

LEAD STORY

## Innovate To Meet Member Loan Needs

Where you see a loan, a member sees a dream home, a fun ride to work, a relaxing vacation, or a life-changing makeover.

For members, it's all about the experience. They're finding new ways to get the loans they need through online lenders, peer-to-peer lending, and in-store loan programs at Wal-Mart, Home Depot, and other retailers.

To compete, credit

unions must "move up the value chain" and provide convenient, easy ways for members to get loans, according to Doug True, president of FORUM Solutions, a credit union service organization formed by \$985 million asset FORUM Credit Union, Indianapolis.

True and two Canadian credit union leaders from British Columbia—Gord Huston, president/CEO of \$3.4 billion asset Envision Financial Credit Union, Langley; and Lydia Johnson, vice president, sales and service, \$12.3 billion asset Vancouver City (Vancity) Savings Credit Union—shared successful lending innovations at CUNA Mutual Group's

### Compliance Q&A

**Q** The Servicemembers Civil Relief Act (SCRA) requires that creditors charge active-duty servicemembers no more than 6% interest on obligations incurred prior to active duty. Can the credit union later recapture the lost interest when the servicemember's active duty ends and he or she returns to civilian life?

**A** No. SCRA Section 207 clearly states the credit union must forgive any interest in excess of 6% that the member would have incurred without the rate cap. The term "interest" includes service charges, renewal fees, or any other charges (except bona fide insurance) with respect to an obligation or liability.

SCRA Section 207(a)(3) requires credit unions to reduce "the amount of any periodic payment due from a servicemember ... by the amount of the interest forgiven ... that is allocable to the period for which the payment is made."

For more information, visit CUNA's e-Guide to Federal Laws and Regulations at [cuna.org](http://cuna.org).



A frog worth kissing!



Envision Financial CU, Langley, British Columbia, helps members "get out of the debt swamp earlier" with its innovative Redfrog mortgages.

2007 Discovery Conference in Nashville, Tenn.

True describes how credit unions historically have been innovators in loan processing and technology. Now they need to innovate in loan products, loan access, and convenience.

Examples of innovative loan programs the presenters shared:

► **Redfrog mortgages.** Based on the slogan, "Get out of the debt swamp earlier," Envision Financial's combination mortgage/home equity/savings product allows members to deposit their paychecks into their Redfrog accounts, immediately paying off mortgage principal. When members need money for day-to-day expenses, they draw funds back out. Redfrog accounts include checks, debit cards, and access to online banking.

Through marketing (people dressed in frog outfits appear in various community locations and perform "random acts of frogness") and other promotional methods, Envision Financial gathered 2,648 Redfrog

accounts since the program started in 2005.

► **Burial plot financing.** FORUM offers this loan with no credit risk. If borrowers don't make payments, they don't get their burial plots. Loan amounts range from \$2,000 to \$5,000, with a 5% annual percentage rate (APR) and a \$50 application fee. The credit union processes 200 to 400 of these loans each month.

► **Door and window financing.** FORUM formed a partnership with a local door and window company to provide loans to members at the point of purchase. This loan portfolio stands at \$800,000. The average weighted APR is 14%. FORUM started by providing unsecured loans, and now offers on-site home equity loans.

► **Peer-to-peer lending.** Vancity lends money to groups of business owners, allowing individuals to start businesses. Group members approve each other's loan requests and collectively are accountable for repaying the loans of all members within the group.

Johnson says this seven-year-old program is modeled after Pulitzer Peace Prize winner Dr. Muhammad Yunus's Grameen Bank concept. She reports the credit union has helped more than 600 entrepreneurs finance businesses.

► **Climate-change mortgages.** Members contact the credit union directly for a mortgage, and Vancity invests the money usually spent acquiring a mortgage (0.1% of the loan amount) into a fund to fight climate change. These mortgages aren't marketed beyond the Web site, member e-mails, and cross-selling. Johnson says the new product is part of the credit union's goal to be carbon-neutral by 2010.

Innovation take-aways from the three presenters include:

- **Twist** what your credit union already does well.
- **Ask yourself:** "Is it buzz-worthy?"
- **Jump in** and know when to jump out.

## PENSIONS

### New Rules Accelerate Plan Funding

The Pension Protection Act of 2006, signed into law last August, contains more than 940 pages of new rules to enhance Americans' retirement security.

The law aims to strengthen defined benefit plan funding and protect the interests of workers, retirees, and taxpayers.

Defined benefit plan sponsors have seen a funding crisis during the past decade. Due to declining interest rates, liabilities have grown faster than assets.

Employers that didn't increase plan funding, or weren't permitted to increase funding due to tight deductibility rules, saw their plans' funding status decline. The ensuing pressure prompted the Pension Benefit Guaranty Corp., Washington, D.C., to ask the Bush administration for help, and the result was this legislation.

Although the new rules will increase funding requirements, contributions employers make to defined benefit plans don't define their expense. Pension expense is determined under accounting standards and represents the cost of benefit accruals less expected return on plan investments.

The new funding rules don't create new benefit costs. They only accelerate plan funding. Employers may not have to expense all contributions they make to the plans. Contributions exceeding pension expense remain an asset on the employer's balance sheet.

In fact, employers without cash-flow constraints

### Member Growth: What's the Best Approach?

Youth outreach	67%
Deepen current member relationships	19
Community charter	10
SEG development	4%

Source: June 2007 Instant Poll

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may want to overfund their plans and create a funding "cushion." Additional plan assets will reduce pension expense by creating more investment income. And they'll help bypass the onerous requirements the new funding rules place on underfunded plans.

The new law introduces several new restrictions on underfunded plans. At certain funding ratios, the law restricts payment of lump-sum distributions, prohibits plan amendments, and, in some cases, automatically freezes plans. Monitor funding ratios and adjust contributions accordingly to avoid these restrictions.

Based on the new rules, one strategy is to fund an amount necessary to raise the funding ratio to 100% by year's end. If the funding ratio exceeds 100%, fund the normal cost to maintain the current funding ratio. Normal cost is the amount of benefits expected to be earned dur-

ing the year.

The new funding rules will require a bit more monitoring, but they shouldn't impose financial difficulties on credit unions. Remember, plan costs aren't determined by employer contributions but by the net periodic pension cost determined under Financial Accounting Standard 87.

Additional plan funding will help reduce net periodic pension costs. Organizations with underfunded defined benefit plans should consider making additional deposits now to beef up their plans' funding ratios prior to 2008.

For more details about the Pension Protection Act and your defined benefit plan, contact your pension consultant. ☺

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