

MOVING

FORWARD

RON JOOSS



Lynette Smith, president/CEO of TruEnergy Federal Credit Union, and Max Villaronga, president/CEO of TFCU - El Paso.

Two CEOs share insights on adjusting to the pandemic and approaching the future.

At the outset of the coronavirus (COVID-19) pandemic, credit union leaders embraced the qualities of collaboration, empathy, and dedication to member service to shift into emergency mode. They'll carry forward many lessons learned during this time.

Two credit union CEOs share their pandemic experiences and how they're moving ahead:

› **Lynette Smith**, president/CEO of \$130 million asset TruEnergy Federal Credit Union, Springfield, Va. TruEnergy leveraged a largely remote workforce to serve 9,000 members during the pandemic with a blend of technology and appointment-only, face-to-face member service.

› **Max Villaronga**, president/CEO of TFCU - El Paso (Texas). The \$740 million asset credit union serves 65,000 members largely through remote services.

Credit Union Magazine: What has been your biggest challenge with the pandemic?

Lynette Smith: Our initial challenge and our top priority was the health, well-being, and safety of our members and employees. Without them, our industry would not exist.

Like all credit unions, we made a lot of changes in a short amount of time. But our biggest challenge will be planning strategically for the anticipated second wave of COVID-19. Credit unions need to review and update pandemic policies and procedures to include contingency plans for staffing, backup, and service alternatives.

Another challenge is that with so much economic uncertainty, we have never experienced a financial market quite like this. I call it "our new financial world."

Max Villaronga: We didn't know the virus would spread so fast throughout the U.S., but we activated our COVID response team quickly. We looked at it as a way to practice our disaster recovery and business resumption plan.

We anticipated an 18-month event, which was an unpopular view even within our ranks. But my explanation to our team was it's better to prepare for a marathon and run a sprint than prepare for a sprint and have to run a marathon because you're just going to be demoralized. You won't be properly prepared for

that sort of distance.

Even with all that, we've had difficulty recruiting for senior-level executive positions. It's taken about twice as long as expected. We have also experienced a certain level of fatigue that sets in with employees who must be quarantined and isolated for extended periods.

Q: It's an anxious time for members and employees. How do you provide comfort for stakeholders at your credit union?

Villaronga: Communication is our priority. During an emergency you need to increase your communication by three. We communicate at least once a week from my office.

One commitment we make is to speak the truth, and our employees trust the information we provide them. That's important because there's a ton of misinformation out there.

We provide catering every Friday for all of our team members. It supports our local restaurants and keeps our employees happy with a good meal. In El Paso, we like our food. It's a way to celebrate each week of our lives.

We also remind our team that we have free mental health resources available to them during this time so if anxiety or depression touch them, they can reach out and get help.

Smith: We have a COVID Task Force Team that meets daily. We wanted to make sure we continue our synergy with operations, member experience, and human resources.

By the end of March, 90% of our staff worked remotely. We're always looking for ways to keep our employees engaged.

Focus

- › **Prepare** contingency plans for the next wave of the pandemic.
- › **The next normal** will see a greater focus on remote services and flexible work arrangements.
- › **Board focus:** Review your strategic plan and decide how to adapt boldly.

We have “Fun Fridays” and offer our team opportunities to share family photos of their pets, workspace at home, and their kids doing social distant learning. We’ve had brief after-hours social hours which include their kids.

We celebrated International Credit Union Day in October and engaged with more than 400 members virtually throughout the day while we offered gifts including face masks and hand sanitizer with our logo.

We held raffle drawing and provided basic gift cards for electronics, food, gas, and clothing. We also gave everyone time off to vote on election day in November.

Q: What leadership lessons did you learn during the pandemic?

Smith: I came across an article from the *Harvard Business Review* that really captured leadership lessons and behaviors we need during the pandemic.

The first behavior is to “decide with precision.” Leaders need to quickly process available information and make decisions with conviction. We’re not going to get it perfect all the time, but our decisions should make sense and be fact-based.

Second, “adapt boldly.” Review your current strategic business plan and decide what not to do. As leaders we need to remain flexible to change.

Third, “deliver reliably.” Take ownership in a crisis even if the situation is out of your control.

During a crisis, leaders must remain in charge and be responsible for their credit unions’ successes and failures. You must be accountable for what happens.

The last behavior is “engage for impact.” You must take care of your team. Listen to their recommendations and keep them engaged.

No one knows your member experience better than your team. If they remain engaged with our members and operations, it will guarantee the continued success of the credit union.

Villaronga: One lesson I learned as an infantry officer in the U.S. Marine Corps is that an 80% solution on time is better than a 100% solution too late. During the pandemic, leaders who wait for perfect information are going to be too late.

As Lynette said, you must make well-intentioned, fact-based decisions at that point of engagement every single day, every single hour, that are in the best interest of your stakeholders: your members, your team, and the public.

Leaders shouldn’t hide in corporate ivory towers. We must lead from the front. Leaders have to step up, put a mask on, make sure their team members are safe, and visibly verify that they’re following protocol. They have to be out there and be visible every day.

Q: What practices that you adopted during the pandemic will you keep going forward?

Smith: As well as putting e-commerce and the digital experience at the forefront of everything we do, credit unions must do comprehensive feasibility studies to determine the amount of square footage required at both branch and headquarter locations.

During the pandemic, we demonstrated that we don’t need all of our employees at a centralized location to serve our members.

Economists also tell us we’re going to be in a low-interest-rate environment for the next several years. Financial institutions and their regulators must find ways to provide pandemic relief to consumers.

Villaronga: There will be a lot less branch activity as members rely more on mobile apps, remote deposit, and other remote channels to access financial services.

The biggest barrier was getting them to use these channels the first time. Once they discovered those new channels, they thought they were fantastic.

This will accelerate the decline of in-person transactions and the value of branching in a traditional sense.

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THE DIGITAL AND VIRTUAL MEMBER EXPERIENCE WILL BE AT THE FOREFRONT OF EVERY DECISION WE MAKE IN THE FUTURE.

LYNETTE SMITH

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Q: How has COVID-19 affected your credit union from a financial perspective?

Villaronga: We have been extremely sound, considering we expected more significant credit losses early on. I’ve been through some significant economic events in the past, and post-traumatic stress disorder from those experiences has led me to prepare.

We’ve overfunded our allowance for loan and lease loss to the tune of about 37%. And that’s anticipating additional credit losses.

We haven’t had any additional credit losses so far, so we’re waiting for that shoe to drop. That overfunding has dampened our earnings, but we’ve remained quite

strong overall.

Smith: This is the calm before the storm because we allowed some members to skip their loan payments, not knowing what the outcome might be. We haven’t

experienced an increase in delinquencies yet.

We have seen deposits increase more than 15% during the first half of the year. We've had to purchase participation loans because our loan growth did not keep pace with share growth.

I encourage other credit unions to look at loan participations to help other credit unions that are overfunded or overextended in their loan-to-share ratio.

Q: How will the pandemic affect your credit union and the credit union movement in the long term?

Villaronga: I think mergers will accelerate. Usually after a crisis there's a delay of about a year, and then the mergers tend to accelerate.

I've worked at a small credit union, so I understand how it feels to wear all those hats at once, and the extreme stress associated with that operating expense ratio.

But there's also an opportunity for all credit unions to leapfrog in terms of technology adoption. E-commerce can be, to a degree, an equalizer for many organizations.

The adoption of more flexible work arrangements for our team members will be pushed by managers or employees. Credit unions will have to consider offering flexible work arrangements to be employers of choice.

There will be less physical infrastructure in the future. Labor allocation will be more efficient and will be leveraged by technology.

Smith: The long-term impact of COVID-19 will determine the sustainability of all credit unions. We should all strive to remain safe and sound financial institutions beyond the pandemic.

I am concerned that if small credit unions don't have the technology and digital platforms to serve their members during this time we might see more mergers and fewer credit unions over the next few years.

Credit unions may also experience an increase in provisions for loan losses and a decline in operating expenses.

We've discovered over the past six months that we don't need the expenses required to operate our headquarters given that more employees are working from home.

Overall, the credit union industry will come out stronger and better. I'm so proud of our industry and what we've accomplished thus far.

We just need to brace ourselves for the next round of the pandemic.

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DURING AN EMERGENCY YOU NEED TO INCREASE YOUR COMMUNICATION BY THREE.

MAX VILLARONGA

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Resources

- ›CUNA CEO Council: cunacouncils.org
- ›CUNA Environmental Scan resources: cuna.org/escan

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