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Not Just Lean & Meaner

CU Expects More From fewer Staff – But Pays For It, Too

By Frank J. Diekmann

ORLANDO-A credit union that has taken a sharp pencil to every expense, demanded more out of fewer-but higher paid-employees, and that reminds itself everyday of why it exists has turned itself into a peer group leader.

CEO Jim Warren said Tyndall Federal Credit Union has built its model upon three legs.

"We feel there are three things that are most important," said Warren. "First, build the right team. Second, improve expense ratios. It's not our money. Our average member makes \$18,000 a year. Every time we spend a nickel of it, we need to know where it's going. And third, we must improve loan quality and loan losses. We sell loans. These are not gifts."

Speaking to the first issue, Warren offered a thought that runs counter to what some CU executives preach. "This is not family. It's hard and it takes time," Warren explained. "This is a team. They have to bring something to the table, they have to deliver it, and we have to give it back to our members. And if they don't they can't stay. And in my opinion that's where so many teams fail. What's just as important as who is in this picture, is who is *not* in this picture. And that's the hard part."

Warren, in remarks before the League of Southeastern Credit Unions' annual meeting, said an effective leader's charge is to "get everyone on the same page. You have to pay your team fair. You have to pay people for what you want. Our board pays us to deliver high dividends, low loan rates and low fees. So when our members make more money, the executive team makes more money. Management's job is to maximize shareholder's wealth, although most members don't realize they are our shareholders. We don't make anyone rich, but we definitely make a difference in people's everyday lives. "

Part of the direction from Tyndall FCU's board is that the credit union must operate within an "ROA window."

That window means focusing extensively on TFCU's expense ratio, which Warren said was ahead of its peer group, before the credit union broke the \$1 billion in assets threshold and found itself among a whole new peer group. In 2004, the credit union's expense ratio was 4.4%, which meant it was spending \$11 million more annually to operate than the average credit union its size. Today that figure is 2.95%. "If we were still spending the 4.4%, we would be spending \$15 million more per year," Warren said. "You cannot underestimate the importance of getting your expenses under control and knowing where every penny goes. It takes work to get into those numbers and understand them."

Twisting An Assumption

In a twist on the old axiom, Warren believes the credit union must spend money in order to save money-when it comes to salaries and headcount. Its compensation package includes a bonus for the executive team that factors in member returns (such as Callahan & Associates' Return to Member data), how well it meets its ROA window, and metrics related to stability, efficiency, and growth. Other members of the management team are paid incentives according to operational expenses and loan growth, as Warren explained, "We want to make a lot of good loans but we don't want to spend any money doing it."

Tyndall FCU also provides incentives to front-line staff, but Warren admitted there are concerns. "I like this one, but then I worry. Tellers do such an important job and you have to keep all kinds of people happy. I worry about tellers probably more than anybody." Part of that compensation is based on ratings according to mystery shops. TFCU uses its own members to conduct those mystery shops, paying \$15 to \$18 per shop and requiring the member to fill out a long evaluation.

Larger Assets, Fewer Employees

As Tyndall Federal has grown its assets, it has continued to reduce headcount. In 1997, noted Warren, it employed 351 people. Today, it employs 254 people, yet its loan volume is 60% above where it was more than a decade ago.

"Good staff is not stupid," he said. "The average employee six years ago was making \$34,000, today it's \$53,000 or \$54,000. We ask for a lot, but we treat staff fair. We have also improved health care reimbursements."

In another inverse, Warren expressed satisfaction with what he dubbed the credit union's "misery index," that is its delinquency ratio combined with its charge-off ratio. For Tyndall FCU, that figure is .9%, versus a peer group average of about 3%. "As of today, that's a \$12 million difference," he said, referring to

what the loss figure would be were TFCU at the peer group average. "Add that to the \$14 million (in expense reductions), and that's a lot of money going back to members."

In keeping with the return-to-member philosophy, and not due to recent Reg E changes, Warren said Tyndall FCU has made adjustments to the "cash cow" that is courtesy pay. "We started it and started making a killing," he acknowledged. "But we're not paid to make money *off* the members, charged to make money *for* the member." As a result, it recently reduced to \$20 from \$27 its overdraft fee."

Tyndall FCU has now set new benchmark goals having broken the \$1 billion in assets threshold and with a whole new group of peer group averages to meet and exceed. "We broke \$1 billion in assets and it killed us," he said. "Now we're playing with the big boys. It is painful to cut operating expenses. We were down to 2.95%, but our new peer group average is 2.6% or so. It never ends. Now we need to get even better."