

Member Feedback Highlights

Growing Financial Management Needs

As the economy continues to worsen, even credit unions in relatively better-faring parts of the country need to consider the potential financial management changes their members may be making.

Continued unemployment levels are helping to trigger increased credit card delinquencies, and many states are now reporting growing problems with even prime mortgages.

To better understand the economy's impact on individual credit unions and their markets, Callahan's Internet Strategy Consortium recently conducted an online survey of over 13,400 members. Nine in ten members reported that the economy has had an impact on their financial situation, ranging from a strong impact to little impact. Only 9% reported no impact. Among the 11 credit unions participating in the survey, there was significant variation in the proportion of members reporting some impact versus those reporting a moderate or strong impact. For example, one credit union had 44% of members reporting a strong or moderate impact, while another credit union had only 29% of members in those categories.

These numbers suggest the need to imple-

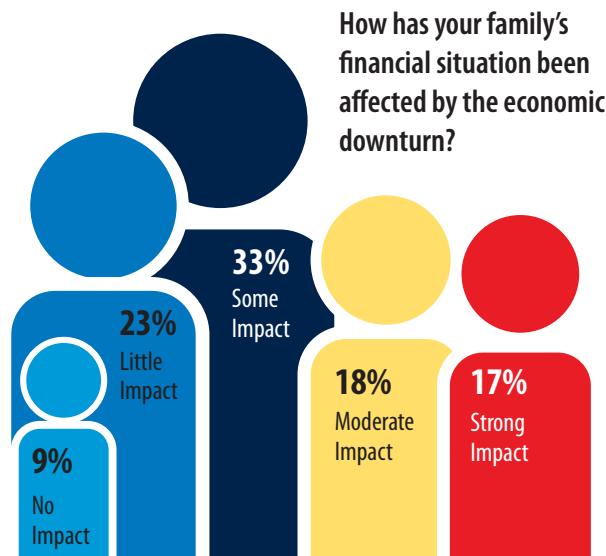
ment different types of programs at these credit unions to combat member concerns. Understanding how the economy is affecting your membership is critical to developing the most effective programs to help members who need financial assistance, backed by targeted communications to address member concerns.

Understanding the Impact of Member Concerns

Despite the fact that the economy may have had little impact on their family finances, almost all of the members (97%) reported making changes in how they are managing their finances. These changes are affecting both their spending habits as well as the way they are managing their existing debt.

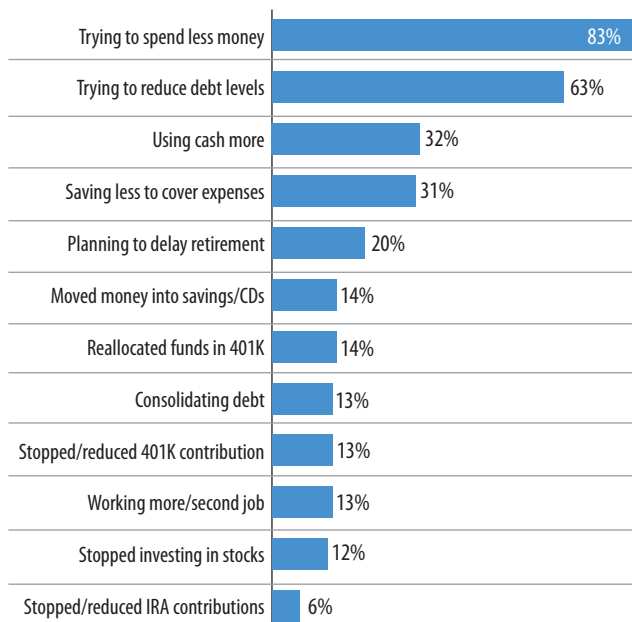
Eight in ten members reported that they are trying to spend less money. More than half (59%) are trying to reduce their debt levels. Members also report using cash more (31%) and saving less in order to meet current expenses (35%).

Actions taken vary based on the member's current financial situation. Members who say the economy has had a strong impact on their financial situation are most likely to consider bankruptcy (20%), and have canceled credit cards (28%). About one-fourth of these members say they have tried unsuccessfully to re-finance a loan. However, very few of these members have taken some of the steps that could help them, such as credit counseling or requesting payment relief. While the reasons for failing to act are not specifically known, awareness and understanding of credit union programs and options may be one issue, as many members reported being unaware of their credit union's financial planning and



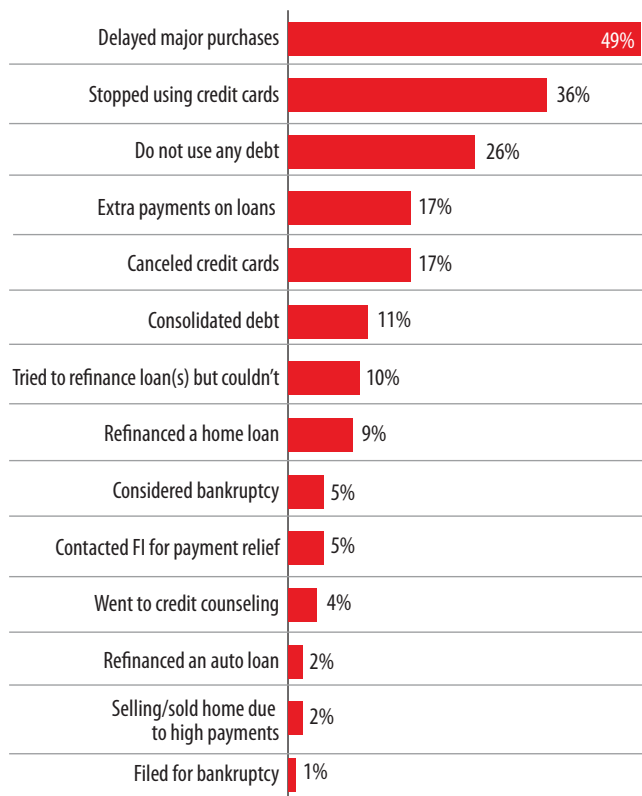
Source: Internet Strategy Consortium survey of 13,249 members

Steps to Manage Financial Situation



Source: Internet Strategy Consortium survey of 13,249 members

Ways Members Have Reduced Debt Levels



Source: Internet Strategy Consortium survey of 13,249 members

credit counseling resources.

Credit unions need to consider how they are reaching these members and develop ways to increase both awareness and use of their resources.

Growing Focus on Debt Reduction

The majority of members report taking steps to reduce their debt levels. In terms of specific actions taken, members say they have delayed major purchases (49%), stopped using credit cards (36%), and canceled credit cards (17%). About one-fourth of members say they are not using debt to finance their purchases at all.

While debt reduction is an important goal, some members may be taking steps that can harm their longer-term financial health. Canceling credit cards can affect the ability to qualify for loans in the future by lowering their FICO score, while stopping 401(K) contributions will affect their retirement savings.

Members Are Increasing Their Savings

Credit unions are seeing their members increase their savings levels compared to a similar online member survey conducted in 2008. Overall, 50% of members said they had at least two months of expenses saved compared to the 45% who had saved this much in 2008. Increased savings rates are seen across all income levels except members in the lowest bracket (under \$25K). The lowest levels of savings are seen among members with lower income levels and members under the age of 39. While lower income members say they have too many expenses or not enough income to save, the younger members cite a lack of understanding related to developing and sticking to a budget.

How Will Changes in Member Financial Management Practices Affect Your Credit Union?

While no one knows at this point in time whether the financial management changes will be permanent or temporary, current shifts could affect credit union revenue and products used. Members who are using cash may rely more heavily on debit, increasing debit interchange income. ATM fees may become even more important, as members desire a wider fee-free network. Overdraft protection

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may be used more often as members try to manage their cash flow.

Fewer members charging on their credit union credit card may also eventually result in decreases in credit union interchange income. Decreased credit card use in general may mean that fewer members are likely to switch to the credit union’s card, instead electing to stay with their current card since they don’t use it very often. However, balance transfer offers and cash-back rewards may be an appealing incentive to push members to switch.

Looking for Opportunities to Help Your Membership

The data shows the differences in how members are “riding out” the financial storm that signal some real opportunities to not only help members but capture wallet share as they move their funds around. Increased savings rates may mean increased use of the credit unions’ savings vehicles, although frustration with lower interest rates may impact member loyalty. Offering online account opening tools can make it easier for members to move funds to the credit unions.

Below are five action steps for credit unions to consider:

- 1. Understand the impact of your local economy and your member composition:** It is critical for credit unions to monitor and investigate the needs of their membership. An online survey or focus group can quickly provide insights into member needs and concerns. If your local economy is faring well, consider other aspects of your member population. For example, members who are older and nearing retirement may be very concerned about the loss of value in their retirement funds.
- 2. Develop educational programs to respond to member needs:** While many credit unions

offer basic educational programs, linking programs to specific needs, such as dealing with (or preparing for) job loss or planning for retirement, could increase attendance. Also, understand that many members may be embarrassed to attend a seminar on foreclosure or debt reduction, so consider offering online webinars or articles that can be viewed privately.

- 3. Promote resources related to specific needs:** While not developed as such, online tools such as account alerts, online banking and bill pay can all be used to help members manage their finances better and avoid fees.
- 4. Use a wide range of media to increase awareness of credit union resources:** While some members rely heavily on the online channel, many do not. Some members who are experiencing financial difficulties say they do not research online, so credit unions should be using a wide range of media to market these services.
- 5. As more members may turn to the online channel** to monitor their account activity, credit unions should consider offering personal financial management tools (PFM). Younger members (under age 39) have the greatest interest in online savings tools and online budgeting tools to manage their finances.

Member feedback shows that credit unions have a unique opportunity in the current environment to help their members strengthen their financial positions. Credit unions should use both technology and marketing to effectively address the needs of different member segments. ▾

For more information on surveying your online members and the Internet Strategy Consortium, please contact Denise Senecal at 800-446-7453.