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Before Focusing on Retention, Examine Cost Structure, Analysts Advise

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By Ray Birch

LAKE BLUFF, Ill.-Before rushing to sign up more members and then working to retain them, credit unions should first make sure costs are in line, recommends one industry analyst.

If the credit union is in a strong capital position, they can afford to pay more for deposits, which Mike Moebs, CEO of Moebs $ervices, believes they need to do to retain new members. But if not, then cost control should become the credit union's focus. "Get your expenses down and the topic of retention becomes much easier to deal with," he said.

Credit unions will simply have to provide more on deposits, especially on share accounts, to keep new members, contended Moebs. "One thing we have learned from this economic perfect storm is that we can no longer pay substantially under the marketplace on share accounts and think we can survive. It is not business as usual anymore. In the past we have paid 25 and 50 basis points, or even 1% on shares. That will not happen anymore. You will lose that business."

Not Just Retention, Efficient Retention

According to Moebs, the key is always efficient retention, and credit unions must determine better strategies to get revenue out of members who are costing them money. That may mean fees or higher loan rates, Moebs suggested. But what should strongly be considered, he said, is a membership fee. "Now is the time to think of a member as the global credit union world does - not as an account, but as a member, and charge those who are not profitable to belong, either on an annual or lifetime basis."

While not as adamant about CUs watching costs before driving retention, Nicolette Lemmon, president of LemmonTree Marketing Group in Tempe, Ariz., recognizes that operating costs are a growing concern. With credit union net interest margin (3.21%) essentially flat to the average cost of operations (3.21%), according to Callahan & Associates' Q3 2009 data, Lemmon emphasized the importance of getting more out of members who may only park deposits. Cross-selling loans, she believes, is an effective way to do that.

"Focus on auto loans and credit cards, and home equity in markets where values have not plummeted. With first mortgage rates, it's hard to look at 30 years if you hold onto loans. To keep them in-house, it's better to look at 15 years. That fits more with the Boomer lifestyle anyway, as they are looking to get out from under their mortgages."

In Madison, Wis, CUNA Chief economist Dave Colby reminded that any effective cost-management effort includes regularly running the ALM model. "Just make sure you have the right pricing as rates go up and come back down," he said.