

As interest rates continue their march upwards, the vise on credit union bottom lines will squeeze ever more tightly, requiring credit unions to reshape their asset/liability portfolios, boost non-interest revenue, and invest in developing a sales and service culture that better markets and cross-sells products and services.

Project LEAP is a Credit Union National Association (CUNA) educational initiative supported by the CUNA Mutual Group and the American Association of Credit Union Leagues. Its purpose is to help credit unions succeed in a rising rate environment by coordinating national and state training, research, and publishing resources on strategies that strengthen credit union bottom lines. The Project LEAP icon will serve as a unifying graphic that links CUNA and League products and programs addressing overall growth strategies, but particularly focusing on asset/liability issues, sales and service, and identifying and implementing successful strategies to build membership and grow consumer loan portfolios.

Even with a capital-to-asset ratio of almost 11% at year-end 2004, credit unions' return-on-assets (ROA) averaged 95 basis points-- a drop from 98 year-end 2003. CUNA economists project that the average ROA could drop to 85 basis points this year, and 80 basis points in 2006. More 3,500 credit unions have an ROA of less than 40 basis points, and more than 1,400 have a negative ROA.

Credit union share portfolios are heavily weighted in favor of short-term, low-cost deposits that will re-price quickly as rates rise. Loan portfolios, on the other hand, re-price more slowly and are heavily weighted towards long-term loans that yield lower rates of return. To provide relief from problems associated with a declining interest margin, credit unions have a variety of time-tested strategies they can pursue, including:

- Drill deeper into the smaller loan needs of deserving members and implement an aggressive marketing and training effort to make more unsecured debt that might otherwise be financed by high-interest credit cards or predatory lenders;
- Implementing a risk-based lending program to make more loans and earn a higher yield;
- Adopt a rate-change model that quickly reacts to Federal Reserve rate changes as well as rate changes made by competitors;
- Creating a lending incentive program that rewards staff for making "second" loans to members applying for a loan; and
- Maximizing non-interest revenue opportunities by selling loan-related ancillaries such as credit insurance, or other products and services that provide fee income and are a low-cost source of funds, such as share drafts.

Project LEAP will explore and emphasize these strategies and more, such as evolving socioeconomic and technology trends that will alter the demographic makeup of credit union membership, and influence the financial needs of members and their service preferences. The bottom line is to enable credit unions to grow and prosper in a dynamic environment. The LEAP logo will be your guide.