

Growing While Cutting Expenses

MidWest America has been growing at a healthy rate all the while cutting spending, in no small part because employees submit good cost-trimming ideas

MidWest America began in the Depression as the credit union for General Electric. In the late 1980s, it changed its name from General Electric Employees and opened up to other SEGs, hundreds of which it now serves in northeastern Indiana. MidWest America also has branches in central Illinois and southwestern Kentucky. It has \$451 million in assets and 70,000 members.

You grew about 27% in 2008 while reducing your operational expenses. So far this year your total assets have grown 10.5% while holding expenses flat, cutting travel expenses by 57% and miscellaneous expenses by 29%.

How did you achieve growth under these circumstances?

GM: One reason was that we leveraged some of our capital into growth last year, working it down from 13.1% to 11.25%. We rolled out a new deposit product called Reward Checking, which attracted a good deal of business. I think there was also quite a bit of “flight to quality” going on here after the troubles of the fall and winter. One of the large banks here is changing its name, which tends to work to our benefit -- I think we have been taking business from them. Other banks pulled in their horns or exited the market, and this has helped us also. We increased mortgages by \$8 million last year despite 10% unemployment in our area.

You also grew member business loans?

GM: Yes, by \$20 million in 2008. Some of this owes to an increase in our marketing budget, up 16% in 2008. For one, we advertised more in business related media. But most commercial lending comes from referrals. We hired an individual with excellent commercial loan experience to fill the gap when I became CEO in April 2008. Commercial lending is really more of a relationship than a transaction. Many borrowers look to their lenders for assistance in their financial structure; the loan they are taking out is really their livelihood. They often are responsive for financial ideas and

assistance as much as a rate, and they want to be comfortable with whom they are dealing. We have tried to build on these ideas. In addition, because we really only started member business loans four years ago, we have been making members aware of them in our member communications, direct marketing, statement stuffers and the like.

How have you reduced costs?

GM: One way was that beginning in mid-2008 we have required every employee to submit at least one idea a year that would cut our costs or improve our operational efficiency. The employees submit these in writing through their supervisors. It doesn't mean the idea has to be used, but what it does mean is that every employee has to think about what they do and what others around them do then churn through their minds how things can be done more effectively and efficiently. Employees are the ones who know their jobs best and they know where the redundancies are; we have been doing a good job at reducing and eliminating such

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duplications. Voluntary “suggestion programs,” are fine, but persons can be reluctant to offer up ideas because they might be thought of as unusable. This is why we made one idea a year part of everyone's job, and a part of his or her review. This really works.

A similar effort we have only been running for a few months. This we call BAD Ideas. BAD stands for “Buck A Day.” If an employee can come up with an idea that saves the credit union \$365 a year (that is, a buck a day), he or she gets some small rewards – an “I had a BAD Idea” coffee mug, small cash award, picture in the newsletter and so forth. In the first three months

of this program, the credit union has initiated \$140,000 worth of savings, from turning down the thermostats on water heaters to larger efforts.

I must say, the staff has responded very well to both these initiatives. They understand the corporate stabilization expense and that we are all in this together. They continue to find duplications of effort and ways of cutting waste.

Are there other ways you have been saving money?

GM: We have been more diligent with our vendors. When contracts come up for renewal, we ask the vendors to sharpen their pencils and develop proposals that are less costly, because certain vendors may be able to offer us better prices. For example, our debit card transaction volume has doubled, so we are a more important player for that vendor and are asking it to look hard at repricing our contract. We are looking into taking cash from the

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Federal Reserve once a week rather than two or three times just to cut down on delivery charges, and we are considering having cleaners come in every other night rather than every night.

Have you made other cost-saving efforts?

GM: At the beginning of the year we trimmed our salary increases budget by 10%. We suspended our incentives program. In February, we stopped all travel without specific approvals, including educational travel for members of the Board. Our notion was that training could be done via the internet, video, and webinars. In fact, our vendors have helped us here, doing more of their training electronically. If our training is in-state, we try to drive

to the location and back in one day rather than over-night in a hotel. We delayed hiring for three approved positions, then recently filled one of those positions, an MBL officer, who we feel can pay for himself. I should point out that in all this cost cutting we made no layoffs, and we closed no branches.

Last, we look closely at every invoice and ask ourselves about the value we are getting for the price. We wonder if we can do better, and if so, how. When an institution grows, it all too often retains its old way of doing things, including paying for goods and services. People sign and pass on, sign and pass on, without really examining the value they are getting for the price. We are trying to think seriously about expenses and do something about them. We won't spend money unnecessarily.



Greg Mohr became CEO of MidWest America FCU in April, 2008, elevated from being the VP of Commercial and Mortgage Lending. Before coming to the credit union Greg worked in community banking.

