Credit Union Times

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Credit Unions Take Steps to Build Member Wealth

Officials say only 16% of credit unions offer financial services, however, those are typically very large CUs.

By Jim DuPlessis | April 20, 2018

CUs attempt to pick up the pace when it comes to financial advice for members.

Credit unions have earned a reputation for being the go-to institutions for average folks needing their first car or first home without fear of being lured into a bad deal.

But few members go to their credit unions to bridge the last miles of their lives: Retirement.

Most Americans haven't saved enough for retirement. In response, banks began building investment arms in the early 1980s, and credit unions started taking investment services seriously in the early 2000s, said Robert Comfort, president of CUNA Brokerage Services Inc (https://www.cutimes.com/2016/07/17/inheritance-advisory-services-boost-asset-retentio/)., a subsidiary of CUNA Mutual Group in Madison, Wis.

Federal law prohibits credit unions from offering investment services directly. They have to be provided through a registered broker-dealer or a registered investment advisor. Most wealth management services have both designations.

CUNA Brokerage Services only serves credit unions. It has about 430 advisors at 285 credit unions managing $25 billion in client assets. Annual revenues are about $145 million.

Comfort said only 16% of credit unions offer financial services. However, he said they tend to be large credit unions, so the availability of financial services to credit union members is probably far higher. For example, NCUA data for 2017's fourth quarter includes 5,689 credit unions, and 16% equals about 910 credit unions. When ranked by assets, the top 910 credit unions encompass nearly 90 million members, or 80% of all credit union members.

Nevertheless, within those credit unions, Comfort said only 2% of members use their investment services. They are a little bit older and have accumulated more assets than the typical credit union member.

"That 2% number is something we have great concern about," Comfort said.

Members' needs for wealth management are not being fully served, he said. About 43% of credit union members have investable assets between $100,000 and $500,000, or cash plus long-term investments, excluding their home.

"Very few credit union members even know their credit union offers this type of advice," Comfort said. "We see surveys where an overwhelming number of people say, 'Hey, if my credit union offered this, I would be very open to talking with them.'"

Comfort said credit unions have to make financial advice a core offering – not just something that is mentioned to a member if they ask for it.

“It needs to be visible on the website,” he said. “Reach out to members repeatedly. It usually takes several touches for a member to respond. “Maybe it’s on the seventh touch that they walk into the branch and say, ‘I want to talk with a financial advisor.’”

Members using an investment service tend to have longer, deeper relationships with their credit unions, Keith Weber, chief marketing officer for CUSO Financial Services (CFS) in San Diego, said.

“Correlation is not necessarily causation,” Weber said. But deposits with investment clients are often higher “because the financial advisor tells them they need to put aside six months’ living expenses.”

CFS is a subsidiary of Atria Wealth Solutions, which also has a subsidiary that serves banks. CFS has about $32 billion under management through 170 credit unions, up from about $28 billion to $29 billion in 2016.

University Federal Credit Union of Austin, Texas ($2.2 billion in assets, 234,145 members) began offering wealth management to members in 2001 through CFS.

“It provides a service our members need,” said Aaron Persons, who runs University FCU’s investment program through CFS.

“As a credit union focused on the financial well-being of the people within the community, we believe we have a responsibility to take a proactive part in helping our members not just get an auto loan and not just get a mortgage, but prepare for every life stage, especially retirement.”

The credit union shares a percentage of its gross revenues with CFS. In 2017, the credit union’s 10 advisors generated $3 million in fees, up from about $2.7 million in 2016. During the recession revenues fell to $600,000 and recovered to just under $800,000 by 2010.

“The drop wasn’t as significant as people might have expected,” Persons said. “We’ve seen good growth since 2010.”

In UFCU's arrangement, those affiliated with CFS are "dual employees": They get their paychecks and office space from UFCU, but they are registered representatives of CFS, which provides the infrastructure of expertise, online tools and regulatory compliance.

CFS does sell some products, and its representatives earn commission from their sale. Representatives are also able to work on a fee basis, which is usually a fee for assets under management.

While CFS offers a flat fee structure based on a project or hourly rate, "the truth of the matter is there are not a lot of members who take us up on that," Weber said. "When we explain the other options, members will choose one of those other options."

The most popular fee arrangement remains charging clients for the amount of assets under management. This is typically arranged in tiered rates, with lower rates for higher tiers.

"If you are my client, it puts you and me on the same side of the table," Persons said. "We both have a vested interest in ensuring that the asset value grows."

Persons said some brokerage houses only look for clients with at least $100,000 or $250,000.

"We do not have a minimum to invest," Persons said. "We are here to serve our members, whether you're a 26-year-old millennial who wants to open an IRA and save a couple hundred dollars a month, or you're a pre-retiree hoping to roll over a couple hundred thousand dollars."

Also, the only way for the credit union to break even on the arrangement is if it is able to maintain the arrangement over a long period. This provides an additional incentive for the credit union to provide a high level of service, Persons said.

Relationship fees have grown from 10% of revenues to 55% last year.

Tulsa Federal Credit Union of Tulsa, Okla., began offering a wealth management program last September.

Tulsa FCU ($735.6 million in assets, 56,652 members) has been shifting to offer a greater range of services since 2011, when Gregory Gallant joined as president/CEO and it converted to a community charter serving the Tulsa metro area.

Then the credit union was primarily focused on savings, with a loan-to-share ratio of about 45%. Since then it has increased its lending, primarily for automobiles, but also through mortgages and home equity lines of credit. Its loan to share ratio is now about 80%.

Tulsa FCU wanted to be able to offer financial solutions that matched the life stages of members, according to Susan M. Williams, Tulsa FCU's CFO.

"We felt we were missing this piece," she said.

Tulsa FCU's program is fully managed by CFS, which means CFS employs both the advisors and program managers.

Weber said most members seek help between ages 56 and 60, but there are many members who come in starting in their 20s. "A lot of young families are coming in to start education funds for their children. A lot of them know they need to start saving something for retirement."

Williams said Tulsa FCU expects it will take 18 months before the wealth management service becomes profitable. The program reached about $2 million in investments under management by April, a mark it had not expected to reach until September.

If the number doubles as expected in 2019, Tulsa FCU will consider adding another advisor.

"We'll be adding advisors as the business grows."

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