

Loan Shops

The finance company model—as ubiquitous on the American landscape as the bank branch—has long been regarded as the financial industry’s poor cousin. But its success at increasing consumer loan market share indicates there are lessons to be learned from this profitable model. Finance companies have a record of good customer service, convenience, and specializing in what they do best—consumer lending. Several credit unions have already adapted those characteristics to profitable branch management.

BCU (formerly Baxter Credit Union) in Vernon Hills, Illinois, is a credit union noted for its superb lending programs. It has twice won the “Excellence in Lending” award, given by the Credit Union National Association’s Lending Council for best lending practices. Many of its senior executives were formerly executives at Household Finance Co. BCU’s emphasis on “magical moments” of exceptional member service indicates that the credit union has learned from the finance company model of customer service.

For the most part, credit unions have avoided the finance company or loan shop model. There are numerous reasons for this, including the credit union tradition of gaining deposits before loans, the tawdry image of finance companies and the perception that the membership would disapprove. A few credit unions, though, are taking a second look and finding the loan shop model a promising strategy.

Solutions from MontereyCU

One of the first loan shops was developed by Monterey Credit Union, originally chartered to serve



Monterey Credit Union (CA)

Data as of 12/04

Assets	\$177,182,735
Members	21,902
# of Branches	5
Members/Branches	4,380
# of Employees	70
Employees/Branches	14
ATMs	15

civil service employees of the Naval post-graduate school in Monterey, California. Today, the \$177 million credit union has a community charter that serves four counties with a current membership of 22,000 and a potential membership of 1 million. They have five branches and are in the process of building a sixth.

“Solutions from MontereyCU” was designed in 1998 as a retail store; members can walk in the 24-hour vestibule with a card swipe using any MontereyCU credit or debit card. Inside the location, members can use an ATM for cash withdrawals or deposits.

Members also have access to a kiosk that takes loan applications. The branch originally had business hours seven days a week and was staffed by employees with retail experience. Among employees and management the branch was known as “the store” to promote the retail image, differentiate it from the competition and to avoid the expectation of a traditional branch.

Proprietary research conducted by outside firms concluded that MontereyCU’s main competition comes from three banks—Bank of America, Washington Mutual and Wells Fargo. The credit union focuses on A and B creditworthy members. Unlike the three banks, it doesn’t offer business loans.

“Like Wells Fargo, we believed that electronic banking would bring greater convenience, lower costs and fewer branches,” said Ross Ramsey, MontereyCU’s vice president of marketing. “The reality was that wasn’t the case. The street presence is important. When it comes to choosing a financial institution, you don’t do it with a machine; you do it with a person.”

Successful but Deposits Lacking

In the beginning, the strategy called for members coming to the store to purchase a product or a service as their first goal. Members could make withdrawals and deposits via an ATM. The new location only took 18 months to break-even as opposed to the typical two to three years, a period average for traditional branches. In 2004, MontereyCU changed strategy and decided to develop more of a traditional branch with a teller line.

“The biggest problem was not collecting deposits,” said Ramsey. “Members didn’t deposit in ATMs as we expected. People just are not comfortable handing money to a machine. It is a trust level—they want to interact with a human being. You still need all of the delivery channels, but the only way deposits will happen is with a teller.”

Kiosks were another disappointment. Like using ATMs for transactions, members were reluctant to use the kiosk to apply for loans. If a consumer leaves his car, “he’ll want to interact with people, not a machine,” said Ramsey. Sunday office hours were another lesson learned—members avoided doing business on Sundays, so the credit union is now closed on that day, although the vestibule with the kiosk and ATM is still accessible on a 24 hour, 7 days a week basis.

“The loan store did very well. But your business has to survive on both sides of the balance sheet—loans and deposits. You need a street presence and a physical presence for collecting deposits is vital,” said Ramsey.

\$1 Million in Hot Dog Sales

“Location, location, location” is the mantra for real estate as well as retail success. “\$olutions from MontereyCU” followed this logic and located its newest branch next to a Circuit City, an Albertson’s and within walking distance to a Costco and Borders. To illustrate the mantra’s profitability, consider the compelling results of the hot dog stand located outside of Costco. The stand sells a soft drink and a hot dog for \$1.49 and had gross sales of \$1 million in a recent year.

Staffing for the original loan store was a challenge at first. Jobs openings were posted internally with the proviso that the new location would be open seven days a week. Lack of applicants among the current employees turned out to be an advantage, allowing the credit union to recruit people with retail and sales experience.

“The staff chosen is a big deal. We need employees that are able to engage people, who become known in the area,” said Ramsey. “It was the best thing that happened. We used incentives in a systematic way for the first time. The incentives did so well that other staff became interested and wanted to get jobs at the store.” CEO Stewart Fuller agrees.

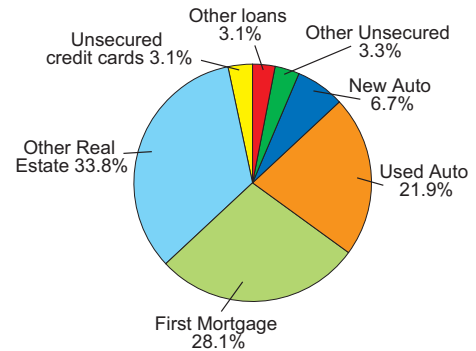
“It is very hard to teach bankers to sell effectively. You’re better off hiring sales people and teaching them the stuff of banking. We want sales people trained in the provision of products and services; people who are proactive and not afraid to engage our customers,” said Fuller.

Express Loan Office

Heritage Credit Union opened its Express Loan Office (ELO) on January 3, 2005 in the twin communities of Sauk City and Prairie du Sac, about 25 miles from its Madison, Wisconsin headquarters. Like the other case studies cited in this report, the \$110 million credit union wanted to develop a new branch without the high capital investment of a new building.

The loans-only branch has lower costs, including a storefront in Sauk City that rents for \$1,200 a month with a two-year renewable lease. Other operational costs—a two-person staff, a small safe, computers, laser printer and telephone system—are minimal.

Heritage Credit Union Loan Portfolio Composition



Data as of 12/04. Source Peer to Peer

In addition to low-cost, the strategy was focused on an easy entry and, if necessary, an easy exit. Heritage CU was able to set up an office quickly without a need for a security system since cash was unavailable to members. It was an attractive location with only three banks and no credit unions already serving those communities. And a major highway linking Sauk City to Madison is slated to be completed in November 2005.

Although similar to the finance company model, Heritage CU’s strategy differs in offering a “credit advantage program,” which teaches members how to increase their credit scores. All types of loans are offered, including real estate, home equity and credit cards. Collections and credit card processing is done at the main office in Madison.

Like the retail store that MontereyCU opened, Chief Executive Officer Bob Lestina said there was a need for a different type of employee. The key was to get right people, the type that are “friendly, bubbly, inviting and will ask you in for a cup of coffee.”

Heritage CU’s marketing strategy for the ELO, using direct mail and newspaper ads, focuses on four points of difference from traditional lenders:

- Highly competitive loan rates.
- Fast service and convenience. Loan turn-around time is less than other financial institutions because ELO staff focuses on lending and loan processing as a priority. The ELO offers extended service hours—from 11 a.m. to 7 p.m. on Mondays and Thursdays.

Design Strategies

Women Affect Strategy and Design

Men and women make their financial purchases through an unlikely mix of necessity, emotion and logic. Women, though, go through a different decision process than men—which has been affecting both branch strategy and design. Women are able to take in information quickly, but do not necessarily make quick or impulsive decisions, according to Cynthia Grow, vice president of creativity for DEI, a Cincinnati, Ohio architectural design firm for credit union and bank branches.

“Women look for opportunities to build relationships and dialogue. The relationship is key. They don’t want jargon, they want details of the product,” said Grow. “Women are time starved. They want the financial institution to make their lives easier. Women connect with emotional branding. A good example is Oprah Winfrey, who created her own brand by the way she interacts with women.”

Some of the suggestions to make branches more appealing to women include the creation of “conversational zones” that provide a comfortable environment to talk about products and facilitate interaction. Women are looking for a sense of uniqueness. The first impression is also important. If you aren’t greeted within 8 to 10 feet, it isn’t comfortable, said Grow.

Charlotte Metro Credit Union, \$132 million in assets, illustrates the effect women are having on branch design and strategy. In 1994, the management and board of directors considered the typical member to be male and about 40 years old. When Deb



Charlotte Metro CU (NC) Data as of 12/04

Assets	\$132,040,636
Members	31,666
# of Branches	3
Members/Branches	10,555
Member Growth	4.99%
Loan Growth	5.56%
Share Growth	6.64%
Opex/Ave Assets	6.47%

McLean perceived the membership to be male was due to their observing primarily men in the lobby at 3:30 p.m., which coincided with the end of the workday for city and county employees. The survey showed that the women were using the drive-up lane because they had kids and getting out of the car was too much trouble, or they were on their way to pick up the kids after work.



“I could understand that because I was young, female and a parent. Women want to save time; they want education and information about the credit union’s services. They want the credit union to make their lives easier because they are busy with families, kids and jobs,” said McLean.

McLean and DEI’s Cynthia Grow redesigned the main branch to appeal to the main membership segment—women. The dark slate floor was replaced with beige tile; more lighting was added along with brighter colors. The new furniture offered more comfortable pieces and lifestyle photos featuring families were displayed on the walls. Marketing and educational materials were easily accessible. And a kid’s area was added to the lobby space (photo above).

Saving Time on the Teller Line

When a new member enrolls in the credit union, the staff immediately issues an ATM card. The member is walked over to the ATM machine to both receive and test her PIN number. This gives the staff a subtle means of teaching members how to use the ATM, which becomes their membership card. “You’d be surprised how many members don’t know how to use an ATM card, but are too embarrassed to admit it,” said McLean.

Therein lies an important lesson lost on many organizations. Consumers today are often befuddled and anxious with technology, but are reticent to admit to their techno-phobia. This can range from DVD monitors to ATM cards as Charlotte Metro CU learned. Management may assume their financial technology is easily learned and accepted, but that may not be

the case. Consumers complain that technology instructions are overly complex and written by technicians, which in most cases is true.

The ATM card also saves the member time at the teller line. The teller swipes the ATM membership card on the desktop computer terminal, which pulls up the member's account on the teller screen. This saves time since the teller avoids the labor intensive task of keying the member's account numbers. The teller also avoids continuous cash counting—a cash dispenser at each teller window completes the transaction and acts as a mini-vault. And this provides

same area offers information about products and services. Mothers can now bring their children into the credit union since an area designed for kids was developed. The area includes an enclosed sand table with Plexiglas on top with magnets hooked up to move animals through the sand. The television features Nickelodeon, which later needed a lock on the screen since members were turning the channel to watch programs like Jerry Springer, said McLean.

The growth of the credit union in the past 10 years can be attributed, in part, to the success of the redesign, according to McLean. In 1995, the credit

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back office efficiencies as well, since there are fewer errors because the numbers are automatically entered, and the cash dispenser balances automatically at the end of the day.

Charlotte Metro CU also provides an educational area with a personal computer allowing members to learn about on-line banking. A plasma screen in the

union had \$50 million assets; in 2005 it has over \$132 million in assets. And females now total 70 percent of the membership. Members realize that the new design made the credit union more convenient compared to a decade ago when it “was not welcoming,” said McLean.