

## Board Discussion Kit

# Evaluating Board Policies to Improve Competitiveness: An Analysis of Delegating Rate-setting Authority to Management

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### Overview

Times have changed, but many credit unions' rate-setting policies have not. This board discussion kit gives an overview of trends in the market and features three case studies of credit unions that have delegated rate-setting authority to management, providing you with perspectives on why and how you may want to change your credit union's policies.

#### **Requiring the board of directors to approve rates on a monthly basis may be limiting credit unions' ability to compete**

Consider these facts:

- Nearly 70% of credit unions change rates on a monthly basis, although larger credit unions are more likely to price weekly or daily.
- The board is involved in approving final rate pricing decisions in 83% of credit unions, although in larger credit unions boards are more likely to delegate rate-setting authority to management.

Source: *2002 Interest Rate Setting Survey* conducted by CUNA & Affiliates

#### **Experts in the credit union movement advocate more frequent rate evaluations/approvals**

In an article entitled "Make Smart Rate Decisions," (*Credit Union Magazine*, May 2002) Mike Schenk, Vice President of Economics and Statistics for the Credit Union National Association (CUNA), says "[T]echnological changes...have forced the Fed to speed up its monetary policy ...[and]...[c]redit unions are thus faced with more rapidly changing market interest rates...Credit unions...don't immediately react to those changes. More than two-thirds of credit unions (69%) say they meet monthly to evaluate rate changes...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."

#### **To increase credit unions' competitiveness, regulators gave boards of directors more flexibility to delegate rate-setting authority to management**

In May 2001 the National Credit Union Administration expanded the rate-setting authority that boards of directors may delegate to management to increase credit unions' competitiveness. (See NCUA opinion letter 01-3444.) "[A] board may delegate to a committee comprised of senior management officials its authority to set loan interest rates...[The] board could set a range of loan rates for each kind of loan and delegate to the committee the authority to adjust rates within those limits...We recognize that a quickly changing interest rate environment may require...adjust[ing] dividend rates quickly to remain competitive and operate in a safe and sound manner. We also recognize that [a] board may not be able to react quickly enough in these circumstances. Accordingly, we believe that the...board may delegate its authority to set dividend rates to a committee comprised of senior management officials in the same manner it may delegate its authority to set loan interest rates."

## Credit Union Case Studies

### **Case studies highlight models credit unions use to become more competitive**

The case studies on the following pages feature three credit unions where the board of directors has delegated rate-setting authority to management, including the specifics of their rate-setting policies and reactions from management and board members on how this change has affected the credit union and its membership.

### **Case Study #1**

Semiconductor of Maine Federal Credit Union  
South Portland, ME  
Asset Size: \$8 million  
Charter: Federal

#### **The board is approached with a suggestion**

When Dan Clarke left a \$70 million credit union in New Hampshire in 1999 to become CEO of Semiconductor of Maine FCU, he approached the board of directors with a suggestion: He said “It is important for me to stay on top of rates. Why not delegate rate-setting authority to management and let me make these decisions and keep you informed?” Clarke says “When I came here, SemiFCU was setting rates once a month when the board met. The markets can change quite a bit in three or four weeks and we needed to react.” The credit union has since added money market and certificate accounts. Management has the authority to change rates up or down between board meetings and the board is informed by email of any rate changes. The board still sets the regular share rate or member dividend.

#### **The board chairperson’s view**

Current Board Chairperson Sandra Zook-Gava says, “After discussing it with Mr. Clarke, the board agreed. Times have changed. We needed to empower management to make changes in a timely fashion to keep our credit union strong and healthy and to keep pace with the competition.”

#### **Some advice for credit unions considering this change**

Clarke advises credit unions considering this change to keep the board informed. “This means giving the rationale behind rate changes, as well as the actual change. For example, the Fed lowered rates 50 basis points on this date, so we are changing the following rates to react to the new interest-rate environment.” Clarke adds that 100 basis points works well as a parameter within which management can set rates in a given month. “Of course, in January 2001 rates changed so rapidly and in such large amounts that this may have been a problem.” The credit union uses Datatrac’s weekly rate intelligence program offered in conjunction with CUNA & Affiliates to evaluate their liquidity needs and get current updates on what the credit union’s competitors are charging at exactly the moment the rate-setting decisions are being made.



## Case Study #2

SRI Federal Credit Union  
Menlo Park, CA  
Asset Size: \$25 million  
Charter: Federal

### **The board uses new regulatory powers to delegate rate-setting authority to management**

In 2002, SRI FCU's board of directors decided to delegate rate-setting authority to the credit union's asset/liability management committee. The main motivation to do so was based upon the credit union adding share certificates as a product offering. The ALM committee meets once a week to evaluate and adjust rates within 50 basis points of local market surveys conducted by Datatrac. The board reviews the ALM committee's changes on a monthly basis and the policy on an annual basis. Steve Bowles, CFO for the credit union, says "With CDs, we believe it is important to adjust rates frequently. We have a lot of large balance accounts that could leave the credit union if we are not competitive. When CDs rollover, it is important to not be paying too much above the market."

### **Many reasons motivate the change in board policy**

Peter Gibb, board chairman, says "We changed the method of approving dividends for several reasons: SRI is a research enterprise and we noticed an acceleration in the amount of information and an acceleration in the time period in which that information is available to consumers. Applying this to the credit union, we felt in today's rapidly changing interest rate environment, we were doing our members a disservice by waiting for the next board meeting to change rates. Many of our members are scientists at the top levels of their fields and demand the highest quality service. We also wanted to restructure our share products, allow the board to focus on planning, and ensure a consistent approach to setting dividends. To meet these needs, we have given our management team the tools they need to keep the credit union competitive."

### **Some advice for credit unions considering this change**

Bowles also worked at the \$500-million-plus Nassau Educators FCU in New York. He gives the following advice to credit unions considering this change. "Our ALM committee is made up of three managers and one volunteer. I feel it is important to include the Operations Manager since she is hearing member feedback everyday about our rates. Another piece of advice: Sometimes we have preliminary discussions by email to keep the meetings short and focused."



## Case Study #3

Anheuser-Busch Employee's Credit Union  
St. Louis, MO  
Asset Size: \$600 million  
Charter: State

### **“Often it is about timing...”**

Since 1998 management has had the authority to change rates at any interval deemed necessary. Management typically meets weekly to evaluate and approve new pricing. In the case of mortgages, rates are evaluated daily within guidelines set and monitored by the senior management team. Larry Hoffman, CFO for Anheuser-Busch Employee's Credit Union, says “We approached the board about a change in our rate policy because the old policy was just too inflexible. It is not always an end-of-month phenomenon. Often it is about timing—*when* rates change or having sufficient lead-time to promote and advertise a rate promotion.”

### **Flexibility within guidelines**

The original policy required that a proposal be prepared for the board weeks before the meeting but was effective the next month after the meeting. This created a minimum 30-day lag between observation and implementation. “Now the reaction time is much quicker and we even allow our loan officers to change rates up to 25 basis points versus posted rates to be more competitive when a member mentions someone else's rate,” says Hoffman.

The board still sets the regular share rate, or member dividend. This is evaluated monthly when the board meets. Sara Stobbs, Chairman of the Board at the time the change to management rate-setting began, says “With rapidly changing interest rate environments and increased competitiveness, we felt we needed to give management more flexibility to move with the market. This has resulted in a more satisfied membership and a stronger bottom line.”

### **Datatrak serves as the basis for pricing decisions**

The senior management team uses Datatrak's rate-intelligence product to stay on top of the competition's moves: Hoffman says, “Prior to using Datatrak, we had to rely on branch managers to obtain competitive information—the results were still not complete nor accurate most of the time. As a result, decisions regarding rate setting were second-guessed. Since Datatrak has a large database and a consistent process, we now have a higher confidence of data that serves as the basis for our pricing decisions.”



## How Datatrac Can Help

Please call Datatrac for a free consultation. Changing your board policies may change your rate intelligence needs. Consider the following benefits of Datatrac's rate intelligence service.

- **Datatrac Is Number One in Satisfaction!** In a survey of credit unions that use a rate intelligence provider, Datatrac was rated highest overall in satisfaction.\* In fact, Datatrac was rated highest by users for timeliness, accuracy, method of distribution, usefulness of reports, and completeness of data.
- **Datatrac Delivers Accurate and Timely Rate Intelligence for Informed Decision-Making!** Since your credit union's competitiveness and asset-liability management depend on the rates you set, you need to be able to trust the rate intelligence you're using to make your price-setting decisions. One of the key advantages that makes Datatrac better is our 100% Accuracy Guarantee.

In today's competitive market, it is important to make timely decisions about your rates. Datatrac lets you track 10 local competitors weekly, *and* delivers daily Rate Alerts that keep you up-to-date of new competitor rate changes and special offers. Competitive pricing decisions can't wait.

- **Datatrac Makes Your Rate-Intelligence Gathering and Rate-Setting Process Easy!** If you're not getting weekly rate intelligence on multiple competitors, daily Rate Alerts, and complete, easy-to-use reports by email, fax or online—you may be doing things the hard way. Datatrac delivers all this for pennies per rate—on the day and the time you want it. Automatically.

**Dare to Compare! Test your Rate IQ and ask about our FREE 30-day evaluation period!**

Visit [www.datatrac.net/cuna](http://www.datatrac.net/cuna) today and check your credit union's Rate IQ to see how your rate intelligence gathering and analysis process stacks up.

### Detailed Features of the Datatrac Rate Intelligence Service:

- The largest interest database in the industry with over 4 million rates updated annually for over 12,000 financial institutions
- EXCLUSIVE 100% Accuracy Guarantee — it's right or it's FREE
- Discounted credit union packages available through Datatrac's strategic alliance with CUNA & Affiliates for as little as 7 cents per rate
- EXCLUSIVE *RateAlert* daily emails and just-in-time research provide the competitive information you need with unparalleled timeliness — you'll know about your competitors' offers BEFORE your members do
- Timely, formatted reports highlight your credit union's market position with executive summaries for board meetings
- Choice of report formats and delivery methods (fax, email, Internet) all for the same low price
- Details of risk-based and relationship pricing

**To order or learn more, call a Datatrac research consultant at 800-257-7101, ext. 4!**

\*Based upon a survey of 2,000 credit unions conducted by CUNA & Affiliates in 2002.





## Side-By-Side Comparison:

### How does your competitive rate intelligence compare to Datatrac?

*Dare to compare! Use this worksheet to find out if Datatrac is the rate intelligence service you've been looking for.*

	Professionally outsourced		"Do it yourself"
	DATATRAC	Other provider (Yes or No)	In-house (Yes or No)
<b>Are You Satisfied With the Quality of Your Rate Intelligence?</b>			
Completeness of Data - <i>is all of your data complete?</i>	Ranked #1 by credit unions*		
Timeliness - <i>is every report up-to-date and on time?</i>	Ranked #1 by credit unions*		
Accuracy - <i>is your data guaranteed for accuracy?</i>	Ranked #1 by credit unions*		
Ability to keep the credit union competitive - <i>are you on top of the competition?</i>	Ranked #1 by credit unions*		
Effectiveness in reducing interest-rate risk - <i>are you reacting quickly to the market?</i>	Ranked #1 by credit unions*		
Method of distribution - <i>do you have a choice of fax, email or Internet reports?</i>	Ranked #1 by credit unions*		
Usefulness of reports for pricing analysis - <i>are your reports formatted for decision-making?</i>	Ranked #1 by credit unions*		

	Professionally outsourced		"Do it yourself"
	DATATRAC	Other provider (Yes or No)	In-house (Yes or No)
<b>How has Datatrac earned a #1 ranking?</b>			
<i>See for yourself -- compare your rate intelligence to Datatrac.</i>			
Are your reports meeting-ready with complete data & analysis?	Yes		
Do you know about competitor specials before your members do?	Yes		
Do you see your local competitive ranking at a glance?	Yes		
Can you spot competitor rate changes instantly?	Yes		
Is your market position calculated and graphically depicted?	Yes		
Can you instantly pinpoint rate volatility? (up, down or no change)	Yes		
Are your reports available via email, web or fax at the same price?	Yes		
Are all current competitor specials included?	Yes		
Are you informed daily of the latest local market changes?	Yes		
Is your data backed by a written 100% Accuracy Guarantee?	Yes		
May you select any list of competitors to be monitored?	Yes		
Are loan AND deposit rate intelligence solutions available?	Yes		
Is an experienced research team assigned to each report?	Yes		
Do you receive annual CUNA & Affiliates discounts up to 50% off?	Yes		

Questions? To order or talk with a Datatrac research consultant, call 800-257-7101, ext. 4. Or visit [www.datatrac.net/cuna](http://www.datatrac.net/cuna)

\*Based upon a survey of 2,000 credit unions conducted by CUNA & Affiliates