

THE *BLUE PAPER*

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THE IDEAL WAY TO SHOW YOU'RE NOT A BANK: END-OF-YEAR REBATES

Bonus Dividends Really
Separate The Good Guys
From “Those Bad, Bad Banks”

Route to:

- EVP
- VP Operations
- VP Finance
- VP Marketing
- VP Lending
- Newsletter Editor
- E-Coordinator
- Marketing Manager



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But it is the ideal time to show Members and potential Members how Credit Unions are not just *different* from banks, but really much better.

An article appeared in *Daily Finance* a few weeks ago titled “Big Banks Get Thumbs Down on Customer Service.” Shortly, it was making the circuit on the Internet. Basically, the article explained that the disapproval rating for *bank actions* was spreading to *bank service*.

The article stated that the service approval rating for Bank of America has now plunged 8% to an *industry low* of 67%. Chase dropped 7% to 68%.

(For more details, see the AIL *Blue Paper* for January 2010, “PRESIDENT OBAMA SOUNDED THE ALERT: PEOPLE ARE MAD AT BANKS” and the AIL *Blue Paper* for February 2010, “THE ‘MOVE YOUR MONEY’ CAMPAIGN IS GAINING MOMENTUM.” You can request a copy of either one from your local AIL representative or from the AIL Credit Union Center at CUCenter@AILife.com.

FOR CREDIT UNIONS: A ONCE-IN-A-LIFETIME OPPORTUNITY

Consequently, this becomes the time for Credit Unions to seize this opportunity to show how they are really different — and much better.

And the most visible way to do this is to offer end-of-year bonuses. What better way could we show that Credit Unions aren't owned by distant stockholders but rather by the Members themselves?

More than three-quarters of a century ago the CU movement was founded on the concept of giving back the “profits” to Members at the end of each year. And some Credit Unions have been continuing to do that for more than 50 years. Dow Chemical Employees CU is a good example of this.

BUT WHY THE BIG EMPHASIS ON REBATES NOW?

There are three reasons for the current peak interest in year-end bonuses:

First of all, though still not the standard for the industry, these bonus dividends *are* becoming more popular each year, as hundreds of Credit Unions find them to be a *highly successful marketing tool* aimed primarily at increasing Member loyalty. This includes Credit Unions large and small — from Hawaii to Alaska — across the entire country.

Second, at this period of struggling with banks, CUs have found bonuses to be an ideal way to show how Credit Unions are not banks. This message is aimed not only at Members but at legislators also. Now, it can be seen that this difference is not about some vague concept but *something very tangible*: “profits.”

Third, Credit Unions have recently developed a multitude of new ways to utilize these rebates for marketing purposes, resulting in maximum results.

THE USUAL PROCEDURE

Most Credit Unions that pay year-end dividends do so by combining a Member's average savings balance and average loan balance. This total is divided proportionally into the annual payout.

A common period for calculating the Member total is from January 1 to November 30. Of course, the most popular bonus period is at holiday time or the end of the year.

The funds for the dividends, of course, come from excess retained earnings: capital.

MORE CREDIT UNIONS ARE BECOMING PART OF THIS TREND

DFCU Financial Credit Union of Dearborn, Michigan, recently paid a record \$19 million in dividends. This is the fourth year of bonuses for Michigan's largest CU. Qualifying Members received a half percent dividend on all loan and savings averages, with each getting at least the \$50 minimum.

Members at DATCU Credit Union of Denton, Texas, received a 1% bonus "due to the CU's strong financial year in 2009."

OMNI Community CU paid its bonus of \$750,000 with checks sent by direct mail. Ted Parsons, president and CEO, said, "We're giving back to Members at a time when people really need the extra money. It's our way of showing our appreciation for their loyalty."

CEFCU of Peoria, Illinois, the state's second largest Credit Union, announced it will be paying Members a \$7 million dividend this year, up from last year's \$6 million. Since the year 2000, CEFCU has returned more than \$40 million in extraordinary dividends to its Members.

BUT WILL IT SET A PRECEDENT?

It is now common practice to alert Members that each of these bonuses is a one-year occurrence based on the success of the Credit Union the previous year.

Participating Credit Unions do not return a bonus every year. CEFCU is one that does not always return a dividend. Other Credit Unions, like Dearborn (Michigan) FCU, are also among the ones that determine this year by year.

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"We're giving back to Members at a time when people really need the extra money."

*—Ted Parsons,
OMNI Community CU*

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Bonus programs are a way to maximize Member loyalty.

This is the time for the CU to start structuring its financial and marketing strategies.

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AND IS IT EFFECTIVE?

Credit Unions that offer bonuses all feel that the practice actually does achieve their two objectives: increasing loyalty and differentiating them from banks (as well as from other financial institutions).

All of the CUs employing this course of action have found that the total cost is well worth the money to increase marketing and exposure.

THE NEW MARKETING TWISTS

Credit Unions nationwide have developed a variety of themes to market their bonus programs as a way to maximize Member loyalty. Financial CU of Dearborn, Michigan, called their program “A Million Ways To Measure the Value of Your Membership.”

CCFCU called theirs the “\$7 Million Thank You.”

OMNI Community CU paid their dividends in checks *mailed directly to Members' homes* as part of a “fiscal bonus” in these difficult times.

The options, of course, are only limited by a Credit Union's creativity.

CONCLUSION

If a Credit Union wants to consider offering bonus dividends at the end of 2010, this is the time for the CU to start structuring its financial and marketing strategies.

Bonus dividends are:

- ◆ a strong way to differentiate CUs from banks,
- ◆ an integral part of our Credit Union heritage, and
- ◆ a powerful new marketing tool. ◆

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