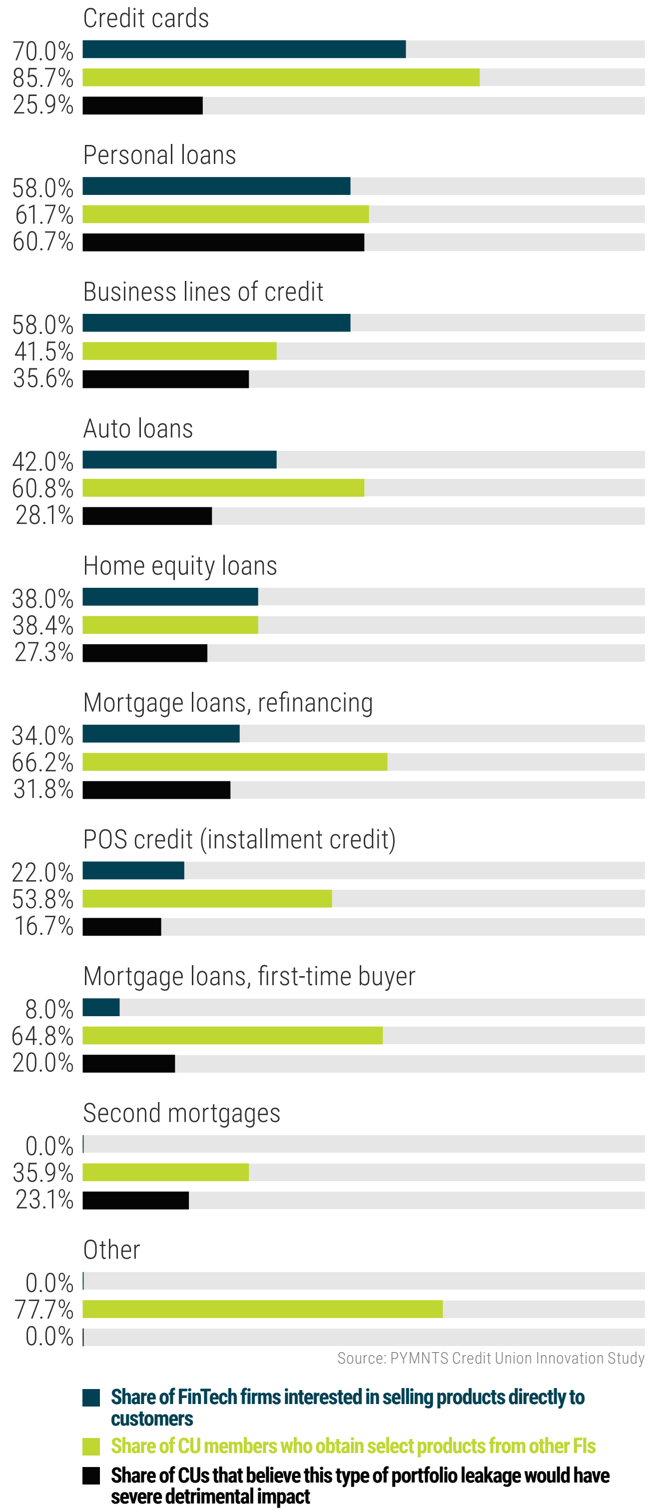
The threat of losing customers to FinTechs looms particularly large. Seventy percent of FinTechs are interested in offering credit products to CU members, for example, while 58 percent want to offer personal loans.

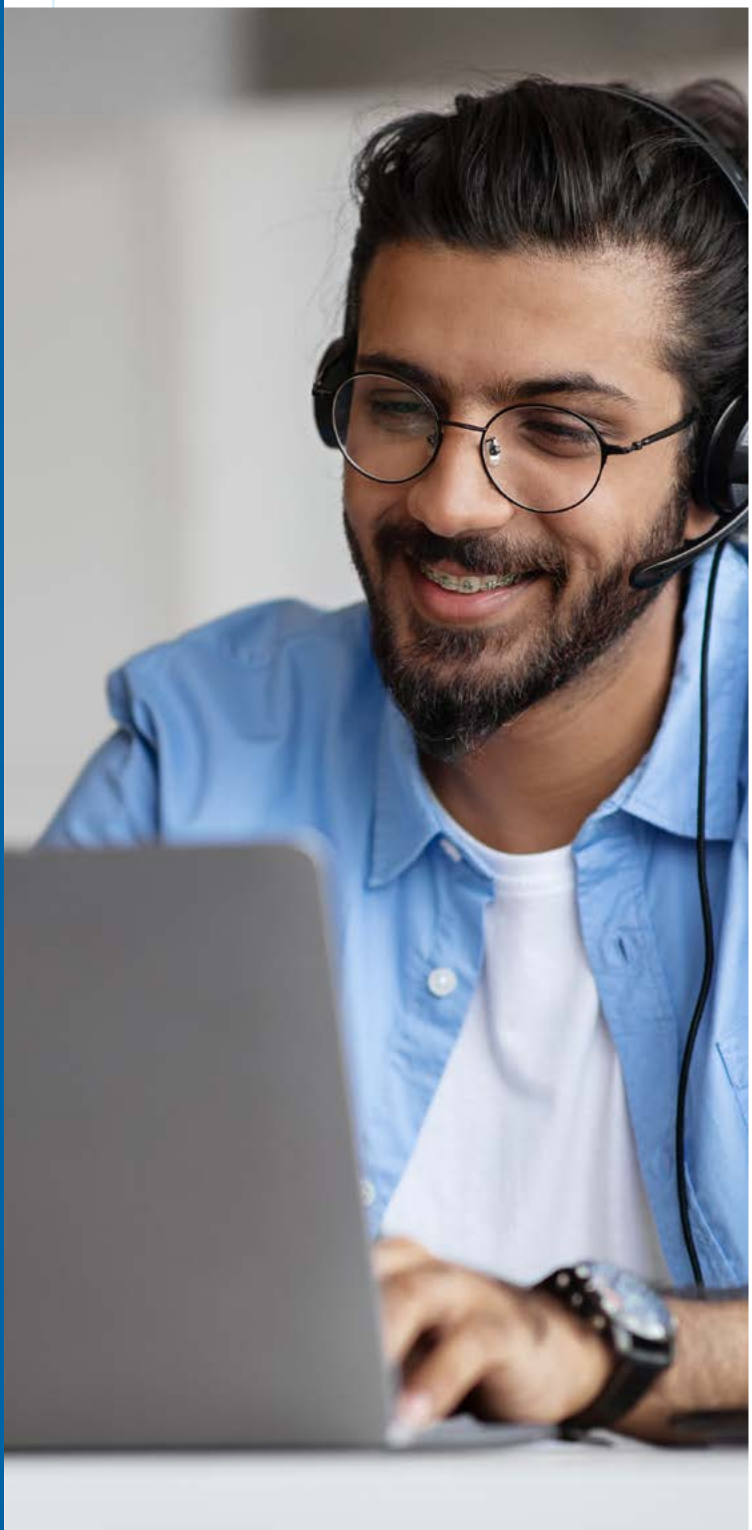
CUs recognize this threat. Sixty-one percent of CUs say that having some of their members obtain personal loans from other FIs would have a severe impact on their

Figure 1:

Measuring the invisible threat of portfolio leakage

Share of FinTechs interested in selling products to CU members directly versus share of members who obtain select products from FIs that are not their primary CUs





finances. More than a quarter of CU decision-makers say the same for auto loans and their home equity portfolios.

Despite the recognition of these threats, many CUs find themselves struggling to roll out innovations for a variety of reasons. Chief among them is their continued reliance on a remote workforce — a factor that has hampered innovation for 81 percent of CUs. Complex internal decision-making processes and a lack of budget are also cited by a more than one-third of CU decision-makers.

These challenges have been exacerbated by the pandemic, yet some of these factors are also long-standing issues that CUs have grappled with since PYMNTS began studying CU innovation three years ago.

KEEPING FINTECHS AT BAY

Several key approaches can help CUs overcome these challenges and improve on their credit offerings. Nearly 55 percent of CU decision-makers identify having processes in place for employees to make suggestions as an approach that is critical to the innovation process. Testing innovations with members and doing business case and ROI calculations are other factors that approximately 50 percent of CU decision-makers value within the innovation process.

CUs would also do well to bring in outside help to put their innovation plans into overdrive. Nearly 41 percent of CU decision-makers believe that partnering with CUSOs can help them get a leg up during innovation, as these organizations can help their CUs avoid releasing new products and services that fall short of members' needs and expectations.

It is worth remembering in the end that members are more than willing to seek access to innovative credit products from other FIs, even if they might not leave their CUs. It is thus imperative for CUs to assess the impediments to their credit innovation strategies and act on them without delay.

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