



Make intelligent rate decisions

Over the past year or so, credit unions have experienced fast asset growth, weak loan demand, and plunging market interest rates. The fast pace of this change has required decision makers to closely monitor their portfolio and pricing decisions.

Nevertheless, credit unions' regular share account dividend rates fell by less than one percentage point during 2001. That's important because regular shares account for nearly 40% of the total dollar amount of credit union deposits. Not surprisingly, funding costs didn't fall as fast (or as far) as asset yields in 2001. And earnings declined as a result.

Credit union decision makers intuitively understand these relationships. But decision making has been complicated recently by the increasing speed of change. The technological changes that have allowed the industry to make real-time inventory adjustments have forced the Fed to speed up its monetary policy responses. Credit unions are thus faced with more rapidly changing market interest rates.

CUNA's market research department recently completed an interesting study of credit union pricing decisions. In particular, it sheds light on why credit unions were relatively slow to change deposit rates last year. Key survey findings include:

• Credit union management typically suggests initial rate pricing changes. Overall, nearly three-quarters of credit unions say this is the case. But results differ widely by credit union asset size. Small credit unions are much more likely than their larger counterparts to say their boards (not management) suggest initial pricing changes. Among credit unions with less than \$5 million in assets (40% of all credit unions), one-half say their boards suggest initial rate changes.

• While management usually suggests rate changes, boards typically make the final rate-change decision. This is true despite the fact NCUA has expanded the rate-setting authority boards can delegate to management (see NCUA opinion letter 01-344 at www.ncua.gov). Overall, 83% of credit unions say their boards approve these decisions (though larger credit unions say management is almost as likely to do so.)

Credit unions are generally responsive to market rate changes, but they don't immediately react to those changes. More than two-thirds of credit unions (69%) say they meet monthly to evaluate rate changes. About 20% of the smallest credit unions meet less frequently than monthly to improve any changes.

At the other end of the spectrum, only 2% of responding credit unions say they evaluate rate changes daily, while 11% meet weekly to do so. The nation's largest credit unions are most likely to meet weekly to evaluate rate changes.

While it might not be necessary or desirable to consider frequent changes to loan and deposit rates, it's vitally important to approach those decisions with good competitive intelligence. That means keeping a close eye on the other financial service providers in your market.

Credit unions say they do this in several ways. Nearly two-thirds of credit unions use staff to collect rate intelligence and 15% use outside providers to obtain this information. One in five survey respondents say they use a combination of outside providers and credit union staff.

Outside providers can be a great way of obtaining rate information. These vendors typically provide timely, accurate data while freeing credit union staff from laborious, time-consuming phone surveys.

To that end, credit unions should know that CUNA has recently partnered with Datatrac—the nation's premier provider of customized, comprehensive rate data. Datatrac offers credit unions competitive intelligence through fax, e-mail, or Internet reports, including free daily rate alerts with a 100% accuracy guarantee. Our recent survey shows that credit unions using Datatrac's services score their rate intelligence process higher than do those that use other data services.

There's clearly no "right way" to approach pricing decisions. This past year, however, demonstrated the importance of good, timely information combined with management pricing flexibility. Boards that haven't done so should seriously consider giving management these tools.

For more information, call Datatrac at 800-257-7101, ext. 4 or visit www.datatrac.net/cuna. ■

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