WESTERN CUNA MANAGEMENT SCHOOL

PROJECT I

2024
(For the 2025 session)

Kelley Jacobsen
kjacobsen@yolofcu.org

Student's Name and E-Mail Address

Yolo Federal Credit Union

Credit Union Name

266 W. Main Street Woodland, CA 95695

Address

April 14, 2025	**$394,896,644.89**
Date Submitted	**End of year asset size (12/2024)**

1204 Midway Drive Woodland, CA 95695

Student's Address

Chief Operating Officer	**530-669-6300**
Credit Union Position	**Daytime Telephone Number**

Table of Contents

I. Background

A. About You: Personal Background, Professional Experience & Career Goals

1. Provide a brief biographical history that will inform your reader about you, including your formal education and career background up to the time you became employed in the credit union movement.

One of my favorite ways to relax at the end of a busy day is to gaze into the night sky and marvel at the vastness of the universe. The twinkling stars are a reminder of how beautiful life is. I see the constellations and am awed by the many patterns that hover directly above me. Each individual star is connected, creating maps in the sky that serve as navigational points. I am struck by the thought that my life is like a constellation. The stars are every decision I've made, person I have encountered, and accomplishment along the way. Individually, they represent hard work, moments of failure, heartache, excitement, fear, worry, uncertainty, perseverance, and achievement. Collectively, it's a constellation in the shape of my career.

I grew up in the small farming town of Woodland, CA. Woodland has grown tremendously, but at the time, it was a simple little town where everyone knew each other. My parents found themselves in Woodland because they wanted to raise their family in a safe community with family nearby. My aunt lived in Woodland and encouraged them to move here. My Dad began working at Altec Industries in 1980 as a general helper and then a mechanic. A car accident eventually resulted in him needing to move into a sales and service office role. While the car accident was a scary moment for my parents, particularly since I was just a little girl when this happened, there were silver linings that came from it. Moving to the office job positioned my Dad for more opportunities in his career, as he was eventually promoted into other roles. Although he only had a high school diploma, his success came from a willingness to learn, a good work ethic, grit, and the decision to grow roots with the company. He became one of the longest-serving employees in the history of Altec, and this August, he will celebrate his 45th anniversary. I have learned from my Dad the importance of growing with a company, even when you experience challenges or moments of frustration. The stars will still shine even when there are clouds in the sky.

My mom was only 20 years old when I was born. She was a hairdresser but left that profession not long after I was born. If you ask my mom what her job was while I was growing up, she will tell you she was "just a stay-at-home mom." She was anything but "just a stay-at-home mom." She was a domestic engineer because she coordinated complex schedules between me and my younger siblings, multi-tasking to the extreme and constantly solving problems. These are skills that many within the workforce are often missing. My mom was always available to me and ensured I stayed on the right track while growing up.

Although I tried to stay on the right track, I was, in fact, fired from my first job when I was 15 years old. Granted, it was not entirely my fault, but it did happen. My 16th birthday was approaching, and I knew I needed to earn some extra money to pay for gas. I had already acquired a 1995 blue Honda Civic with zebra seat covers that I desperately wanted to drive as soon as I passed my driver's exam. I applied for a job at a little coffee shop called Quick Fix. Unbeknownst to me, when I applied for the job, they had recently opened a new location outside of Home Depot. I was hired for this location and soon I was blending up smoothies and slinging hot dogs. Despite my displeasure of smelling like cooked meat and mixed berries after my shift, everything went smoothly until I experienced a scheduling error with a coworker. A girl who was older than me and a bit more experienced had asked if I could switch shifts with her.

Being a naïve new employee who had never held a job before, I agreed and didn't think to confirm this change with the owner. Unfortunately, she did not show up for the shift that she would be covering, and the owner assumed that I had ditched work that day. Rather than discussing this with both of us to understand what had happened, he let me go. I'm pretty certain he broke a few labor laws here, but I wouldn't argue that point. I was devastated but knew I needed to find a job that was a better fit for me. Preferably one that didn't involve a blender.

A few weeks had passed, and I received a call from my aunt, the one who had convinced my parents to move to Woodland. She worked as the office manager for a real estate company. She told me they were looking for a receptionist to work every Saturday and wanted to know if I was interested in coming for an interview. I would not be reporting to my aunt but to the company's owner. I was only 15 years old but knew I could commit to working Saturdays. I dug through my clothes to find some sensible clothing for an office interview. My options were limited because I spent most of my days in a hooded sweatshirt and jeans. I dug into the back of my closet to find some khaki pants I had only ever worn for school performances and paired them with a white tank top and a jean jacket. Although it was the best I had at the time, I shudder when I reminisce about wearing that to a professional interview. It must not have been that bad since I was hired on the spot and became their "Saturday girl."

I worked every single Saturday throughout high school. If I was lucky enough to have a holiday land on a Saturday, then I would have the day off unpaid. Otherwise, I'd be there answering phones and greeting clients. Although I didn't report directly to my aunt, I knew who the captain in that office was, and she was running a tight ship. I had a healthy fear of my aunt.

One displeasing look from her could cut through my soul and leave me feeling a loss of gravity. She had high, often what seemed impossible, expectations of me. However, this is where I developed my work ethic and discovered that good things come to reliable and trustworthy people who are willing to learn. The real estate office could count on me, eventually leading to a few promotions.

I started working full-time at the real estate office after I graduated high school. I also began designing their real estate flyers and creating virtual tours. I discovered a love for marketing and was teaching myself how to use design programs and the basic principles of marketing. I continued working full-time while I pursued my bachelor's degree in business management. Although neither of my parents went to college, they impressed upon me at a young age that my education is something nobody can ever take from me. I became the first person in my family to graduate from college.

After I graduated, I patiently waited to find the right job that would become my career. I had a friend who had been working at Yolo Federal Credit Union (Yolo Federal), and she thought I would be a good fit for the marketing coordinator role they were recruiting for. I was hesitant to apply, and almost didn't, because the job posting said they preferred someone with MCIF experience. (I later learned that MCIF stands for Marketing Customer Information File, and it's now one of my favorite programs to work with.) I had no idea what that was, so I figured they wouldn't want to hire me. I decided to go out on a limb and apply because what was the worst that could happen?

As it turns out, deciding to apply for the job that I almost didn't apply for ended up being a life-changing move for me. I was officially offered the job at Yolo Federal and was ecstatic to now have health insurance benefits along with a retirement plan. I was terrified, though. At this point, I had been at the real estate office for 10 years, and transitioning to somewhere new seemed daunting. I think I was most nervous to break the news to my aunt that I would soon be leaving. I braced myself for her reaction, but instead of the usual stone faced tough-as-nails office manager that I was used to, I was met with a loving smile from my aunt who exuded pride and gratitude.

2. Discuss how you became involved in the credit union movement, the various roles you have held, and your history with your current credit union or, if you don't currently work at a credit union, the system partner that employs you.

I officially started as the marketing coordinator at Yolo Federal on February 21, 2012. I was immediately enthralled with my new job at Yolo Federal Credit Union. I had access to more advanced graphic design programs and began working on exciting campaigns and promotions. However, we were still operating with some old-school marketing channels. You could find our advertisements in the local newspapers or in some type of direct mail piece. All our marketing collateral was printed, aside from what could be found on our outdated website. Admittedly, our branding was dusty and needed more strategy and sparkle.

After the birth of my first son in 2015, I was unexpectedly promoted to marketing manager. I was reporting to our Vice President of Lending, Matt Isika, at the time and had the opportunity to learn a great deal from him about how lending works. This was helpful to me because I could be more effective with our marketing promotions. He supported my ideas and gave me the autonomy to do my job. He trusted me, and in return, I dedicated myself to advancing our marketing strategy and enhancing our brand. I began using digital channels for our marketing, deployed targeted advertising, conducted market research, started measuring our Net Promoter

Score, created brand guidelines, boosted our social media presence, and developed our annual marketing plan.

I was then promoted to director of brand and marketing, where I oversaw larger projects, such as developing a new website. I also noticed that we needed a training department at Yolo Federal. I saw an inconsistency in how our employees were being trained, which led to a disjointed member experience that ultimately impacted our brand. I prepared a proposal to start a training department to help improve the new hire onboarding process. This was approved, and I soon oversaw a training department in addition to marketing. I led the initiative to update our core values, created a product knowledge manual, and implemented a new online training program. I have since passed the training department over to our Vice President of Human Resources, Marcela Bautista, where it has continued to flourish and thrive under her leadership.

Despite having a busy career and a toddler at home, I decided to go back to school to pursue a master's degree in organizational leadership. Homework and studying were done early in the morning and late at night. Although it was exhausting, it was well worth the commitment because of all that I learned. My son and husband watched with smiles on their faces as I walked across the stage to accept my diploma with a blue and purple academic hood draped around my neck.

I was still working as the director of brand and marketing when our Chief Executive Officer (CEO), Jenee Rawlings, called me into her office. She told me that our current vice president of operations would be retiring, and she offered me the role of vice president of marketing & operations. I had zero operations experience, and just as I felt when I first applied for the marketing coordinator role, I immediately deemed myself unqualified. I told her this, but she assured me she didn't need an executive who knew how to be a teller. She wanted someone who would move the vision and strategy forward. I had recently read the book Lean In by Sheryl Sandberg, where she says, "If you're offered a seat on a rocket ship, you don't ask what seat. You just get on" (Sandberg, 2013, p. 58). I realized I had a rocket ship sitting before me, so I said yes and vowed to figure the rest out later.

Spoiler alert: I figured out how to do the job. I learned to expect the unexpected in operations and the importance of being a firefighter when issues arise. However, I didn't want to simply keep the rocket ship flying; I wanted to launch us into a new galaxy. Alongside my team and with the support of my fellow executives, I led several initiatives to help us advance. We implemented an online appointment scheduling software right before the pandemic. At that time, we were the only financial institution in our area that had the ability to take appointments online. We developed a" fast track lane" where members could pre-book their teller transactions and skip the wait. We had a second location in the same town as our headquarters that was transformed into a digital-first branch with the removal of the teller line. We replaced our entire fleet of Automated Teller Machines (ATMs) with Interactive Teller Machines (ITMs) that include video tellers and the ability to connect to our core system to offer enhanced functionality. We were once again the first financial institution in our area to offer this type of technology. I was also heavily involved in a successful core conversion and online banking upgrade. My marketing department even won a Diamond Award from America's Credit Unions for our communication plan during the conversion. I also had the opportunity to work on our field of membership expansion, which was approved by the National Credit Union Administration in 2023.

In 2024, I was promoted to chief operating officer. Since then, I have been working on our expansion efforts and am leading the project to build a branch in a new community. Once again, we are developing a new website, and I'm focused on growing our brand in the communities we serve. When I began my career at Yolo Federal, we had $193 million in assets and served 1 county. We are now $400 million in assets and serve 4 counties. Life has a funny way of showing you what you're capable of, even when you don't see it. Since starting at Yolo Federal, I've changed positions a few times, married my husband, started a family, and returned to school to obtain a master's degree. The young teenager who was fired from her first job never could have imagined who I am today.

3. Describe your career goals and provide your perspective on any additional professional development you believe will be necessary to accomplish them.

When I look at what is on the horizon, I contemplate what my future career goals are. My primary goal is to help Yolo Federal grow while maintaining a strong brand reputation, no matter my role. I will be perfectly content if I retire as the COO, knowing I've been part of a team that made great progress moving us forward. However, I also know that my CEO will one day consider retirement. I want to be a part of that succession plan so that when the time comes, I am a qualified candidate who is worthy of consideration. It would be the honor of a lifetime to continue her exceptional work and lead us into the future. Throughout the history of Yolo Federal, there have been 4 CEOs, and 2 of them have been women. My goal is to be the 3rd. Completing WCMS will help my professional development to reach that goal.

4. How do you anticipate participating in WCMS will impact your ability to achieve those goals?

WCMS will help me reach my goals by providing me with industry-specific education. This is particularly beneficial to me for the areas of the credit union that I am not as familiar with. This is important if I am interested in pursuing the role of CEO one day. Leroy Chiao, Chief of the Astronaut Office, once said, “As commander, I was responsible for the overall success of the mission, and so I had to know at least a little about everything” (Chiao, 2011). What I love about WCMS is that it is helping me learn a little about everything in the credit union industry. I have already put into action much of what I have learned from my first year attending. The networks formed through WCMS are also invaluable because they give me a wide network of people to lean on and connect with.

B. About Your Credit Union

<u>Your Credit Union's Origin to Present</u>

1. Briefly review the events that brought your credit union into existence and when it was organized.

In 1954, the Yolo County Sheriff's Department employees were required to purchase their own uniform and equipment. Many of them had a difficult time affording this type of purchase, and all the local banks were denying these loan requests. A group of 10 employees decided to come together to help their colleagues buy what they needed for work. They each threw in $5 to help establish the credit union under our original name, Yolo County Employees Federal Credit Union. According to an article in the Woodland Daily Democrat about one of the founders, Herb Chandler, there was some initial concern the credit union wouldn't last. "Chandler probably thought he had gotten in too deep when, after the $50 the credit union had as its assets was spent in a few days, Chandler threw in another $25 of his own money. By the end of 1954, loans had sky-rocketed to $1,991.64. With income from those loans of $73.90 and expenses of $64.16, the first year's profit of $9.74 was retained for a rainy day" (Schapiro, 2018).

A vintage receipt book still sits in our board room today that shows the first few loans that were made. Looking at this 70-year-old receipt book is a reminder of where we came from. Just like when we look up at the sky to see the stars, we are looking back in time because of how long it takes for light to travel. We see the light today thanks to our founders having the desire to help others in need, and the wisdom to save for the future.

2. Provide the original name of the credit union, its original field of membership, year chartered, and the initial charter (state or federal). What other names has your credit union had over the course of its history? What year did each name change occur and what were the circumstances that drove each name change?

I am frequently asked if our credit union's name is derived from the saying You Only Live Once—YOLO! We are named after Yolo County, which is the county where we were established. Yolo comes from the Patwin Native American tribe and means "place abounding in rushes" because of the wetlands we are surrounded by. Although it is memorable, we have been around much longer than the slang word YOLO. Yolo County Employees Federal Credit Union was federally chartered on March 1, 1954. The original field of membership was anyone who worked for the County of Yolo. I had the opportunity to review the original charter documents and was starstruck by seeing the signatures of the founders. Six men and four women who may have seemed ordinary at the time but their commitment to making a difference changed many lives. Yolo County Employees Federal Credit Union's field of membership was expanded on December 8, 1966, to include the cities of Woodland and Davis. We operated under our original name for many years, despite serving more than just the county employees. On November 7, 1984, the name was changed to Yolo Federal Credit Union (Yolo Federal) to better reflect our field of membership. In 1997, our field of membership was changed from a select employer group charter to a community charter.

3. What is your credit union's current field of membership (in general)? What type of charter does it have? Who is its share insurer?

A field of membership expansion was approved on January 4, 2023. Yolo Federal now serves anyone who lives, works, worships, or goes to school in the counties of Yolo, Sacramento, El

Dorado, and Placer. Yolo Federal is federally chartered and insured by the National Credit Union Administration.

4. In your opinion, what connections exist between your credit union's origins (e.g. the reasons it was organized, its initial field of membership, original name, etc.) and how it is structured today? Provide examples of how the legacy of your credit union influences its current organizational thinking, if at all? If there is no such influence, why do you believe the credit union has gone in a different direction?

While Yolo Federal has evolved through the years, the philosophy of "people helping people" has remained the same. When no other financial institution would help the original founders back in 1954, they looked at their coworkers and offered help. We continue to do this today through our mission of helping people achieve financial success. Whether it's intentionally keeping interest rates low to help them save money or investing in the community through charitable donations and volunteerism, Yolo Federal is committed to making a difference by offering a helping hand to those in need. Although the field of membership has changed over the years, we still honor the original founders from the Yolo County Sheriff's department by offering a 0.25% consumer loan discount to first responders.

Your Credit Union's Guiding Philosophies

1. Provide your credit union's mission, vision and/or value statement(s). How and why were these determined? What is the process for revisiting and/or revising them? How are these statements manifested in the daily fabric of your credit union's operation? If your credit union DOES NOT have formally articulated mission, vision and/or value statements(s), explain why. How do you believe these principles influence your approach to your job?

Yolo Federal's mission is to help our members achieve financial success. The mission is influenced by the original founders of the credit union who wanted to help others be financially successful. There are also 4 value statements that serve as promises to our members. The value statements were revised in 2017 to better align with the culture and expectations set forth by the CEO and senior leadership team. An interview was conducted with the CEO to solidify the values she believed were most important. The legacy and history of the credit union was also taken into consideration. Whenever our mission or values are revised, we audit all our branding and marketing materials to ensure everything is updated. We also prepare staff communication and will hold an all staff meeting to ensure employees are properly trained to meet these updated expectations.

We take ownership of member requests and focus our attention to exceed their expectations. Accountability is an important value at Yolo Federal. There are few things more frustrating for members than being passed around to various departments if someone doesn't know the answer to a question. At Yolo Federal, employees are expected to take ownership of a member request, even if they don't immediately know how to help. Rather than abruptly passing the member off to another department, they will try to help the member to the best of their ability. If they do need to transfer the member to another department, they will coordinate a soft handoff while still providing ongoing support to ensure member satisfaction.

Not only does this provide better service to our members, but it's also a learning opportunity for employees.

We build genuine relationships with each member to create a unique experience. We put their best interests first. Large financial institutions can run the risk of not knowing their customers or members. Although Yolo Federal is considered a mid-size credit union, we still maintain a culture where we focus on the individual needs of a member. The theme song from Cheers metaphorically echoes through this value statement because Yolo Federal is a place "where everybody knows your name." We will also never offer a product or service to a member who does not need it. Employees are trained to align products and services with the unique needs of a member, and only if it will help them achieve financial success.

We are committed to the prosperity of our community. Yolo Federal exists because a group of people cared enough to help their coworkers prosper. As a community chartered credit union, we know the importance of a thriving local economy. Our commitment to prosperity is embedded throughout the fibers of the credit union. Whether it's keeping interest rates and fees low to help members save money or donating monetarily to local non-profits. Yolo Federal is dedicated to the financial health and wealth of the communities we serve.

We demonstrate integrity in every interaction to uphold member confidence. Yolo Federal believes in transparency and doing what is right for our members. This value statement was formed not long after the Wells Fargo scandal when employees were opening fraudulent accounts to meet sales goals. When goals are set astronomically high, and employees are fearful of falling short, it results in a toxic culture. Yolo Federal cultivates a workplace that is grounded in ethics, and employees are expected to serve members with the utmost integrity.

We also identified key traits and behaviors of employees that demonstrate our commitment to the mission. This results in a high-performance culture where we strive to provide exceptional internal service to our colleagues. We believe that a healthy and happy workplace culture will result in better service to our members. Employees are expected to be **Accountable** because our team's success depends on everyone taking ownership of our responsibilities. We desire **Adaptability** because evolution is important to building a strong team and successful financial institution. **Ambitious** employees are celebrated for going above and beyond to create excellence. We promote **Authenticity** so employees feel the freedom to speak up, share ideas, and contribute our unique perspectives. Employees are trained on these "A" values from their very first day at the credit union and are continuously reminded to **"Bring Your A Game!"**

As the original author of these "A" values, I hold myself to a higher standard to ensure employees see me living out these values daily. It is imperative that these core values move from words that are defined on paper to inspired actions and behaviors. A culture must be designed and then ingrained into the fibers of the organization, rather than the culture forming by default. Daniel Coyle speaks to this in his book, The Culture Code, that "Culture is a set of living relationships working toward a shared goal. It's not something you are. It's something you do" (Coyle, 2018, p. 19). Accountability, Adaptability, Ambition, and Authenticity are the 4 navigational points of my leadership compass, guiding me to make decisions that are in the best interest of the credit union.

Your Credit Union's Leadership

1. Interview the Board Chair of your credit union. Include that person's name, current profession, length of service on the Board of Directors, and length of time as Chair. Discuss that person's duties, responsibilities, time commitment, level of industry engagement (i.e. advocacy efforts with legislators, trade association participation, and interaction with other Board members), Board/CEO functional relationship, Board committees (including composition and function) and regulator interactions.

William (Bill) C. Schemel is the Board Chair at Yolo Federal. Bill is a retired Deputy District Attorney and a passionate credit union advocate. He has served on the Board of Directors at Yolo Federal for 45 years. We recently named our boardroom after him to celebrate his 45 years of service and honor his profound impact on Yolo Federal. Once considered a young hippie chairman, he is a gravitational force of wisdom and a respected leader.

Bill became a Yolo Federal member on April 1, 1978. Two years later, an employee encouraged Bill to join the Board of Directors. He attended the annual meeting and garnered enough votes to join the Board. He quickly discovered that he was 30 years younger than the other Board members. Although young, he didn't let that stop him from asking essential questions about the financials and product strategy. It was clear to Bill that the existing Board was comfortable with the status quo, and he was light years ahead by wanting to focus on the future of Yolo Federal. He had to shake things up a bit, resulting in some Board turnover. Bill said, "We had a few people drop out, and we were able to bring in some new blood with management skills and moxie" (B. Schemel, Personal Communication, December 17, 2024). Yolo Federal was just shy of $6 million in assets when he joined the Board, but by the end of his first term, we had doubled in assets to $12.2 million. Bill went on to hire the next CEO of Yolo Federal and set a new expectation with the Board of Directors about the separation of policy and operations. Bill was an advocate for the Board's understanding of where policy ends, and the CEO's operations start. This was a new philosophy for the board, but one that worked very well.

To this day, Bill still believes one of his primary responsibilities is to ensure the Board members don't step over the line into the operational side of Yolo Federal. He is committed to keeping the Board focused on policy and strategy. Bill also wants to keep them interested, which he believes requires a bit of humor and respecting their time. He tries to keep the monthly Board meetings efficient and no longer than an hour and a half. Bill says, "Stay on point, keep everybody laughing a little bit, enjoying themselves, and they'll come back each year" (B. Schemel, Personal Communication, December 17, 2024).

Bill estimates his time commitment to the Board is approximately 4 hours per month. His time is spent at the Board meetings, reviewing the monthly Board packet, and communicating with the CEO and other Board members. There is only one committee of the Board, the Nominating Committee. As the Board Chairman, Bill appoints the Nominating Committee. We then solicit applications for the Board of Directors and will forward those applications to the Nominating Committee. They will screen all applicants, collect their statements of qualifications, review nominations by petition, and confirm candidates accept the responsibilities of being on the Board. It's an important component of the Board to ensure we abide by our bylaws.

The interactions between Bill and our regulators are typically uneventful and brief, which is exactly how Bill likes it. Yolo Federal is now financially healthy with clean audits, but that wasn't always the case. Early in Bill's tenure as Board Chairman, many challenges resulted in an 80-page management letter from the NCUA. It felt as though he was staring into a supermassive black hole. However, he was committed to solving these issues and brought in a CEO who had previously served as an examiner with the NCUA. They were able to clean things up and move Yolo Federal in the right direction. These days, Bill can appreciate where we are now compared to where we once were. His conversations with our regulators focus on the strong financial health of Yolo Federal, our ongoing strategies that support growth, and how we are effectively serving our members and community.

Bill spent many years involved in the National Association of Credit Union Chairpersons. This benefited Bill early in his tenure as a chairman, as it provided him with needed support and educational resources. He was eventually nominated to run for their Board. Bill maintained strong relationships with people he met through this association and values his time learning from others. His involvement waned over the years as he became more seasoned. He now leans on his CEO for all other advocacy efforts and industry engagement.

The Board and CEO functional relationship is clearly defined and adhered to. Bill believes the role of the Board is "higher command, review policies, and get the heck out of the way" (B. Schemel, Personal Communication, December 17, 2024). He doesn't believe this is difficult to do if you know where the line is and that you should be respectful to not cross that line. Bill's philosophy is to "trust but verify" when it comes to the CEO. Fortunately, our current CEO, Jenee Rawlings, holds herself to the highest ethical standards. Bill and Jenee have weathered many storms during their time working together. Successfully leading through a recession and a global pandemic while maintaining strong capital and no employee layoffs is no small feat. Jenee has proven to Bill that he can confidently trust her to lead Yolo Federal with wisdom and integrity.

2. Interview the Chair of the Supervisory/Audit Committee. Include that person's name, current profession, length of service on the Committee, and length of time as Chair. Discuss the Committee's duties, its size and structure, its responsibility to interact with the board and management, the level of direct involvement by the Committee members in carrying out these duties and whether the Committee delegates any of its responsibilities to third parties.

Shelley Sammut has been on the Supervisory Committee at Yolo Federal for 10 years and has been the Chair for 3 years. Shelley retired from the County of Yolo, where she worked in human resources. Her primary responsibilities were payroll and financial recordkeeping, which led to her recruitment for the Supervisory Committee. She was initially approached by our CEO at the time, Clyde Brooker, to join the Board of Directors. However, she was unable to commit to this role due to her schedule and limited availability. After some persistence from Yolo Federal and being newly retired, she agreed to join the Supervisory Committee.

The Supervisory Committee is independent from the Board of Directors and is in no way influenced by them. The Committee consists of 3 people who work closely with the Vice President of Risk Management, Jewel Trottier. Jewel provides feedback to the Committee but maintains a neutral role. They meet quarterly, with meetings typically conducted via Zoom. Their minutes are maintained in a secure shared portal. As the Chair of the Supervisory Committee, Shelley also attends the Board of Directors meetings quarterly to share updates about audit firm selections and other relevant matters. There is otherwise limited interaction between the Committee and Management.

The primary role of the Committee is to hire the audit firm for the annual review of financials and operational procedures. They also review quarterly audits of member accounts, ensuring all necessary documents and signatures are collected. If there is a finding, they will make recommendations for procedural improvements. Another important component of their role is reviewing suspicious activity reports. Although it is rare, they also review and respond to member complaints escalated to NCUA. When this occurs, Jewel will work with the appropriate executive for a thorough investigation. This information is then provided to the Committee, which allows them to respond and document the findings effectively. Most of these complaints are usually resolved by staff before they reach the Committee, which makes their involvement more of a formality. All 3 Committee members contribute towards fulfilling these responsibilities and they do not delegate to any third parties.

3. Interview your CEO. Include their name and discuss their principal duties and those of their direct reports. Describe the Board/CEO relationship from the CEO's perspective. Discuss their level of industry engagement and why they prioritize it as they do. What does the CEO identify as the two most significant opportunities and the two most significant challenges the credit union industry will be facing in the next three years?

Jenee Rawlings started as a teller at Yolo Federal in 1989. She has worked in nearly every department and held more titles than she can count throughout her career, which spans over 35 years. Early in Jenee's career, she took a job as the visa liaison. She recalls asking her mom what a liaison even was. Her mom expressed concern that she would take a job, and she didn't know what the title meant. "I said that I would figure it out" (J. Rawlings, Personal Communication, November 22, 2024). It's that type of determination that helped advance her career.

Upon the retirement announcement of the previous CEO, Clyde Brooker, Jenee decided to shoot for the stars and apply for the CEO role. Jenee said, "I dedicated my career to the strategic growth of Yolo Federal, and I felt a sense of responsibility for that. I chose to apply for the role of CEO because I knew there were no external candidates who could care as deeply as I do for Yolo Federal" (J. Rawlings, Personal Communication, November 22, 2024). She had already served for many years as the senior vice president and had a wealth of industry knowledge. Jenee also spent time preparing herself for this opportunity, as she obtained a bachelor's degree in business management with a minor in organizational psychology and a master's degree in business administration. She is also a 1996 graduate of Western CUNA Management School. Jenee's hard work and commitment to excellence led to her becoming the 4^{th} CEO of Yolo Federal in 2014.

Jenee's primary duty is to keep Yolo Federal fiscally sound and meet strategic initiatives to help the credit union grow. Beyond that, she believes her greatest responsibility is assembling and maintaining a team of experts in various areas. Jenee says it is important to "Hire the best you can get and just stay out of their way" (J. Rawlings, Personal Communication, November 22, 2024). She believes her job is to "Keep all the fish swimming in the same direction and playing nice in the sandbox" (J. Rawlings, Personal Communication, November 22, 2024). Jenee is passionate about cultivating a healthy culture and effectively managing people because it can make or break an organization.

Among the many roles Jenee has filled over the years, human resources holds a special place in her heart. She carried those people skills with her into the CEO role. This includes maintaining healthy team dynamics and building a culture of trust amongst her Executive Team. She has seen firsthand how dysfunctional Executive Teams can negatively impact organizations. Jenee meticulously selected her Executive Team and assigned duties to ensure they work harmoniously together for the betterment of Yolo Federal. Jenee will quickly note that working harmoniously does not mean we always agree with one another. Jenee will often promote the importance of "creative conflict," where we debate ideas in a productive way. She implores her executives to think differently and share opposing opinions, but when we walk out the door or log off Zoom, we outwardly support one another. Jenee's team of 6 executives maintain a healthy respect for one another.

The Chief Financial Officer (CFO), Matt Lane, is accountable for the administrative and financial management operations and electronic payments. The Chief Operating Officer (COO), Kelley Jacobsen, is responsible for leading and managing the member service business units, including branch operations, the call center, marketing, and business development. The Chief Lending Officer (CLO), Matt Isika, directs lending and collections activities. The Chief Information Officer (CIO), David Plaut, manages technology, network infrastructure, server administration, and cybersecurity. The Vice President of Risk Management, Jewel Trottier, oversees the enterprise risk management program, compliance, audit, and records management. The Vice President of Human Resources, Marcela Bautista, leads diversity and inclusion efforts, talent acquisition, employee relations, and training. As a team, they uphold the core values and service promises of Yolo Federal to help their members achieve financial success.

Given Jenee's long tenure at Yolo Federal, she has watched the CEO and Board relationship evolve over the years. In past decades, she has seen when the Board was overly involved in operations and management. She believes that it can be dangerous territory, especially if the Board does not have the relevant education and experience needed to manage a credit union. However, the current Board has a clear understanding of their important role and how that is different from the duties of the CEO. Jenee says, "The Board has 1 employee, and that is the CEO who they hold accountable" (J. Rawlings, Personal Communication, November 22, 2024).

Jenee's level of industry engagement has fluctuated over the years, and she's typically focused her efforts on the areas that are directly related to her role at the time. She was heavily involved in the Human Resources Directors (HRD) Network for many years. Jenee was also one of the founders of the Northern California Trainers Network, which helped bring together local credit union trainers for collaboration. Now, as the CEO, Jenee primarily engages with the America's Credit Unions CEO Council and attends regional CEO lunches. Jenee also helps lead the Sacramento Chapter of the Global Women's Leadership Network. The Global Women's Leadership Network empowers women in leadership throughout the credit union network. As a seasoned CEO, Jenee finds fulfillment in mentoring others. "Throughout your career, somebody's going to help you by reaching out a hand," says Jenee. "I can be that hand to reach back and help someone, specifically women and minorities who don't have equitable opportunities" (J. Rawlings, Personal Communication, November 22, 2024).

Cybersecurity and the growth of financial technology (fintech) are two challenges that concern Jenee for the credit union industry. She has confidence in her CIO's ability to shield us from cybersecurity issues. Still, she knows it is unrealistic to lock down all our technology and avoid risk exposure completely. We are in the business of risk as a financial institution, but every day she sees a new security threat emerge or another breach wreaking havoc on our fellow credit unions. Jenee also recognizes that the cyber world is a kaleidoscope of challenges. It's not just the risk of a data compromise or fraud; it's also the overwhelming amount of misinformation that exists online that can quickly damage a credit union's brand reputation. Jenee says, "You can put out a lie that sounds good on social media, and an alarming percentage of people are going to believe you" (J. Rawlings, Personal Communication, November 22, 2024). She is concerned about how our industry is going to combat this. In that same vein, she ponders how our industry will compete with fintechs. The challenge seems to be whether credit unions should compete, partner, or leverage the fintechs. “They aren’t going away, and we’re not going to compete directly with most of them, so that’s both a challenge and an opportunity” (J. Rawlings, Personal Communication, November 22, 2024).

Given the concerns with cybersecurity and fintechs, Jenee believes credit unions have a significant opportunity to deepen trust and relationships with members. Many credit unions are still small or mid-size compared to the large fintechs and banks, which gives credit unions an advantage in building unique relationships within the communities they serve. “We can be a trusted financial expert where our members can come get help to navigate their financial situations” (J. Rawlings, Personal Communication, November 22, 2024). The second opportunity she sees is leveraging technology to personalize service for members. She knows technology and data exist, but the credit union industry needs to do more to capitalize on that. “There’s so much technology out there, and we have an opportunity to use that to our advantage” (J. Rawlings, Personal Communication, November 22, 2024).

4. Using information gathered in the above question, provide your perspectives on: The impacts each of the opportunities and challenges raised in the CEO’s response will have on the credit union industry. How do you think your credit union should react to each of those opportunities and challenges? How do you think those opportunities and challenges could affect your current role and the work you personally do on a daily basis?

Cybersecurity is a constant battle between good and evil. Credit unions build a wall to shield themselves from cyber threats, and the bad guys use a taller ladder. This is particularly true since most credit unions rely on third-party vendors, who are also susceptible to cyber-attacks. According to the NCUA, “…compromises within third-party services have led to systemic risks across the credit union ecosystem. Incidents related to third-party vendors accounted for approximately 73% of total reported incidents” (NCUA, 2024). This impacts the credit union industry in several ways. For many credit unions, it makes them hesitant to onboard new technology partners for fear of additional risk exposure. This limits their ability to offer enhanced products and services to their members. Other credit unions don’t have the available resources to handle a cybersecurity attack. This can impact the credit union’s financial health, reputation, and member sentiment. Although credit unions vary in size and complexity, we collectively share the perception and reputation of the credit union industry. Given this, it’s imperative that credit unions continue to do what we do best: collaborate and support one another. It’s our superpower and is a competitive advantage compared to the banking industry. We must lean on each other to share best practices, give honest feedback during vendor reference requests, and provide support if another credit union experiences a cyber-attack.

At Yolo Federal, we are committed to elevating our technology, and with that comes inherent risk. However, we maintain a strong vendor due diligence program, robust cybersecurity policies, and continual employee training to mitigate risk. We also have prepared our public relations response in case we encounter a cybersecurity issue impacting our members. This will ensure we maintain strong communication and timely responses to help preserve our reputation. Cybersecurity threats already affect my role now, and it will continue to impact how I do my job on a daily basis. I oversee the member experience, so many of the technology solutions that our members use fall under my umbrella. I must do my due diligence when bringing on a new technology partner to ensure they meet our cybersecurity standards. I also need to develop and maintain policies and procedures for our staff to follow when using these platforms to help us mitigate risk. Since I also oversee our public relations, I must proactively think about anything that could go wrong and prepare for worst-case scenarios. Technology and cybersecurity threats are changing at a rapid pace. I am constantly educating myself on anything new so that I can pivot and prepare.

When the name of a fintech company became a verb (Just Venmo me!) with consumers, I started thinking, “Houston, we have a problem” (Howard, 1995). Fintechs have already disrupted the credit union industry and are not slowing down. Many of these companies enjoy reduced operating costs because they don’t incur the expenses associated with branch locations. They also have the resources and money to leverage high-power technology that makes their products attractive to consumers. In a world where people feed on instant gratification, fintechs are a glutton’s dream. Their products are fast, personalized, streamlined, and easy to use. These are things that credit unions are not historically known for, which will exacerbate the challenge for credit unions. We are not only trying to compete with fintechs, but we are also having to rethink our marketing strategy to change consumer perceptions. However, I don’t believe that competing is the right approach.

At Yolo Federal, we should leverage and partner with fintechs. For example, we know that trying to get members to use our Person-to-Person (P2P) solution in online banking is useless when most of them continue using Venmo. Rather than a futile attempt to compete with Venmo, we should strategize to ensure it is our banking information inside our members’ Venmo accounts. There are also countless fintech partners who want to partner with credit unions. They might have a robust technology solution, but we have the trust of our community. We can go further working together than trying to compete. This affects my role and the work I do on a daily basis because I need to continuously research fintechs so I remain knowledgeable about the types of potential threats and opportunities that exist. If I find a viable partner that aligns with our strategic initiatives, then I need to complete the due diligence and oversee the implementation of their solution. I will also lead the marketing and communications strategy to ensure member adoption, which will result in a positive brand reputation.

Despite the challenges that fintechs and cybersecurity issues bring to the credit union industry, there is still a significant opportunity for credit unions to build on the trust they have with the communities they serve. Understanding and embracing technology is important but can't replace real human relationships. It's at the heart of who credit unions are; we are 'people helping people.' We should not underestimate this time-honored philosophy. It can be impactful to the credit union industry if we collectively support the notion that we don't have to choose technology over member relationships and vice versa. We can move the needle forward if we connect technology with member relationships built on trust. For example, we learned a lesson at Yolo Federal when we implemented ITMs with video tellers. We were proud to be the first in our market to offer this type of technology. However, we were unexpectedly met with resistance from members who claimed we were "replacing people with robots." We had to quickly pivot our messaging to clarify that we are not replacing our people. We are upgrading technology to provide an additional member service option. We also emphasized that this would allow our staff more time to deepen relationships with our members. People still value relationships, even if they spend more time on their phones than in real human interactions. When someone is making a large financial decision, they often want to communicate with a person who can help guide them through the process. This interaction might be at a branch location, or it could be through some form of technology. Either way, they want to know there is a real person they can talk to if they need help. This is where credit unions can shine like a hunter's moon on a crisp autumn night.

At Yolo Federal, we can respond by ensuring our employees are highly trained and equipped to be financial wellness experts. When someone needs a higher level of support, our employees can be a trusted resource. This will impact my role and the work I do on a daily basis because I don't want my employees to be order-takers. I need to ensure they have the resources and training to provide financial guidance to members. I also must develop an ecosystem that connects the digital experience with the human experience. This should be interconnected and not disjointed so that employees can successfully do their job, resulting in member satisfaction.

Credit unions have access to an incredible amount of data that we could be using to personalize the member experience. However, our industry has been slow to move when it comes to personalization, primarily because we prioritize other things. Most small to mid-size credit unions have employees who wear many different hats. It's the age-old idiom, "jack of all trades, master of none." We are really good at maximizing our resources, but that also means we are not hyper-focused on one area to move the needle. Personalizing the member experience through data requires money, time, technology, talent, and a well-defined plan. For many credit unions, this can feel like you're trying to explore an entirely new planet in the solar system. I don't believe it has to be that way. The credit union industry can pool resources together to help overcome these obstacles. After all, we are a cooperative, and working together is what we do best. We already see this happening with peer group roundtables through Callahan & Associates and the networking councils through America's Credit Unions. These groups have dedicated forums and meetings focused on personalization and data. Credit Union Service Organizations (CUSOs) are also beginning to form that will help credit unions connect the dots on how to achieve personalization through member data and technology.

At Yolo Federal, we should respond by taking it one step at a time. We have access to the data; we need to integrate more of it into the member experience. While it can feel like a massive endeavor, it is manageable if we break it up into phases to help us close the gap between where we are now and where we want to be. This will impact my role and the work I do on a daily basis because I will need to look at all the data points and technology available throughout our organization, not just within my business units, and consider how that can be used to personalize the member experience. I will then need to create a strategic plan focused on enhancing the member experience through data that includes specific, measurable, attainable, relevant, and time-bound goals to help us inch forward. This will touch every aspect of my role because it will alter the structure of my marketing plan, our new member onboarding workflow, and how our employees are trained to support this type of member experience. Just as a telescope observes objects in the sky at a distance and focuses the light to reveal an object with clarity, we can look through the lens of a clearly defined strategic plan to bring into focus personalization through data.

II. Business Management

A. Organizational Structure

1. What is your current position at the credit union? Who do you report to, including the person's title and function? Briefly describe 3-5 of your major responsibilities.

I am the Chief Operating Officer (COO) at Yolo Federal. I report to our President/CEO, Jenee Rawlings, and her primary function is to lead a team of executives who work towards achieving our strategic initiatives. The two business units that I oversee are marketing and member services. Having these two areas under my umbrella might sound unique, but we believe marketing and member services work cohesively together. Marketing defines our brand and member experience, while member services deliver on those expectations. Member services include branch operations, call center, the ITM fleet, and wealth management.

As a member of the Executive Team, I participate in our strategic planning and am on our Asset Liability Committee (ALCO). At strategic planning, we review our 5-year strategic plan and ensure we are progressing to meet those objectives. Our strategic plan evolves every year depending on economic factors, industry updates, technological advancements, market demographic changes, and the needs of our members. After strategic planning, we send our annual budget and proposed corporate goals to our Board for approval. Once the budget and goals are approved, I prepare a marketing plan that establishes a roadmap to support the attainment of our corporate goals. The marketing plan includes a situation analysis of our strengths, weaknesses, opportunities, and threats to help us determine areas we need to focus on. I also include market research to support my recommendations. The marketing plan includes our creative concept and a tactical plan to help us reach our strategic goals. ALCO meets monthly to determine our rates and approve any special promotions I recommend. Depending on what is happening in the economy or within our market, our decisions in ALCO can alter the marketing plan. The marketing plan is dependent on any internal and external variables that may dictate redirection. As the COO, I continually evaluate metrics, economic conditions, and market demands to make necessary adjustments for maximum success.

Another major responsibility of mine is evaluating and implementing new branches and any potential mergers and acquisitions. Most recently, I worked alongside my fellow executives to apply for a field-of-membership expansion with the NCUA. This process required market research, budget and growth projections, a business plan, and a marketing plan. I also conduct market and demographic research to recommend target markets within our expanded territory. There are several factors that I analyze: available market share, estimated return on assets and projected years to break even, target demographics, deposit and loan demand, future market growth, marketing effectiveness, and operational viability. I take all that information and prepare target market recommendations for our Executives and Board. If they support my recommendations and agree to proceed, I will prepare the go-to-market strategy and oversee implementation. I am currently leading the project to build a new Yolo Federal branch in Sacramento, CA, that is projected to open at the end of 2025.

Another critical function of my role is the leadership over the business units I oversee. The director of operations reports to me, and she oversees all the branch managers. The frontline employees all report to the branch managers. The marketing manager also reports to me, overseeing the employees in the marketing department. I meet weekly with my direct reports to review the progression of our corporate goals, discuss project updates, and resolve potential issues with employees or members. I prepare development plans for my direct reports that include action items, the reason it is assigned to them, and deadlines. We continuously review their development plans to ensure they remain on track. I also require my direct reports to prepare development plans for their employees. I believe in setting clear expectations, maintaining strong communication, and holding people accountable. Susan Scott's book, Fierce Conversations, emphasizes the importance of interrogating reality to have honest conversations with your employees and holding them accountable. She says, "We get what we tolerate. I don't know about you, but I've not yet witnessed a spontaneous recovery from incompetence. Without timely, candid feedback, people whose behaviors or attitudes are a problem continue unchanged, blissfully unaware, dragging everyone down, including you" (Scott, 2017, p. 16). This book significantly impacted my leadership style early in my career. Because of this, my employees have come to expect transparent communication, and I expect the same from them. I accomplish this by meeting with them weekly, my commitment to employee coaching, and sometimes being a firefighter when issues arise. Leadership doesn't happen by accident; it is intentional, and my greatest responsibility is to be a proactive leader and serve my employees.

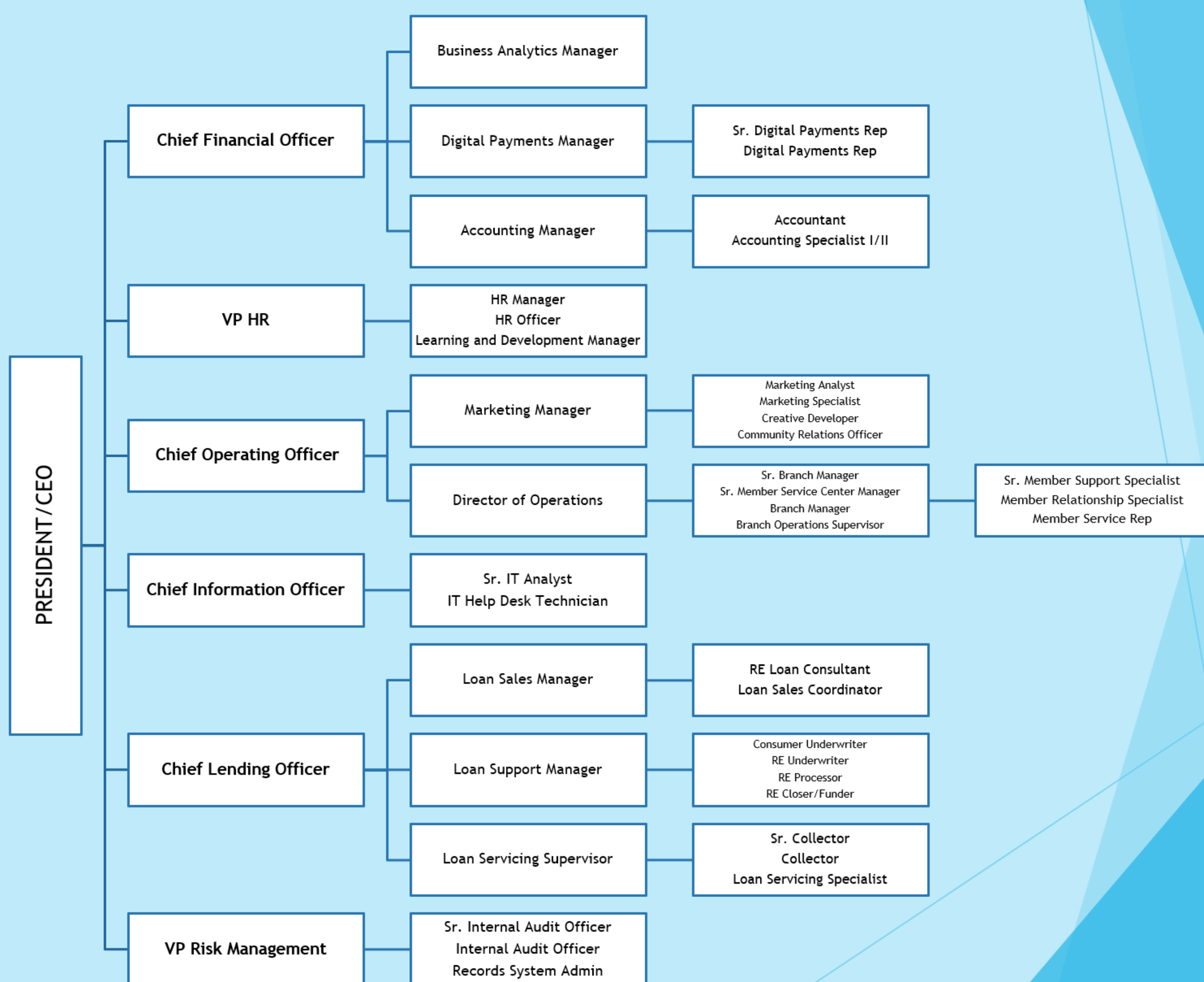
2. Discuss the organizational structure of your credit union. How does the structure influence the decision making with the credit union and its internal communications? Describe any changes you would suggest to the organizational structure and what you would seek to accomplish via those changes.

We tried to maintain a flat organizational structure with minimal layers for many years. This was to help maintain agility, reduce operational costs, and strengthen communication between management and employees. However, we started to experience growing pains as our strategy became more complex. This required us to increase the size of our Executive Team and add layers to the management structure. In doing so, we have strengthened our foundation to support our employees and members better. The Executive Team is at the top of the organizational chart and is responsible for implementing the strategic plan and making decisions that impact the organization. There are 5 chief-level positions and 2 vice president-level positions.

Underneath each executive there are various layers and roles. As the COO, I oversee 52% of the employees at Yolo Federal. Because there are so many employees under my umbrella, I have an extra layer of management with a director of operations who reports to me. The branch managers report to the director of operations. Except for our CIO, all other executives have managers or supervisors who report to them and oversee staff-level employees.

The CIO has staff-level employees reporting directly to him, and there is no manager in the information technology (IT) department. These employees are specialized in their roles, and most are seasoned with long tenure. Although this structure works for now, I suggest restructuring to include a manager within that department at some point. It's not ideal to have staff-level employees reporting to an executive because it can potentially cause communication gaps, and they typically need greater oversight than a manager. An executive should stay at a high level without needing to be pulled into the weeds, which often occurs with staff-level employees. Restructuring to include a manager in the I.T. department would help streamline communication, provide the department with greater oversight of the daily functions, ensure the staff-level employees receive coaching, and allow the CIO to remain strategically focused.

Decision making and internal communications are streamlined within the organizational structure at Yolo Federal. Although the executives make large-scale decisions, they also delegate authority to the appropriate director or managers within their business units. The executives have clearly defined policies in place so the director and managers know what decisions they can make within their scope of responsibility. Communication flows vertically and horizontally throughout the organizational chart.


PRESIDENT/CEO
Chief Financial Officer
Business Analytics Manager
Digital Payments Manager
Sr. Digital Payments Rep
Digital Payments Rep
Accounting Manager
Accountant
Accounting Specialist I/II
VP HR
HR Manager
HR Officer
Learning and Development Manager
Chief Operating Officer
Marketing Manager
Marketing Analyst
Marketing Specialist
Creative Developer
Community Relations Officer
Director of Operations
Sr. Branch Manager
Sr. Member Service Center Manager
Branch Manager
Branch Operations Supervisor
Sr. Member Support Specialist
Member Relationship Specialist
Member Service Rep
Chief Information Officer
Sr. IT Analyst
IT Help Desk Technician
Chief Lending Officer
Loan Sales Manager
RE Loan Consultant
Loan Sales Coordinator
Loan Support Manager
Consumer Underwriter
RE Underwriter
RE Processor
RE Closer/Funder
Loan Servicing Supervisor
Sr. Collector
Collector
Loan Servicing Specialist
VP Risk Management
Sr. Internal Audit Officer
Internal Audit Officer
Records System Admin

3. What was the last change your credit union made what altered the reporting structure, added or eliminated positions? When and why was it made, and what impact did it have on the organization?

The last change that altered the reporting structure was expanding the Executive Team to include the Vice President of Risk Management, Jewel Trottier. This was on the heels of a core conversion where we onboarded several new vendors. This increased our risk exposure and deepened our complexity as a credit union. We were also rapidly taking on new projects that required a strong project manager. Jewel is a highly experienced project manager who has maintained oversight of several projects across various business units. This change has positively impacted our team because Jewel is now a part of critical decision-making opportunities. Her knowledge and expertise in risk management and project management have been helpful to the Executive Team. She has also been able to help us improve efficiency across the organization, resulting in reduced operating costs.

B. Strategic Planning

1. Does your credit union have a written strategic plan? Why or why not? If so, who is involved in developing that plan, what is the process for doing so and how frequently is it done?

Yolo Federal maintains a written 5-year strategic plan that is reviewed and updated annually. The strategic plan is critical for ensuring we continue to grow, maintain financial health, evolve with industry trends, remain competitive, and effectively serve our members. The Executive Team meets with our strategic planning consultants every October to review our current financials and compare against our target growth metrics. These metrics include loan and deposit growth, loan delinquency, net loans charged-off, net member growth, net worth to asset ratio, and return on average assets. We also set short-term and long-term strategic initiatives to support our growth goals. These strategic initiatives are categorized by member relationships, products and services, delivery channels and technology, talent, and financial.

The member relationships strategic initiatives are essential to achieving membership growth with a diverse demographic. We don't want to have a transactional relationship with our members. We want quality relationships so we can meet their needs throughout every life stage they are in. This might include the consideration of new lending programs, exploring loan preapprovals, improving member-facing platforms, or expansion opportunities. One of the most important initiatives that came to fruition from this category was our field of membership expansion.

The goal of the products and services strategic initiatives are to offer products and services that attract, engage, and retain members. This could include a new checking account with enhanced benefits, researching cryptocurrency, offering Buy Now Pay Later to members, and other services that can help our members achieve financial success. Many years ago, we had an initiative to offer a “green” product. We eventually launched our energy saver loan, which has helped our members upgrade their homes to be energy efficient and save money. Another product that was born from this category at strategic planning is our personal financial management solution that we branded as MoneyTrack. Our members can easily set up a budget and categorize their purchases with MoneyTrack through online banking. These strategic initiatives keep our products and services fresh and relevant.

Delivery channels and technology initiatives have played a major role in our strategy over the past few years. We are dedicated to having fully integrated systems that provide personalized member interactions, support efficiency, and increase earnings. With that comes a commitment to upgrading technology. There are several major projects that we have completed because of these strategic initiatives. This includes a core conversion, online banking upgrade, implementing ITMs with video technology, and a renovated website. These accomplishments have helped us move past the inaccurate perception that we have outdated technology that pales in comparison to large banks. We would not have achieved this if we did not have a clearly defined strategic plan with technology-focused initiatives.

Talent is an important component of our strategic plan because we are protective of our values at Yolo Federal. We want to recruit, retain, and reward staff who are actively engaged in the mission of Yolo Federal. Some of the strategic initiatives in this category could include improving our Glassdoor rating, enhancing our benefits package, and identifying certification opportunities that could lead to increased pay for employees. A strategic initiative that came from this category decades ago was adopting a core competency program for employees. Our core competency program is designed to pay employees for proficiency, not longevity. Every role at Yolo Federal has a set of core competencies that breaks down various skills and abilities into tiers. Each tier has a corresponding rate of pay. Employees can move up in tiers and earn higher pay as they become more proficient in their role. This program clearly outlines what is expected of them so there is no guessing on what they need to do to earn a higher pay rate. This was a monumental strategic initiative that changed the course of our compensation philosophy at Yolo Federal.

The financial targets help us remain a financially strong credit union and support our ability to fund many of our strategic initiatives. If we aren't growing and meeting our financial targets, then we will have a difficult time affording new technology or offering a best-in-class employee benefits package. A few of our financial goals have been exploring alternative revenue streams, private investment funds, and CUSO opportunities. An example of an alternative revenue stream that we have implemented is our partnership with Legal Karma. We now offer estate planning packages to our members through Legal Karma. We charge them a fee to use this service, but it is at a much lower cost than working with an attorney. Our goal was to find alternative sources of non-interest income. This initiative came from the financial category of our strategic plan.

Although the Executive Team primarily drives the strategic plan, the Board is also heavily involved. After the Executive Team meets to discuss the initiatives, the Board will join to review and offer their input. This typically results in an engaging discussion between the Executive Team, Board of Directors, and the strategic planning consultants. We will collaborate on what is best for the future of the credit union and will finalize the strategic plan. The short-term goals are then set for the following year and are incorporated into the budget and marketing plan, projects are assigned to the appropriate business units, and corporate goals are communicated to employees.

2. How does the execution of the strategic plan impact the operations of the credit union and its employees?

The execution can make or break a strategic plan. Without goals and a clearly defined plan that is communicated to staff, the strategic plan will end up becoming words on paper. Execution is the rocket fuel that can make the strategic plan launch into reality. All employees should be aligned with the strategic plan and understand how it is going to be accomplished. At Yolo Federal, each executive is assigned goals that correspond back to the initiatives listed in the strategic plan. The executive is then responsible for leading those initiatives. The corporate goals are tied to our financial metrics and are assigned to employees. The corporate goals are typically focused on loan, membership, and Average Total Relationship (ATR) growth. Rather than assigning a large year-end goal to employees, we break it down into quarterly goals, so it feels manageable to them. The corporate goals are communicated to employees and posted on our employee intranet. We track the goal progress through a visual image on the employee intranet so staff can see our progress. Based on our goal progress through the year, we might offer different promotions or staff contests to help us reach those goals. This could require us to pivot our daily operations to ensure we are continuously working towards achieving the goals and initiatives outlined in our strategic plan.

3. How does your credit union gauge its plan's success

We gauge the plan's success by closely monitoring our financial metrics to stay on track to meet the goals that are in our strategic plan. However, we know that falling short of a financial metric does not always mean failure. Depending on economic conditions or other external factors, such as a global pandemic, our priorities could shift. That is why we also monitor our peer groups in addition to tracking our financial goal progress to ensure we are not falling behind compared to other credit unions in our market or of a similar asset size. If we don't meet a financial goal, but did perform well compared to our peer group, then we will consider ourselves successful.

Another way we gauge success is the completion of our strategic initiatives and member adoption rates. While our initial goal might be to implement a new product or technology platform, our secondary goal is member utilization. That is why we monitor the number of members using a product or service, engagement rates, and market share. Many of the member service platforms that we use offer peer benchmarking so we can compare our metrics to other companies using the same platform. For example, one of our past strategic initiatives was to implement an online chat and virtual assistant platform. The company we use, Glia, shares peer benchmarks with us so we can know if we are maximizing the platform or need to make improvements. We continuously monitor these metrics and find that we are performing better than other companies using Glia. This has helped us gauge our success with this strategic initiative and confirms we achieved our desired goal.

4. Are the employees affected in any way by the results achieved relative to the plan?

The corporate goals that are derived from the financial metrics in the strategic plan are assigned to employees and tied to a quarterly bonus program. Employees are paid a bonus if the goals are reached, and they have an opportunity to earn more money if we exceed the goal. In the past, employees would not receive a bonus if the corporate goals were not met. We have since changed this so that high-performing employees can still earn a bonus at the end of the year if they receive a high enough score on their employee evaluation. In general, though, employees are affected because they have an opportunity to earn extra money based on the achievement of goals relative to the strategic plan. Thinking of the big picture, if we continue to achieve our goals, then employees will be positively affected in the future by having more opportunities as we continue to grow as a credit union. The intended purpose of the strategic plan is to support growth while remaining financially strong, and everyone wins if those results are achieved.

5. What are your perspectives on the importance and effectiveness of strategic planning for credit unions given the rapidly changing environment in the financial services sector?

A common saying is, "If you fail to plan, you are planning to fail." This rings true for credit unions navigating a rapidly changing environment while simultaneously competing with large banks and fintechs. Credit unions must remain educated about what is happening in our industry, understand what is occurring within our market, and be cognizant of emerging threats that could impact us. Taking this information into strategic planning will help form a successful strategic plan that will prepare credit unions for the future. It's of the utmost importance that credit union executives and the Board are aligned on priorities. Given how quickly things are changing and the amount of opportunities that exist to improve products and services, credit unions could easily accomplish nothing if they are overwhelmed with no clear direction.

Graphs: There are no graphs required for the strategic planning section.

C. Charter, Bylaws & Policies

1. Describe the purpose and general content of your credit union's charter.

Yolo Federal's original charter was approved by the Bureau of Federal Credit Unions under the Department of Health, Education, and Welfare. The organization certificate issued on March 10, 1954, lists our original name of Yolo County Employees Federal Credit Union with a charter number of 9293. This document notes the purpose of establishing the credit union is to "…make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States" (Yolo Federal Credit Union Charter, 1954). The Yolo County Deputy District Attorney administered the oath in Woodland, CA and the document was signed by our 8 original founders. It lists the par value of the shares as $5.00 and the field of membership as the employees of the County of Yolo. Our most recent charter amendment includes a field of membership expansion to serve any persons who live, worship, work, or attend school within El Dorado, Placer, Sacramento, or Yolo Counties, CA. It was signed on January 4, 2023, by the director of credit union resources and expansion under the NCUA. The amended charter was adopted by the Yolo Federal Board of Directors on January 17, 2023.

2. Describe the purpose of your credit union's bylaws. Who is responsible for keeping your credit union's bylaws current and what role does the regulator play in that process?

The purpose of the bylaws at Yolo Federal is to outline every aspect of how we will operate as a federally chartered credit union. It is an extensive document of 18 articles that include requirements for membership and loans, annual meetings, elections of the Board, composition and terms of the Board, duties of the Supervisory Committee, member conduct, records retention, and compliance with regulations. It also defines the process for amending the bylaws and charter. The Board is responsible for keeping our bylaws current. They review and update the bylaws on an as-needed basis. If the Board wants to update the bylaws, then it must pass with an affirmative two-thirds vote. They will need written approval from the NCUA for the amended bylaws to be effective. In addition to reviewing and approving updates to our bylaws, the regulators also ensure we are adhering to them. They ensure compliance during our NCUA examinations, by monitoring our call reports, and if anything is reported to them through the NCUA Consumer Assistance Center.

3. How many Board approved policies (not procedures or guidelines) does your credit union have? What was the most recent new policy implemented? When did that occur? Why was it established and what was the process for creating it? How does the credit union ensure that policies remain current and relevant?

The Board approved policies are included in a monthly recurring agenda calendar to ensure they are reviewed annually. The executive who maintains the policy will complete the annual review and provide a memo to the Board that details whether there have been changes or not. The Board will complete their annual review and vote to approve the policy. These policies are also maintained on our employee intranet with due dates that will alert the executive when it is time to review. Below are the 18 Board approved policies and their purpose at Yolo Federal.

- Allowance for Credit Loss Policy—To estimate an appropriate balance to provide for future loan losses and ensure the calculation is consistent, objective, and in compliant.
- Branch Security Policy—This describes various measures adopted to protect employees and assets.

- Business Loan Policy—This includes the business loan types offers, lending limits, underwriting standards, pricing, loan approval authority, and prohibited business loans.
- Bank Secrecy Act (BSA) Policy—This sets the internal controls for compliance, audits, training, and reporting for adhering to the Bank Secrecy Act.
- Collections Policy—The purpose is to provide guidelines for collections on pursuing recovery of the maximum amount possible on delinquent loans and overdrawn accounts.
- Cash, Vault, and ITM Limits Policy—This establishes the maximum amount of cash authorized for each branch location and ITM.
- Consumer Loan Policy—This describes the lending program to benefit members and mitigate risk.
- Identity Theft and Red Flags Policy—This sets the guidelines of our identity theft prevention program in accordance with the NCUA Fair and Accurate Credit Transactions Act.
- Investment Policy—This sets the guidelines for investments that are safe and secure while also maintaining adequate liquidity.
- Information Technology Security Policy—This outlines the security program to protect the confidentiality, integrity, and availability of our technology assets.
- Inspection of Records Policy—This defines how certain records are available for inspection.
- Loan Incentive Policy—This establishes guidelines for the payment of incentives as employee compensation.

- Member Conduct Policy—This defines what it means for a member to be in good standing and includes guidelines for addressing inappropriate member behavior.
- Personnel Policy—This policy covers working conditions for employees, employment status and records, timekeeping and payroll, benefits, leaves of absence, employee conduct and disciplinary action, and rights of employees in California.
- Secure and Fair Enforcement (SAFE) for Mortgage Licensing Act Policy—To identify the requirements to implement the SAFE Act and ensure procedures are compliant.
- Signature and Contract Authority Policy—To establish who is authorized to sign contractual agreements that cause Yolo Federal a financial or performance obligation.
- Succession Plan Policy—This establishes a direction for the Board of Directors and management staff to identify a temporary functional replacement and/or a potential success for the position of President/CEO should an unexpected vacancy or prolonged absence occur.
- Vendor Management Policy—This provides a framework for managing the lifecycle of third-party relationships and guidelines for vendor management.
- Volunteer Board Policy—This defines the role and responsibilities of the Board of Directors and Supervisory Committee members.

The last new policy that the Board approved was the Succession Plan Policy. While there had been an established succession plan for many years before this, it had not been officially adopted as a policy by the Board. The reason the policy was implemented was to establish a plan to identify a temporary functional replacement and/or a potential successor for the President/CEO if an unexpected vacancy occurs. The vice president of human resources is responsible for maintaining this policy. The process she went through when developing this policy was evaluating the plans for an emergency replacement as well as a planned replacement. She also details the role she plays in supporting the Board during this process, and the qualifications that will be considered when reviewing applicants. The policy was most recently updated in June 2024 to include an established timeframe for when Yolo Federal will begin its search for a new CEO when the current CEO decides to end their service. This was in response to the NCUA from a previous examination, as they want to ensure we consistently serve our membership without any gaps in executive leadership. We will be amending this policy again to comply with the most recent ruling from the NCUA that will require succession planning for key positions, not just the CEO. It will also require the Board to review the succession plan policy at least every 24 months. The updated ruling from the NCUA will be effective January 1, 2026.

Graphs: There are no graphs required for the Charter, Bylaws and Policies section.

D. Deposits

1. Provide a brief description (including general terms, minimum balances, transaction limitations, unusual benefits or nuances, etc.) of each of the top three deposit products that your credit union offers as defined by total balances. Include only specific, distinct products, not broad categories like those listed on the call report. What features do these deposit products have that make them attractive to members?

The top 3 deposit products at Yolo Federal are Regular Shares, Simply Checking, and the Money Market. These 3 products combined make up 76% of our entire deposit portfolio. The average deposit balance for a Yolo Federal member is $17,889 (Yolo Federal Marketing Customer Information File, 2024). These deposit products are basic without too many stellar benefits. Our primary strategy over the years has been to focus on keeping loan rates low to help members save money. This has resulted in us needing to offer low dividends with mediocre benefits on our deposit products. To put this into perspective, our total cost of funds on our deposit products is only 52 basis points (Yolo Federal Financial Statement, 2024). This has worked well because we found our members to not be particularly deposit rate sensitive, and they have a higher demand for low interest rates on loans. If we need to attract more deposits, then we would offer a limited time special CD promotion. Otherwise, we have kept deposit rates low so we can afford to also maintain low interest rates on loans. With that said, the war on deposits has impacted us and we have started to shift our strategy. This has resulted in the formulation of new deposit products that will soon be coming to our product lineup. All these deposit products are federally insured up to $250,000 by the National Credit Union Share Insurance Fund.

As of December 31, 2024, the deposit balance for the Regular Shares is $160,765,101.71 (Yolo Federal Financial Statement, 2024). The Regular Shares account is required for membership, which means that we have all 22,027 members using this product. The minimum opening deposit is $1, which is frozen in their account to represent their share in Yolo Federal. There is a minimum required balance of $100 to avoid fees. They will be assessed a monthly charge of $5 if their deposit balance is below the minimum balance requirement. Members can avoid the monthly fee if they receive direct deposit each month, have a loan or other deposit account with a balance greater than $5,000, or be younger than 23 years old (Yolo Federal Credit Union Fee Schedule, 2024). The current APY on this product is 0.03%, and there is no minimum balance to earn these dividends (Yolo Federal Rate Sheet, 2024). These dividends post to their account monthly.

The Simply Checking account has a portfolio balance of $74,760,106.49 as of December 31, 2024 (Yolo Federal Financial Statement, 2024). We have 11,473 Simply Checking accounts with an average balance of $6,288 (Yolo Federal Marketing Customer Information File, 2024). The name of this product perfectly defines it—simple! There are no maintenance fees or minimum balance requirements associated with this account. Members have access to a free debit card, which is a vertical blue and white card that boasts a pearl shimmer coating. Members over the age of 65 can receive one box of complimentary standard checks twice in a rolling 12-month period. There is a $5 monthly fee for members between the ages of 19-64 who want paper statements; members outside of that age range can receive them for free. This product also includes access to Privilege Pay, which is overdraft protection to help cover transactions when members make purchases without enough funds in their account. Members are eligible for up to $700 of Privilege Pay and are charged a fee of $20 for each overdraft (Yolo Federal Credit Union Fee Schedule, 2024). Simply Checking accounts with a deposit balance greater than

$5,000 can earn an APY of 0.01% (Yolo Federal Rate Sheet, 2024). These dividends post to their account monthly.

The Money Market portfolio has a deposit balance of $33,030,953.86 as of December 31, 2024 (Yolo Federal Financial Statement, 2024). We have 556 Money Market accounts with an average balance of $59,408 (Yolo Federal Marketing Customer Information File, 2024). This product is popular because it is a balance between higher dividends and liquidity of funds. Members appreciate earning more dividends than a standard checking account while still able to access their funds when they need it. There is a minimum opening deposit and a minimum balance requirement of $2,500. There is a $8 monthly fee if the balance falls below the minimum requirement. They can have up to 6 free transactions per month before they are assessed an excess transaction fee of $5 per transaction (Yolo Federal Credit Union Fee Schedule, 2024). Members can earn an APY of 0.03% on balances between $2,500 and $9,999, and an APY of 0.10% on balances greater than $10,000 (Yolo Federal Rate Sheet, 2024).

2. Provide a brief description of each of the three least useful deposit products your credit union offers. Include only specific, distinct products, not broad categories like those listed on the call report. "Least useful" may be defined any way you choose but provide your definition and show the connection between that definition and each of the three products you selected. It is acceptable to include one or more of the credit union's top three products in this grouping as well. Discuss why your credit union continues to offer each of these products. Provide your opinion on whether each of them should be enhanced (describe the enhancements that should be made) or eliminated.

There are 3 foundational questions I ask myself when defining "least useful" deposit products. Are the benefits of this product attractive to our target demographic? Are members who use this account actively engaged or are they passive? What is the profitability of the product? Answering these questions for each product that we offer has helped me determine the products that we should consider sunsetting or investing resources into enhancing. The 3 products that I believe are “least useful” are the Student Checking, Business Checking, and Health Savings Account (HSA).

The Student Checking portfolio has a deposit balance of $2,837,177.70 as of December 31, 2024 . We have 2,057 accounts with an average deposit balance of $1,379 (Yolo Federal Marketing Customer Information File, 2024). Members between the ages of 13-22 are eligible to open this account. This product is nearly the same as the Simply Checking account, with the only difference being that they have the minimum balance requirement waived on Regular Shares. This benefit isn’t exactly something to write home about. It has the potential to be more successful if we offer enhanced benefits that differentiate it. The target demographic for this product is teenagers and young adults in college. The reason we continue to offer this product is because we understand the importance of reaching a younger demographic, and we recognize that enhancements are necessary if we want to improve utilization of this product. Many of the other Student Checking accounts I have seen at other financial institutions promote high APYs, no overdraft fees, and no monthly fees. These are nice benefits, but I think it’s also important for us to align with our mission to help members achieve financial success. One of the ways we do this is through financial wellness education. I would like to upgrade our Student Checking product to include access to a high APY once students successfully complete our online financial education modules. This would reward them for building their knowledge about being financially smart. Parents can also feel confident about their teenagers opening a checking account at Yolo Federal because we are focused on the financial health of their child.

The Business Checking portfolio has a deposit balance of $10,943,993.90 as of December 31, 2024. There are 734 accounts with an average balance of $13,584 (Yolo Federal

Marketing Customer Information File, 2024). There is no minimum deposit or minimum balance requirements. There is a fee of $0.25 per transaction after exceeding 100 transactions per month (Yolo Federal Credit Union Fee Schedule, 2024). Our target demographic is small business owners. The counties we serve are brimming with small businesses, but the financial institutions in our market offer limited products that serve their needs. We have an excellent opportunity to enhance our Business Checking product to help small business owners thrive. Part of the challenge that we have found in serving small businesses is that many of them are heavy depositors and we have offered very few benefits on the Business Checking account. Our primary focus over the years has been on business lending. However, many businesses want to maintain their entire banking relationship with one financial institution, so if we aren't offering an attractive deposit product then we could lose the relationship. In reviewing our fee income vs cost of funds on this product, I can see that we only earned approximately $3,600 for the year 2024 (Yolo Federal General Ledger Report, 2024). We are not earning enough from this product to offset the operational costs, so it is not profitable.

I believe it's important for us to consider enhancing the Business Checking product so we can earn more revenue and build our overall business portfolio to better serve these small businesses who are at the heart of our community. We can upgrade this product with a few simple adjustments. Business owners are busy and need easy-to-use online financial tools. We do not currently offer a business online banking platform. Our Business Checking accounts use the same online banking platform as the personal accounts. This can cause issues for business members who have multiple authorized signers on their account because they cannot manage their online banking access. We would need to pay for the business banking module through our online banking provider, Alkami, to enhance this. The excess transaction fees can also be a hindrance for business members whose deposits can fluctuate drastically. Rather than charge an excess transaction fee, we could consider removing this fee and instead charge a low monthly fee to offset these costs. That way they don't have to worry about how many transactions they are processing and can instead focus on growing their business.

Our HSA portfolio has a deposit balance of $259,815.44 as of December 31, 2024. There are only 40 members utilizing this product with an average balance of $6,495 (Yolo Federal Marketing Customer Information File, 2024). There is a minimum opening deposit of $25 but there are no minimum balance requirements and no other fees (Yolo Federal Credit Union Fee Schedule, 2024). Our members who use this product are rarely taking withdrawals and are considered disengaged. The challenge with this product is that California treats HSAs differently than other states. They are considered a taxable investment account, so many Californians do not bother with an HSA account. In 2024, we paid $25.75 in dividends but earned zero income on the HSAs (Yolo Federal General Ledger Report, 2024). I recommend eliminating this product since it is not profitable and there are limited opportunities for enhancement.

3. Determine one new deposit product you would like to offer at your credit union. Explain why you chose it, how it would work, how it would benefit the credit union and how it would benefit the membership.

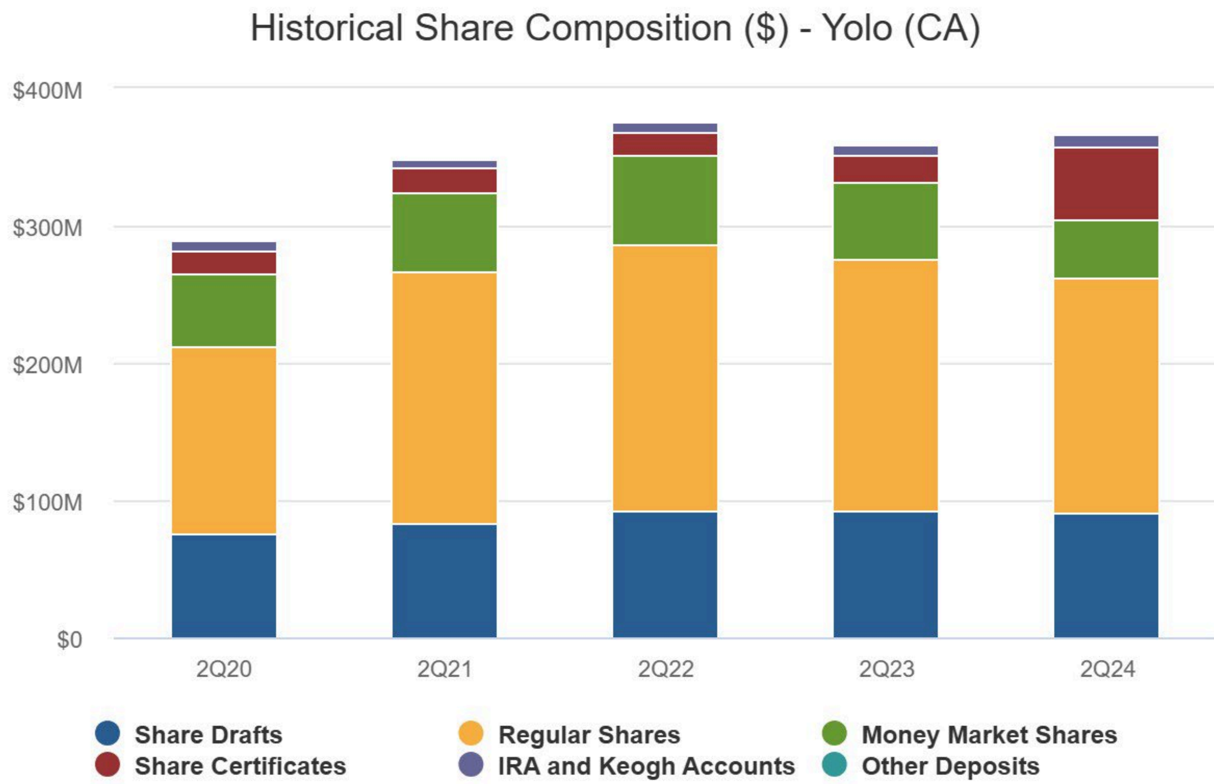
Although our Money Market product is one of our top 3 deposit products at Yolo Federal, we still aren't earning a fair share of our market. That's primarily because the APY we offer on the Money Market tiers aren't competitive. We could increase our market share on this product if we offered more competitive rates. The challenge is that we would drastically increase our cost of funds. We need a creative solution to mitigate costs, attract a younger demographic, and deepen relationships with members.

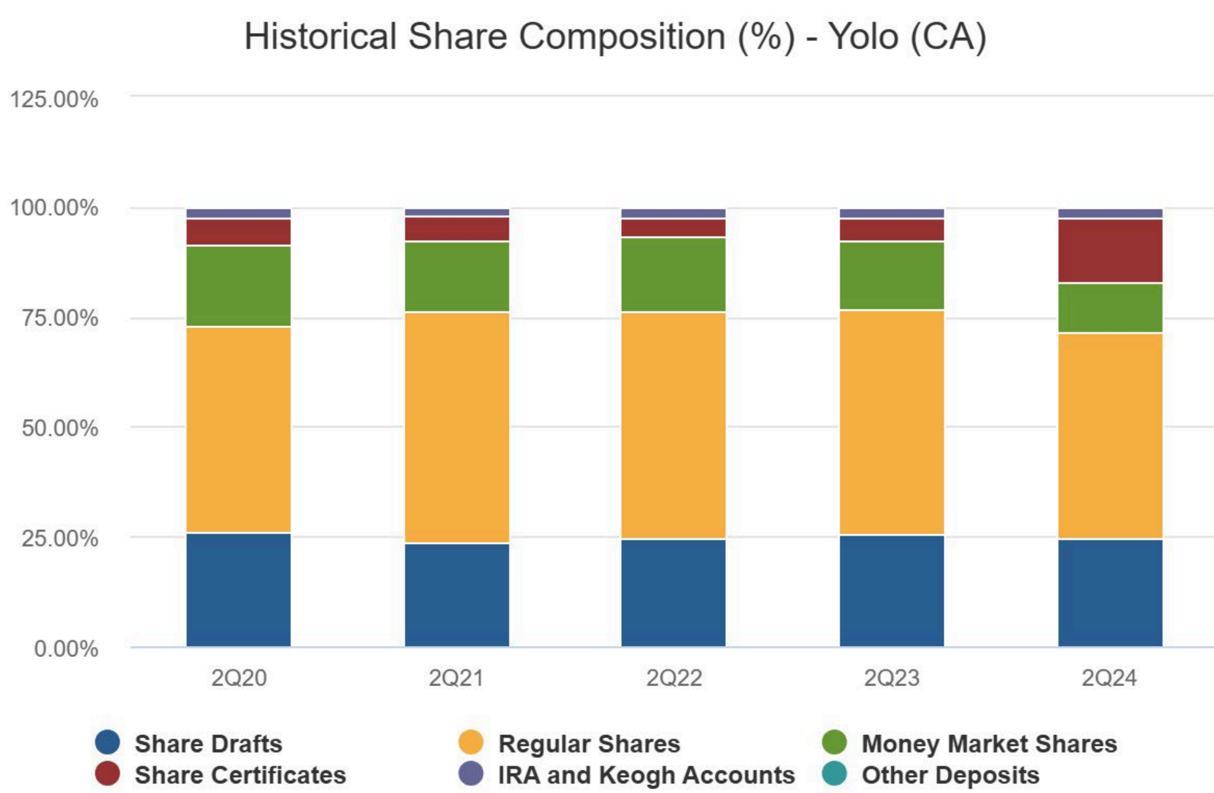
I would like to introduce a new Reverse Money Market product where we offer a higher APY on lower deposit amounts. For example, we could offer a 5% APY on the first $1,000 and then reduce the APY for the remaining tier amounts. Portions of the balance that fall within the balance tiers would earn the applicable rate for that amount, which would result in a blended APY. Although it would increase our cost of funds, it would likely be immaterial considering we would only pay the premium APY on smaller deposit amounts. There would be a $8 fee for any accounts that fall below a minimum balance of $1,000. They could have up to 6 withdrawals per month for free, anything after that would incur a $5 excess withdrawal fee.

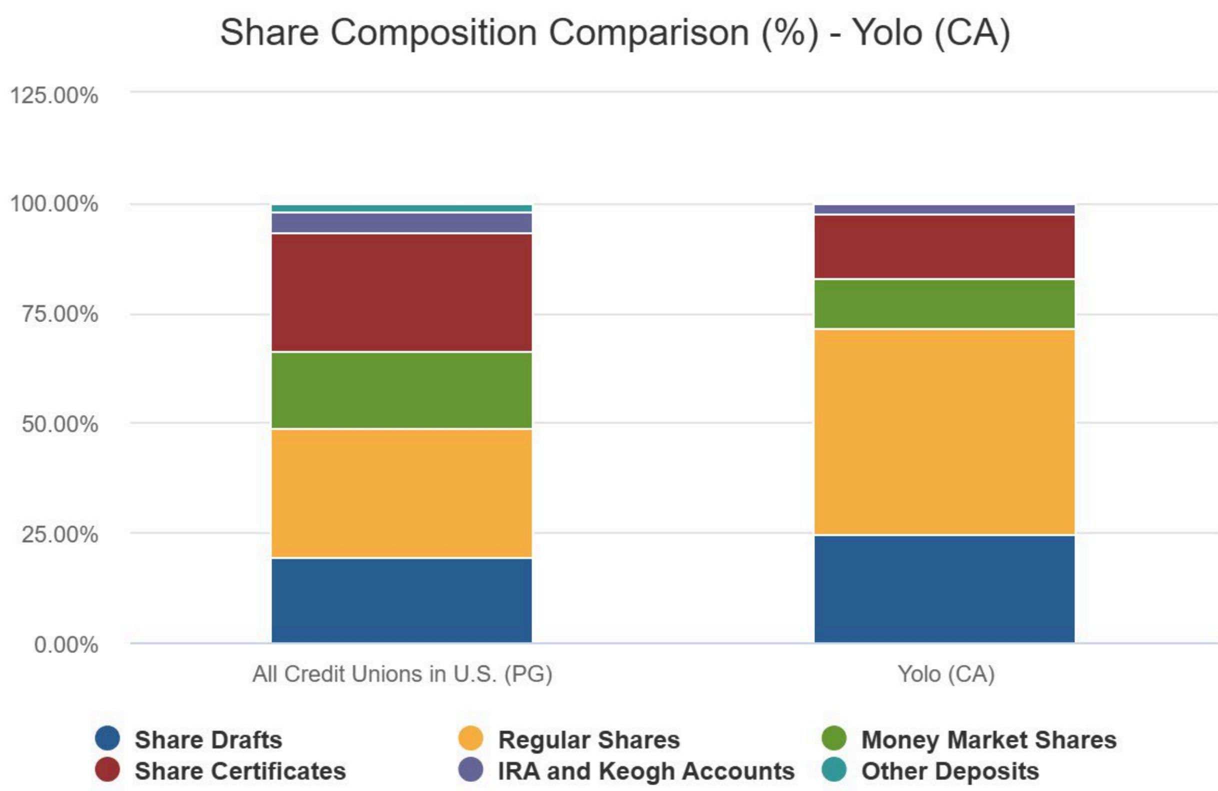
A Reverse Money Market would help us reach a younger demographic that doesn't maintain large deposits. This type of product could increase member loyalty and deepen relationships by helping younger members boost their savings. It would also help us increase our product market share because we could potentially reach a wider segment of consumers who have less money as opposed to a smaller segment of the population with larger deposits. I would name this product Peak Money Market because our members *can reach the peak of their savings potential!*

4. Graphs: This section requires inclusion AND written analysis of the following graphs:

a. Historical Share Composition ($)
b. Historical Share Composition (%)
c. Share Composition Comparison (%)
d. Share Penetration & Average Balances Summary
e. Cost of Funds.

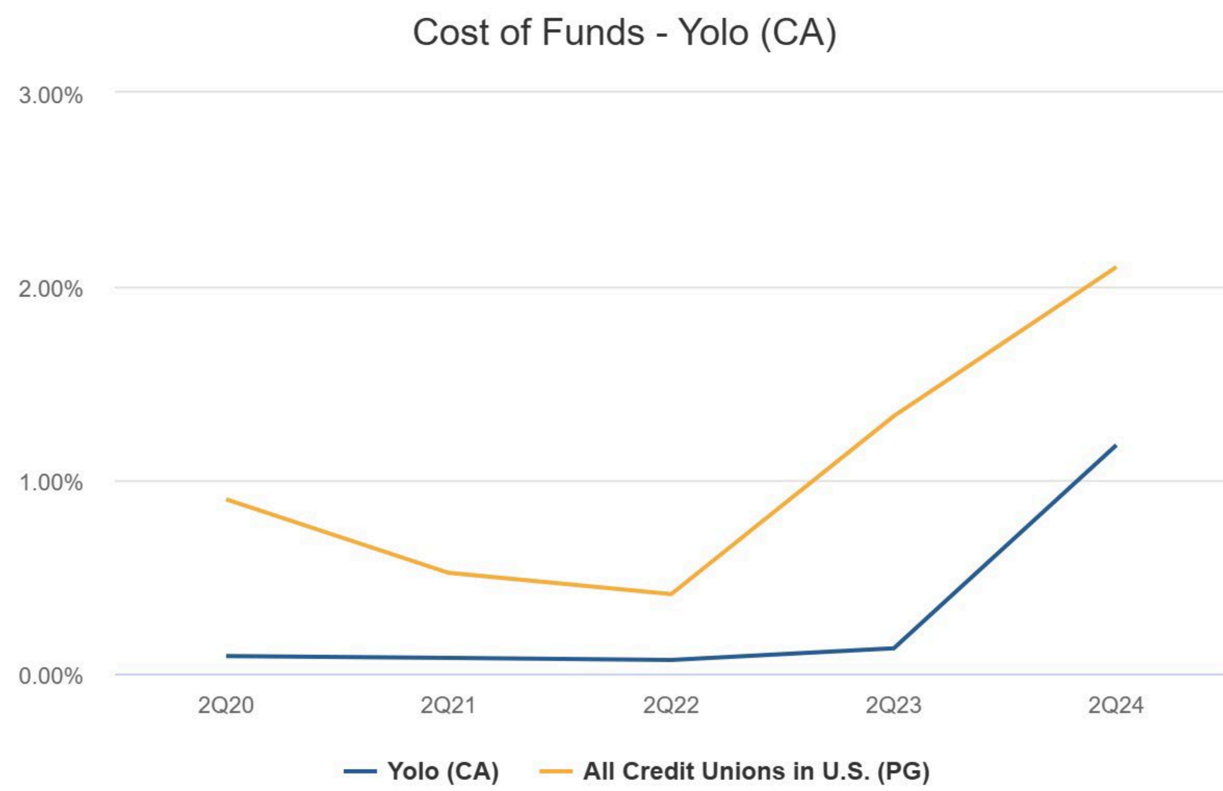

Historical Share Composition ($) - Yolo (CA)
$400M
$300M
$200M
$100M
$0
2Q20
2Q21
2Q22
2Q23
2Q24
Share Drafts
Share Certificates
Regular Shares
IRA and Keogh Accounts
Money Market Shares
Other Deposits


Historical Share Composition (%) - Yolo (CA)
125.00%
100.00%
75.00%
50.00%
25.00%
0.00%
2Q20
2Q21
2Q22
2Q23
2Q24
Share Drafts
Share Certificates
Regular Shares
IRA and Keogh Accounts
Money Market Shares
Other Deposits



Share Penetration & Average Balances Summary - Yolo (CA)

Quarter	Jun-2020	Jun-2021	Jun-2022	Jun-2023	Jun-2024
Penetration					
Share Draft Penetration	61.43%	63.15%	63.69%	62.93%	66.59%
Regular Share Penetration	105.52%	107.66%	107.42%	106.55%	154.46%
Money Market Share Penetration	3.76%	3.63%	3.58%	3.29%	2.77%
Share Certificate Penetration	3.91%	3.71%	3.30%	3.10%	5.98%
IRA/KEOGH Penetration	2.73%	2.56%	2.43%	2.29%	2.24%
Average Balance					
Average Share Draft Balance	$6,071	$6,297	$6,791	$6,779	$6,160
Average Regular Share Balance	$6,288	$8,085	$8,514	$7,907	$4,970
Average Money Market Share Balance	$69,574	$75,784	$84,305	$77,935	$69,599
Average Share Certificate Balance	$21,903	$23,713	$24,172	$29,259	$40,177
Average IRA/KEOGH Balance	$12,151	$12,233	$15,530	$15,462	$16,245



Graph Analysis-Deposits

Like most other credit unions during the COVID-19 pandemic, our Regular Shares and Share Drafts continued to increase due to stimulus checks flowing into accounts and members being hesitant to spend their money due to uncertain economic conditions. In June 2020, the unemployment rate was up at 11% (U.S. Bureau of Labor Statistics, 2024). People were either losing their jobs, furloughed, or were unsure what their future held. This resulted in people spending less money and account balances started to grow. We saw a 44% increase in Regular Shares and a 21% increase in Share Drafts from 2Q20 to 2Q22 (Callahan & Associates, 2024). We were not doing anything special to attract these deposits, other than being a safe space for someone to park their money. In fact, for the first time in a long time we began to receive questions from members about the specifics of their share insurance coverage.

An interesting shift started to happen in 2Q23 through 2Q24. Just as the moon dictates the ocean tides, the state of the economy has a gravitational pull that impacts deposit rates. In June 2023, the unemployment rate was down to 3.6% (U.S. Bureau of Labor Statistics, 2024). Despite the increasing costs of goods, the consumer sentiment towards the economy was improving and people were starting to travel and spend money again. Members were no longer satisfied keeping their money stashed in an account that pays very little dividends. Our Regular Shares decreased 12%, Share Drafts decreased 1%, and Money Market Shares decreased 33% from 2Q22 to 2Q24 (Callahan & Associates, 2024). We were in a position where liquidity was being squeezed tight, and our margins were thin. The war on deposits started to ripple through our stratosphere, causing us to reconsider our deposit pricing.

In June 2023, we began offering a special Share Certificate promotion that offered up to 5% on a 12–23 months term (Yolo Federal Rate Sheet, 2023). From 2023 to 2024, we offered several more CD promotions that brought in a significant number of deposits. From 2Q23 to 2Q24, we had a 170% increase in Share Certificates (Callahan & Associates, 2024). This drastically altered our share composition percentage for Share Certificates. From 2Q20 to 2Q23, our share composition percentage for Share Certificates was in the range of 4.51%-6.02%. In 2Q24, this percentage jumped to 14.54% (Callahan & Associates, 2024). Our cost of funds has always been very low, but we started seeing that increase. Our cost of funds was only 9 basis points in 2Q20, and that number skyrocketed to 118 basis points in 2Q24. However, we were able to keep our cost of funds low compared to other credit unions in the U.S. whose cost of funds were 92 basis points higher than ours (Callahan & Associates, 2024). We were able to do this by closely monitoring our liquidity and only offering the Share Certificate promotions when the cost to borrow from our members was lower than borrowing from the Federal Reserve. We also monitored the maturity dates of these Share Certificates and had our employees proactively reach out to these members to ensure those funds wouldn't leave Yolo Federal. When we didn't have a Share Certificate promotion available, we empowered our staff to offer rate matches to maintain funds. Our goal was to help our members who have an existing relationship with us, rather than attract hot money that would eventually leave.

E. Lending

1. How does your credit union determine the level of risk it is willing to take in its various major lending categories (e.g. consumer, credit card, mortgage, business). How are adjustments made to those risk levels, what is the process for making them, and who is involved in those decisions?

Yolo Federal's mission is to help members achieve financial success, which means sometimes other financial institutions might offer someone a loan that we otherwise wouldn't because it is not in that person's best interest. We are risk adverse not only to protect the credit union, but also to help members avoid a loan that could put them in a challenging financial situation. According to our Chief Lending Officer (CLO), Matt Isika, he says, "It's a fine balance. You want to serve more people and put money out into the community, but it's not good service to make a loan to someone who you know can't repay" (M. Isika, Personal Communication, December 10, 2024). Yolo Federal charges rates based on the probability of default, which is predicted by a non-discriminatory scoring model through Experian's VantageScore. Risk levels are continuously evaluated by our lending department and include a review of delinquencies, charge-offs, balance to limit ratios, and changes to borrower creditworthiness. If changes need to be made, then ALCO will review and approve for this to be taken to the Board. The CLO will then provide a recommendation to the Board and request their approval.

Each major lending category has unique stipulations to help mitigate risk. Most of our consumer loans are available for all tiers but the amount that can be borrowed decreases for lower tiers. There are also maximum loan-to-value (LTV) amounts on vehicle loans for each tier. Our Visa Gold Credit Card boasts an extremely low interest rate, so this product is only available for tiers 1 through 3. All other credit cards are available for tiers 1 through 5, but there are maximum loan amounts that decrease for lower tiers. Business loans are unique when it comes to assessing risk because it's more than determining the risk that the borrower presents. A cash flow analysis is reviewed when evaluating business loan applications because it helps determine the strength of the borrower's ability to repay from income or cash flow and conversion of working assets (Yolo Federal Consumer Loan Policy, 2024). Mortgage loans utilize secondary market standards when evaluating risk. Both Fannie Mae and Freddie Mac publish underwriting manuals for these loans, and they also provide automated underwriting decision engines. Yolo Federal uses Fannie Mae's Desktop Underwriter for these loan decisions, but we still must verify income and assets, determine property eligibility, and assign LTV maximums to help mitigate risk.

2. How effective are your lending channels in rendering credit decisions and funding loans at the pace desired by your credit union and the members? Be sure to cover all the major lending categories noted in the question above.

Nearly all our loans can be applied for online or in the branch and both options are effective. However, the speed at which you will get a credit decision will depend on how you apply. For vehicle loans, the fastest way to receive a credit decision and have your loan fund is if a member applies through the Credit Union Direct Lending (CUDL) platform. Our lending department has automated decision making enabled for CUDL loans, which results in a much faster turnaround time. All other loans that complete an application online or in a branch will still be reviewed by an underwriter, which can delay the credit decision and loan funding. We only have 4 underwriters so if someone is out sick or on vacation, it could impact the turnaround time. With that said, most of our consumer loans can be funded on the same day a member applies, which is the desired pace we aim for. Our core system, Keystone by Corelation, does have the capability to automatically decision loans and we anticipate this being enabled in the future.

The business and mortgage loan channels are a bit more complicated due to the complex nature of these loans. You are typically underwriting more than one person, and for a business loan it could be several people. These are also high dollar amount loans, so there are more documents required from the borrower. Even though these loans take longer to apply for and process than a consumer loan, Matt believes we have it dialed in, and it is as efficient as possible.

Matt still believes that despite the advantages of technology, the most effective lending channel is in person at the branch. “It might be outdated, but the most effective way to build a relationship is to meet somebody face to face” (M. Isika, Personal Communication, December 10, 2024). He’s right that people build relationships and technology alone does not. The challenge, though, is that consumers expect a digital lending channel that is quick and easy to use. At Yolo Federal, we try to balance technology with human relationships. We leverage technology, such as Glia, to connect with our loan applicants virtually so we can still understand their unique needs and establish a relationship with them. Glia offers an online messaging platform where our staff can also hop on a video call with them or co-browse on their screen when they need support.

3. What is the most recent new loan product your credit union has introduced, and when did that happen? (This must be an entirely new product, not an adjustment to features of an existing one.) How was it conceived, designed and brought to market at your credit union? What factors influence the structure and features of such new loan products?

Fifteen years ago, Yolo Federal entered the commercial lending market and started offering business loans. The community we serve is filled with small businesses, and we occasionally had people approach us to ask if we offered business loans. The big banks were only interested in large dollar amount loans, and not the small dollar amount loans that many sole proprietors needed. There was an obvious gap between the needs of our community and the products we offered. Our previous CEO, Clyde Brooker, approached Matt to ask what he knew about business loans. Matt said that he had never done one, and Clyde's response was that we should go ahead and do them. Clyde had faith in Matt and the rest of the management team, which paid off because we now have a robust business loan portfolio that we have never taken a loss on.

After Matt wrapped his head around the idea of figuring out business loans, he proceeded to engage with the Credit Union Business Group (CUBG) for consulting. They provided support as we structured our business loan program. They gave us resources for best practices and helped us prepare our business loan policy. Once the program was conceived and designed, it was time to bring it to market. Matt said, "I wanted to start small, be cautious, and work our way into it" (M. Isika, Personal Communication, December 10, 2024). That's exactly what we did. The first business loan that Yolo Federal ever made was a small loan for Pamela Trokanski Dance Studio. We eventually worked our way up to larger business loans, including a $1 million loan for a beautiful local hotel.

The most important factor influencing the structure and features of a new loan product is mission alignment. It doesn't matter how successful a loan product could be, if it does not align with our mission then we need to reevaluate. If it passes the "mission test," then a SWOT (strengths, weaknesses, opportunities, threats) analysis should be conducted.

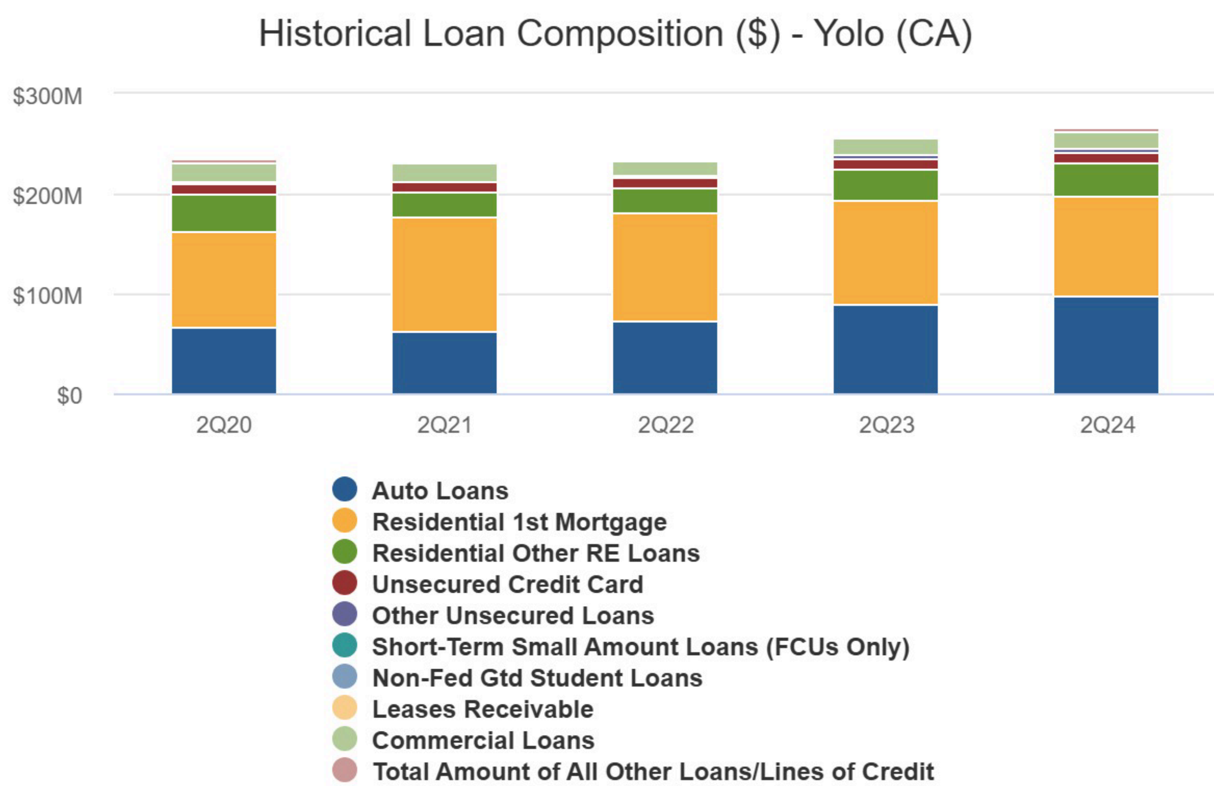
- Strengths—What are the benefits of this loan product that would help our members?
- Weaknesses—Where could this loan product potentially fall short?
- Opportunities—How could this loan product help us deepen relationships with members?
- Threats—Are there emerging threats in our market that could prevent this loan product from being successful?

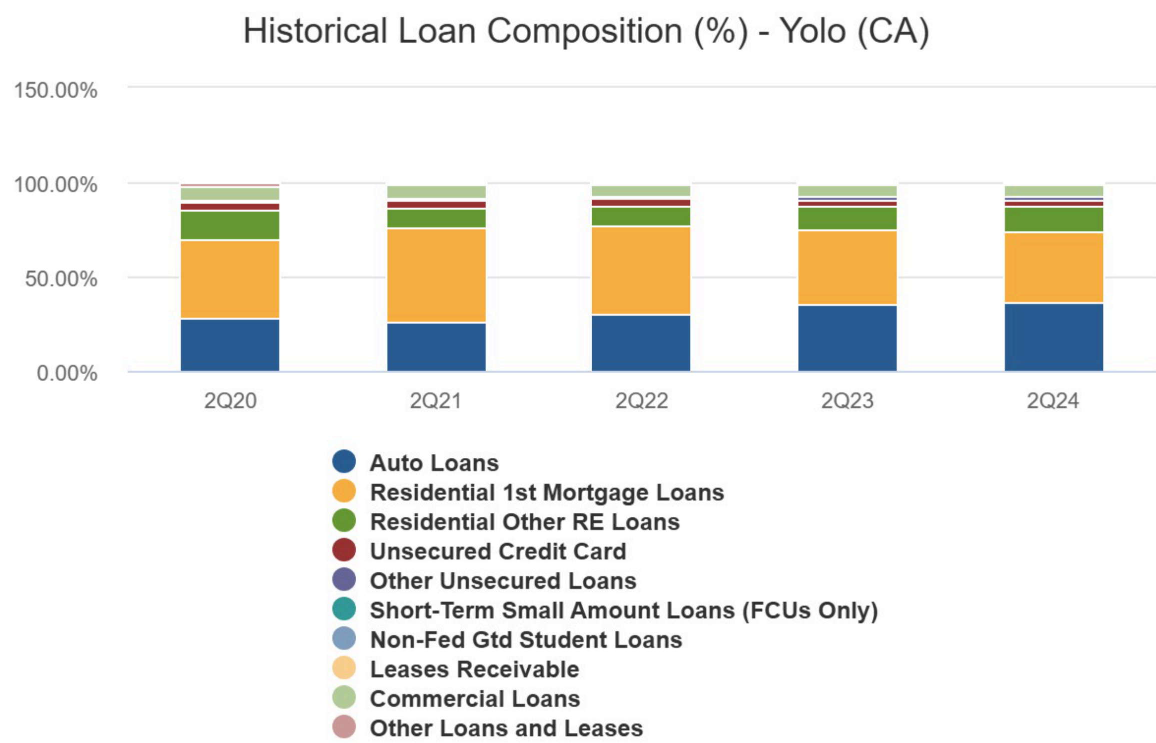
A few other critical components to consider is the consumer demand and market saturation for that loan product. Are consumers using this type of loan product in our market? If so, what does market saturation look like? If other financial institutions dominate the market for this loan product, then we could face acquisition challenges.

Once all of this is completed and the loan product is still considered viable, then we must consider how we will structure the pricing and benefits for our target demographic. Research should be completed on demographics (age, gender, income, etc.) and psychographics (attitudes, behaviors, interests, etc.) for the intended users of this product to ensure the pricing and benefits are attractive to them. An estimated return on investment must also be calculated to verify the income is greater than the costs associated with servicing and promoting this loan product.

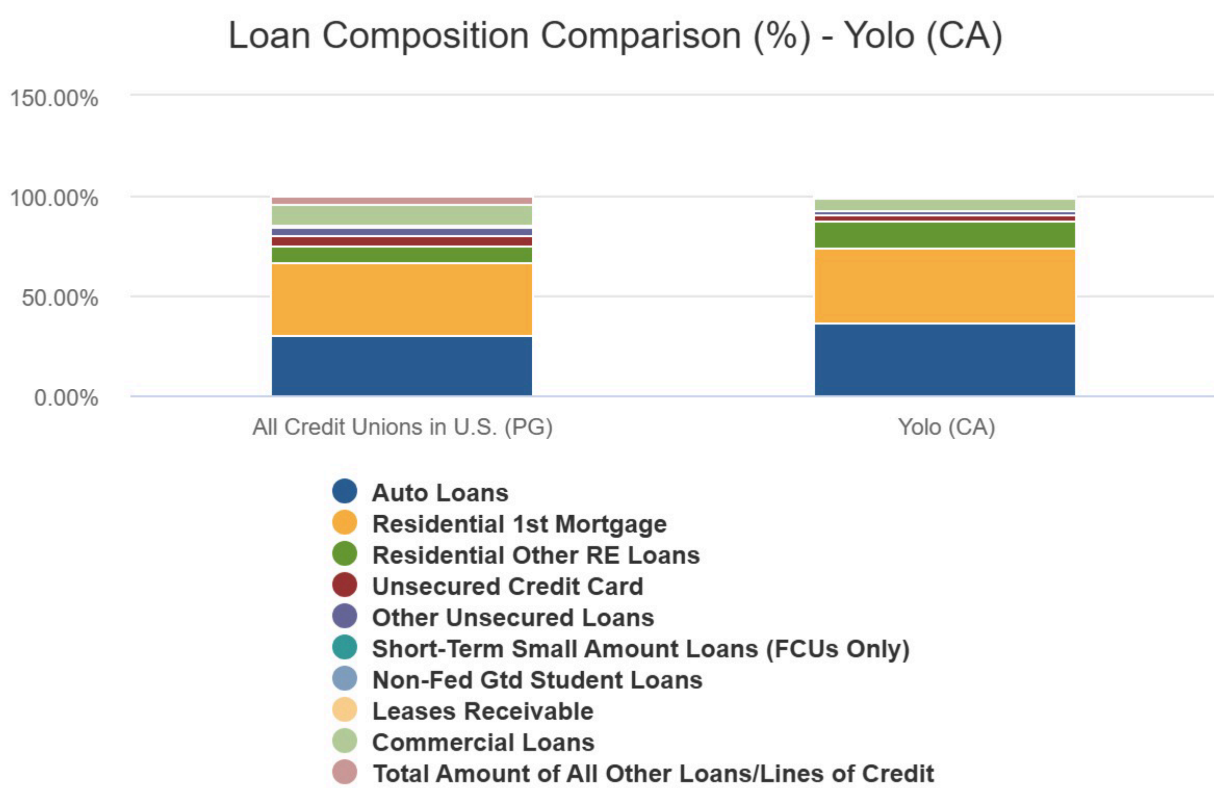
4. Graphs: This section requires inclusion AND written analysis of the following graphs:

- **a. Historical Loan Composition ($)**
- **b. Historical Loan Composition (%)**
- **c. Loan Composition Comparison (%)**
- **d. Comparison Loan Growth**
- **e. Yield on Loans**

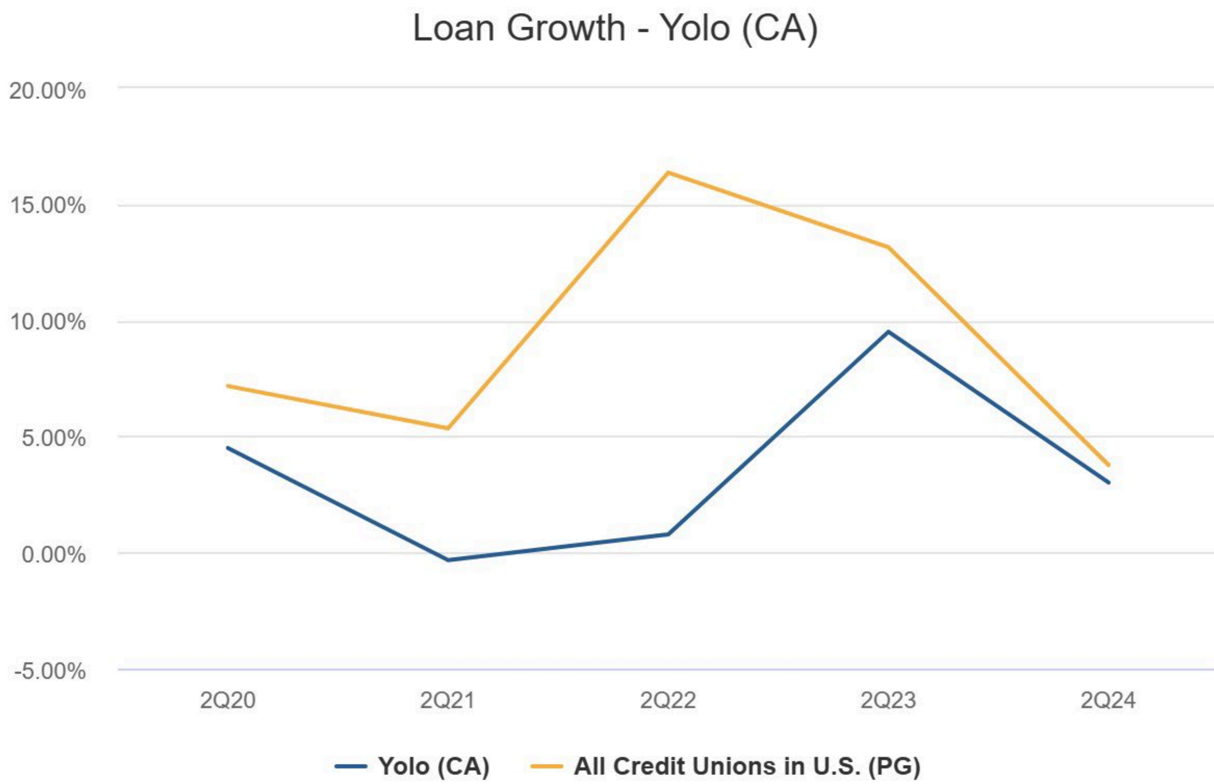


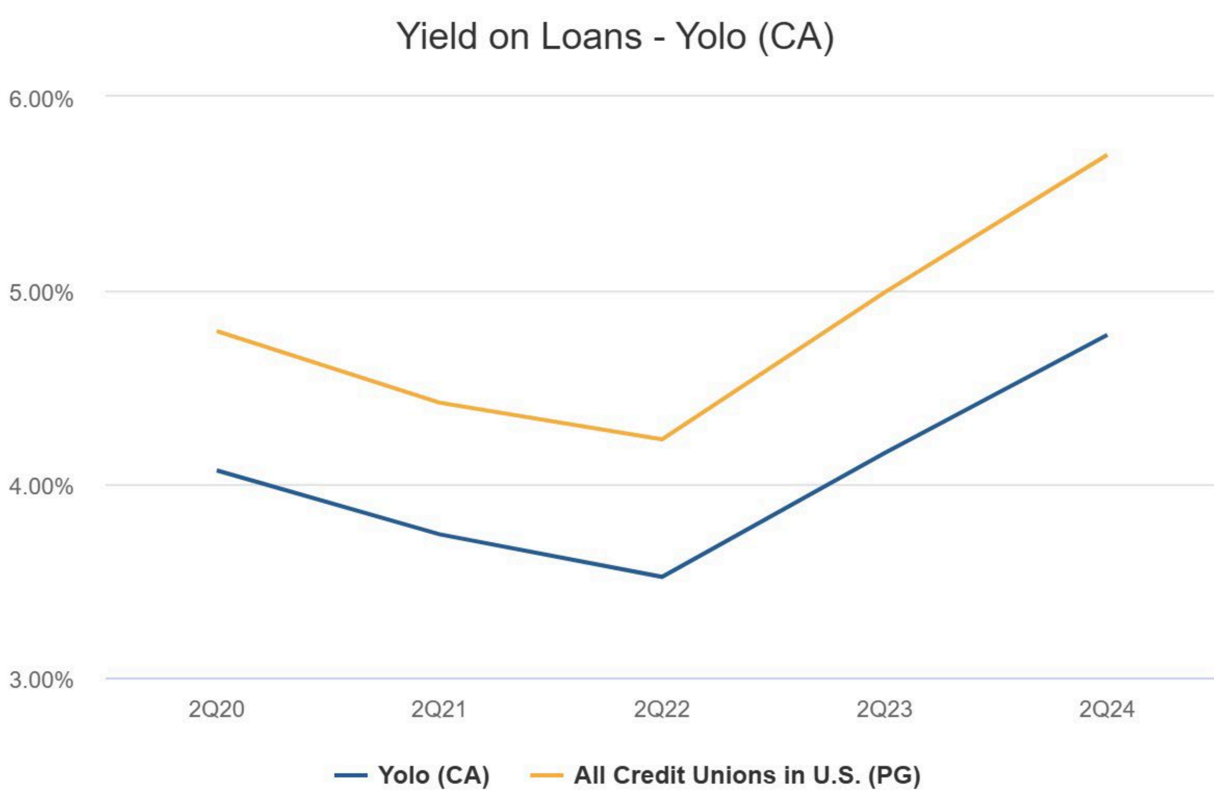


Historical Loan Composition (%) - Yolo (CA)
150.00%
100.00%
50.00%
0.00%
2Q20
2Q21
2Q22
2Q23
2Q24
Auto Loans
Residential 1st Mortgage Loans
Residential Other RE Loans
Unsecured Credit Card
Other Unsecured Loans
Short-Term Small Amount Loans (FCUs Only)
Non-Fed Gtd Student Loans
Leases Receivable
Commercial Loans
Other Loans and Leases



Loan Composition Comparison (%) - Yolo (CA)
150.00%
100.00%
50.00%
0.00%
All Credit Unions in U.S. (PG)
Yolo (CA)
Auto Loans
Residential 1st Mortgage
Residential Other RE Loans
Unsecured Credit Card
Other Unsecured Loans
Short-Term Small Amount Loans (FCUs Only)
Non-Fed Gtd Student Loans
Leases Receivable
Commercial Loans
Total Amount of All Other Loans/Lines of Credit


Loan Growth - Yolo (CA)
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
2Q20
2Q21
2Q22
2Q23
2Q24
Yolo (CA)
All Credit Unions in U.S. (PG)


Yield on Loans - Yolo (CA)
6.00%
5.00%
4.00%
3.00%
2Q20
2Q21
2Q22
2Q23
2Q24
Yolo (CA)
All Credit Unions in U.S. (PG)

Graph Analysis—Lending

We experienced a growth of 33% in residential other real estate loans from 2Q22 to 2Q24 (Callahan & Associates, 2024). This category of loans includes our home equity line of credit (HELOC) product. The housing market in California has been challenging for the past few years. The housing market inventory has been at a record low, home prices have increased with little sign of relief, and the impact from wildfires across the state has made it difficult to obtain affordable home insurance. This has resulted in more people settling into their existing home and investing in upgrades. Because housing prices are high, more people have been tapping into their home equity to remodel, install solar panels, or finally get the backyard oasis they've always dreamed of. At Yolo Federal, we saw this as a prime opportunity to promote our HELOCs. In early 2024, we offered a 1.70% discount off the Prime rate on HELOCs for a 6-month introductory rate. Our goal was to grow our loan portfolio and help members achieve financial success. This gained traction in our market because the average HELOC rate in our market at that time was 9.25%, and we offered a rate as low as 6.80% for 6 months (Yolo Federal Rate Sheet, 2024). We targeted members who are homeowners and did not have a HELOC with us. We also targeted non-members who have a higher propensity for HELOCs and available equity in their homes. This promotion was successful and as a result we boosted our loan portfolio in the residential other real estate loans category.

Our loan growth and yield on loans follows the same trend line as all other credit unions in the U.S. However, it is apparent that our loan growth is much lower, and we are earning less on our loans than other credit unions. In 2Q22, there was a startling gap of 15.79% between the loan growth of other credit unions in the U.S. and our loan growth. However, that gap began to close in 2Q23 and is down to a difference of 0.76% as of 2Q24 (Callahan & Associates, 2024). Part of our improved loan growth can be explained due to a large technology upgrade we completed in July 2023. Not only did we undergo a core conversion, but we also upgraded our online banking and account opening platforms. This made it much easier to do business with us and the lending experience improved because of that. We also offered some of the lowest loan rates in our market during that time, which helped boost loan growth, but caused tight margins with a reduced yield on loans. We are also risk adverse, which can be seen in our exceptionally low delinquency ratio of 0.67% as of 2Q24 (Callahan & Associates, 2024). This isn't necessarily a bad thing; having strong capital with a low delinquency ratio has helped us weather many storms.

F. Investments

1. At your credit union, who is responsible for managing the investment portfolio, and who is responsible for determining the expectations of that portfolio and monitoring it to ensure those expectations are achieved?

The Chief Financial Officer (CFO), Matt Lane, is responsible for managing the investment portfolio at Yolo Federal. He also works with our CEO, Jenee Rawlings, and our investment adviser, Accolade, to monitor our investment portfolio. Accolade provides us with investment advisory support, asset and liability management consulting, and market insights. Decisions regarding our investment portfolio are typically made between Matt and Jenee, especially if they are going to make an investment purchase. For example, if they are going to do a security purchase, then both Matt and Jenee need to approve this purchase before proceeding. When it comes to other less risky investments, such as certificates of deposit, Matt can independently make those decisions. Overall, both Matt and Jenee determine the expectations of our investment portfolio and monitor it to ensure we achieve our goals.

2. Other than overnight funds, what are the TWO types of investments that are most prevalent (in total dollars) in your credit union's portfolio. Describe the general features of each of these two investment types. What portion of the portfolio is comprised of each of those investment types and what are the main reasons your credit union utilizes them as extensively as it does?

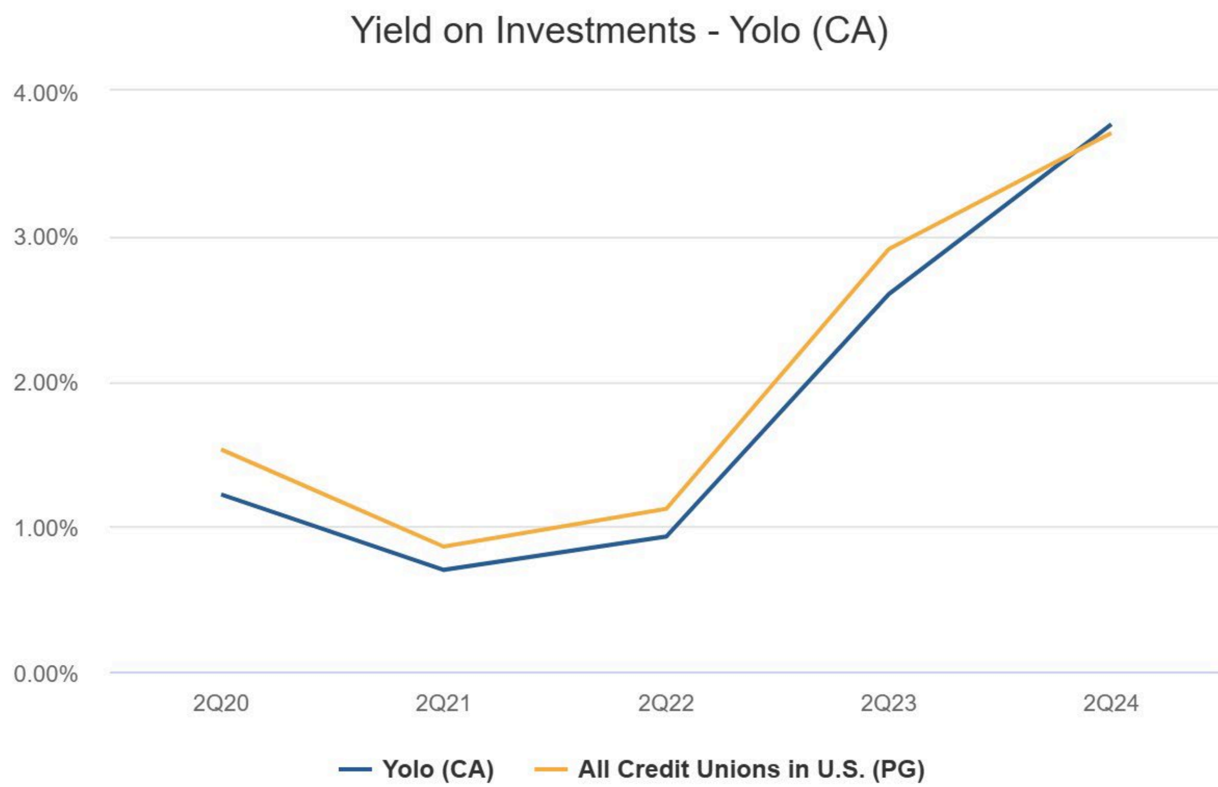
Prior to Matt assuming the role of CFO, our investment portfolio primarily consisted of certificates of deposit. We had these certificates of deposit laddered so we had investments maturing every month with money flowing in, whether we needed it or not. Matt knew we could be earning more on other types of investments, so he constructed a more complex and lucrative investment portfolio with a moderate risk appetite. Matt said, "We're not investing money for a company like Silicon Valley Bank to use. We're giving money to agencies like Fannie

Mae and Ginnie Mae who have an implied guarantee, so we are earning money with less risk" (M. Lane, Personal Communication, January 10, 2025). Our managed investment funds carry a bit more risk since they have higher earnings, but there is strong management of these portfolios. Our two types of investments that are most prevalent are managed investments and subordinated debt.

The managed investments have a balance of $6,641,571.67 and is 6.57% of our entire investment portfolio as of December 31, 2024 (Yolo Federal Financial Statement, 2024). The managed investment account is a portfolio of stocks, bonds, and other securities that can generate revenue for the purpose of donating to 501(c)(3) non-profit organizations and offsetting employee benefits. The benefits prefunding account includes our Credit Union Owned Life Insurance (COLI), which offers life insurance policies on key personnel at Yolo Federal. Our Asset Liability Committee meets with our portfolio manager annually to review the performance of this investment and ensure it continues to align with the long-term expectations. We also monitor the value of these investments because there are restrictions on the maximum investment amounts. The charitable donation account cannot exceed 5% of our net worth and the benefits prefunding account cannot exceed 25% of our net worth (Yolo Federal Investment Policy, 2024). The subordinated debt has a balance of $6,000,000 and is 5.94% of our entire investment portfolio as of December 31, 2024 (Yolo Federal Financial Statement, 2024). Subordinated debt is an investment we make in loans to other credit unions. We currently have subordinated debt for two other credit unions. Subordinated debt is considered a riskier investment, but we earn a higher rate of return compared to our other investments and it is still within our risk appetite.

3. Graphs: This section requires inclusion AND written analysis of the following graph:

a. Yield on Investment



Graph Analysis—Investments

Our yield on investments increased from 2022 to 2024 by 255 basis points primarily because we began investing more money (Callahan & Associates, 2024). We had excess deposits due to the influx of stimulus money after the pandemic. We had more deposits than we were able to lend to our members, so we needed to find another way to earn money on those funds. These investments were also paying more than what the Federal Reserve was paying. The graph does appear to show that our investment portfolio does not earn as much as other credit unions in the U.S. Although the difference is minimal, and we follow the same trend line. We are cautious investors, so this isn't surprising to see.

G. Delivery of Services

1. How many branches does your credit union operate and what is their primary role? How has the role of those branches evolved in the last 5 years relative to serving members? How do you anticipate that role might evolve over the next 5 years, and why do you believe that is so?

Yolo Federal has 5 branches across Yolo County, CA. The Woodland Main Branch is in Woodland, CA and is also our headquarters. Approximately 45% of our entire membership is in Woodland, so this is our busiest branch (Yolo Federal Marketing Customer Information File, 2024). The Sycamore Pointe Branch is also located in Woodland, CA and serves an area of town that's primarily newer housing developments. Many members who come to the Sycamore Pointe Branch are young with families. The Davis Branch is in Davis, CA and is located near the University of California, Davis. Given that this is a college town, we have a lot of young members as well as wealthy professors who call Yolo Federal their credit union. The West Sacramento Branch is in West Sacramento, CA and despite its proximity to Sacramento, it is in fact part of Yolo County. We have a lot of State workers and commuters who bank with us at this branch. The Winters Branch is in Winters, CA and is surrounded by the most beautiful sunflowers, almond blossoms, and other agricultural crops. Over 60% of our members in Winters are Hispanic and their primary language is Spanish (Yolo Federal Marketing Customer Information File, 2024). We also have a virtual Member Service Center that serves our members through all our digital channels. While it isn't technically a branch, we serve more members through this channel than any of our other branches.

Except for the Sycamore Pointe Branch and the Member Service Center, the branches are considered traditional in the sense that they still have teller pods in the branches. The member service representatives serve members on the teller line and the member relationship specialists open new accounts and loans. The Sycamore Pointe Branch was a traditional branch until 2022 when it underwent a transformation to become the "branch of the future." The "branch of the future" transformation included removal of the teller line, implementation of ITMs with video tellers, and the employees at this branch are now focused on relationship building instead of transactional teller duties. Because this branch is in Woodland where our flagship branch is also located, and no other financial institution in Woodland has a second location, we felt comfortable changing the primary role of this branch.

While the other branches are traditional, they have still evolved over the past 5 years to offer more member service technology solutions. Online appointment scheduling was implemented in 2019, the ATMs were replaced with ITMs in 2022, and the employees in these branches have focused their efforts on training members how to use our technology channels. We also launched a "Teller Express Lane" for our members who still want to use the traditional teller line. The "Teller Express Lane" gives these members the ability to book their spot in line so they can skip the wait. Most people think of appointment scheduling for new accounts and loans, but the "Teller Express Lane" offers appointments for basic teller transactions such as cash transactions, wires, and basic account maintenance.

Every branch is unique and the demographics they serve vary widely. This influences our strategy as we work to evolve our traditional branches over the next few years. For example, since the Davis Branch is in a college town, we have significant opportunity to transform this branch into a technology focused branch with removal of the teller line since younger people are typically more comfortable with this style of banking. However, our Winters Branch that primarily serves the Hispanic community is not as quick to adopt this type of change. Many of them want to converse with our Spanish speaking employees in the branch and are hesitant to rely on our technology. I anticipate us making changes in this branch to accommodate our Hispanic members, such as translating our branch signage into Spanish and implementing Spanish language on our digital services. It's critical for us to understand each segment of our membership and the communities we serve so our branches evolve to fit their needs and desires. Even though we take all of this into consideration when evaluating our branches, our strategic goal over the next five years is to continue moving our members to our self-service options as much as possible and focus our employees on member relationship building. This will help reduce operational costs, improve waiting times for members, and streamline workflows in the branches.

2. What member self-service capabilities does your credit union offer? Provide a complete list, recognizing that this is not just about home banking and mobile. How robust are the feature functions of each of the channels you identified? How does your credit union measure and monitor member satisfaction with each of those self-service channels? If it does not do so, explain the rationale for not gathering such feedback.

Yolo Federal completed a large technology enhancement in 2023 that resulted in a significant improvement of our self-service options. Since then, we continue to evaluate these technology platforms to ensure we are fully maximizing their capabilities. Another important component of this is effective member communication and marketing to increase member adoption rates. Below is a list of all our self-service options along with their features and how we measure member satisfaction. In addition to the member satisfaction metrics listed below, we also closely monitor the member sentiment through transaction surveys and online through Yelp, Google Reviews, Facebook Reviews, and all other social media comments.

Interactive Teller Machines (Hyosung/NextBranch)

Member Satisfaction Metrics: While we don't specifically measure member satisfaction at the ITMs, we do monitor downtime and service call percentages to ensure the ITMs are functioning properly and meeting member expectations.

Features

- Access to a Video Teller
- Ability to make loan payments
- Request a withdrawal of more than the standard $500
- Multiple denomination choices
- View and print mini statements
- Transfer funds between accounts and other members

Online and Mobile Banking (Alkami)

Member Satisfaction Metrics: We monitor the new user growth percentage, active user/engagement rate, and the login success rate to gauge efficiency. If we notice a decline in the efficiency or engagement rates, then this signals to us that there could be some member satisfaction concerns.

Features

- Card control to activate and turn cards on/off
- Digital cards that can be pushed to a mobile wallet
- Report fraud on cards with card replacement options
- A budgeting tool called MoneyTrack
- A credit monitoring solution called CreditTrack

- Secure messaging
- Mobile check deposits
- Person to Person (P2P) transfers
- Bill Pay
- eStatements
- Ability to place stop payments on checks
- Order checks
- Request check withdrawals
- View transactions and account activity

Online Account and Loan Applications (IMSI)

Member Satisfaction Metrics: We monitor member satisfaction through our member survey platform with Qualtrics.

Features

- Easy to use online application
- Real-time account opening
- Instant account funding
- Digital signing options

Loan Pay (IMSI)

Member Satisfaction Metrics: We do not monitor member satisfaction for this channel since most members make their payments through online banking. Most of our members who utilize Loan Pay came through indirect lending.

Features

- Easy to use online application
- Real-time processing
- Multiple payment options (debit card, credit card, and account)
- Card payments include fraud detection

Skip a Pay (IMSI)

Member Satisfaction Metrics: We do not monitor member satisfaction for this channel. Most members are inherently satisfied to skip their loan payment and there are typically very few issues that arise from this platform.

Features

- Easy to use online application
- Real-time processing

Online Appointment Scheduling (Coconut)

Member Satisfaction Metrics: We measure appointment completion rates to ensure members can easily book an appointment, receive effective communication regarding details of their upcoming appointment, and can successfully check-in when they arrive.

Features

- Easy to use platform

- Skip the wait in the branch
- Can select their preferred location and employee
- Filter to find a Spanish speaking employee
- Ability to schedule a call rather than an in-person appointment
- Length of appointment is shown to help member plan ahead
- Reminder emails and texts are sent to member
- Check-in from a mobile phone or at branch kiosk

Online Chat and Virtual Assistant (Glia)

Member Satisfaction Metrics: We measure the average handle time, wait time, and abandonment rate to ensure members are not having to wait long and they are not abandoning the chat. We also provide members with a short survey at the end of a chat engagement to measure their satisfaction. The survey responses are translated into a score that we continuously monitor.

Features

- Live messaging to connect members with employees
- CoBrowsing capabilities to observe and support members
- 24/7 virtual assistant provides automated answers to questions
- Can be accessed from our website, mobile app, or online applications

Voice Banking

Member Satisfaction Metrics: We do not measure member satisfaction with this platform primarily because it has minimal utilization.

Features

- Access accounts from a cell phone or landline
- Send payments
- Transfer to members
- Check balances
- Hear recent transactions

3. Discuss your impressions of your credit union's overall strengths and/or weaknesses in delivering depository services to its membership, and what might be done to further enhance those channels.

Admittedly, our depository services are a bit lackluster and need some improvements. We don't typically offer the highest dividends on our deposits and the product line isn't unique. We have mostly focused our efforts on our lending products and enhancing technology over the past several years. With that said, the strengths of our deposit products can be found in our fee schedule and service delivery options. We have always focused on keeping fees as low as possible. For example, we slashed our overdraft fee to $20 in 2019 when most our competitors had a fee of over $30. Our relationship pricing program also offers rewards for members who engage with our deposit products. These rewards are in the form of fee waivers and discounts on wires, Skip-A-Pay, notaries, stop payments, safe deposit boxes, and cashiers checks. We have also implemented other depository services to help members save, such as our Shortcut to Savings program that will automatically round up transactions and transfer to a savings account for members who enroll. We have also drastically improved debit card delivery options now that we offer a digital card in the mobile app that can be pushed to a mobile wallet.

Now that we have a modern core system and partner with some cutting-edge technology vendors, we have a greater opportunity to enhance our depository services. One thing that has caught our attention at Yolo Federal is the rise in subscription services. It seems like nearly every company, from Netflix to the local car wash, is offering a subscription service. This isn't something that is prevalent in the financial services industry but could be an interesting strategy to consider. Rather than a traditional deposit mix with services most consumers are expecting, could the entire product line be shaken up and offered in a subscription service format? For example, maybe someone is willing to pay a monthly service fee for a deposit account that offers premium dividends, no overdraft fees, free wires, and after-hours access to a dedicated member relationship specialist. Someone else might want different benefits on their subscription that could result in a lower monthly fee. A one-size-fits-all approach is boring and can be ineffective. Depository services that are custom to the member could make us a market differentiator while also helping us grow non-interest income.

4. What impacts are outside influences (e.g. fintechs, cryptocurrencies, open banking, etc.) having on your members' expectations on how they want to interact with your credit union? What pressures are those shifting expectations exerting upon the organization? What, if anything, has your credit union done within the past five years to respond to such pressures? How have those reactions impacted the credit union's budget and organizational structure?

Many years ago, Yolo Federal's digital banking services lagged in comparison to larger financial institutions. This caused our members, and our community at large, to form a perception that we are small and can't offer innovative products and services. At the time, this was a fair assessment. Our value proposition was low rates, fewer fees, and great service. That no longer cuts it. Today's generation prioritizes fast, automated, and personalized service above anything else. We had loyal members, but they wanted more from us because of what they knew was being offered by fintechs. Instead of "keeping up with the Joneses," we found ourselves trying to "keep up with the Jetsons." Unfortunately, our members would have said that we were more like the Flintstones than the Jetsons. Technology giants that operate in the fintech and cryptocurrency world have boundless resources that make it challenging to compete with. However, just because we are smaller doesn't mean we can't still adapt and draw on our strengths. As the wise Yoda once said in Star Wars, "Size matters not. Look at me. Judge me by my size, do you? And well you should not! For my ally is the Force, and a powerful ally it is" (Kershner, 1980). In our world, the Force is the credit union movement where we collaborate to overcome misconceptions about the technology solutions that credit unions can offer. Credit unions also lean on each other to share best practices and give vendor references for elevated digital solutions. The Force is strong with credit unions.

The pressure to be fast, automated, and offer personalization meant that we had to invest our time and resources in digital transformation. Over the past 5 years, we have extensively researched and completed analyses on what we can do to respond to these mounting pressures. We met with other credit unions to learn from their experiences and discovered what would help us close the gap between consumer expectations and our digital solutions. We chose to undergo the daunting task of a core conversion and online banking upgrade to drastically improve what we could offer members. For example, fintechs can instantly issue digital debit and credit cards. Until we did our core conversion and online banking upgrade, this was not possible. We can now issue digital cards that can be completely controlled on a phone. We also implemented ITMs with video teller capabilities. We recently heard a young man in his 20s say how cool these ITMs are—something that would have been unheard of a few years ago. While there have been many digital upgrades that we chose to do, there were some that we strategically chose not to pursue. For example, we researched and analyzed the option to offer cryptocurrency to our members, but we found the reputation risk outweighed the consumer demand and reward.

Our response to our members' expectations impacted our budget and organizational structure. A large technological enhancement is very expensive to do. It's more than simply adding a line item to the budget, we also had to consider the extra marketing costs and added staffing to support these upgrades. This is one of the reasons we spent many years building our net capital, so that we could afford to invest in something that would have a measurable difference both in terms of efficiency and improving the member experience. Our organizational structure has had a minimal shift with these changes. We have added to our IT department to support our expanded technology offerings. We also moved some of our branch tellers into our Member Service Center, which is the call center, to function as our video tellers who support our fleet of ITMs.

Graphs: There are no graphs required for the delivery of services section.

H. Loss Mitigation

1. What are the two most prevalent events in your credit union's members' lives that trigger loan delinquency? How does the credit union work with its members to mitigate the potential for loan losses to the credit union? How are third parties utilized in the credit union's loan collection efforts and its other loss mitigation endeavors?

When I asked our Chief Lending Officer, Matt Isika, what the two most prevalent events in our members' lives that trigger loan delinquency are, he quipped, "beats me" (M. Isika, Personal Communication, December 10, 2024). One thing to know about Matt is that his unruffled nature is superseded only by his analytical way of thinking. Not much bothers Matt, except maybe taking a loss on a loan. Which is why I know his response is laced with humor. The multiple tabs on his computer are frequently opened to review data reports that help him make decisions related to loss mitigation. He knows the common answer for loan delinquency is typically job loss, but that isn't necessarily the answer for our members at Yolo Federal. Matt says that "Household disruption and household formation are the two events that trigger loan delinquency" (M. Isika, Personal Communication, December 10, 2024). Household disruption being divorce or a death in the family. Household formation being marriage or having a child. These are big changes in someone's life that have historically led to loan delinquency. A third trigger is a shift in the economy with a lack of concern for personal finances. We had virtually zero loan delinquencies due to job loss during the pandemic. Our members received stimulus money, and they felt good because rates were still low. People went out and got new cars, opened credit cards, and bought houses. Their confidence changed once the economy started looking bleak. "All of a sudden they had a reality check, and they decided they no longer wanted those cars or credit cards" (M. Isika, Personal Communication, December 10, 2024). They stopped caring and weren't concerned about how this would impact their finances and future borrowing opportunities. Matt shared his perspective that it seems for some people there's no longer a stigma of having bad credit. "They see it as a good thing that they got rid of the debt. Who cares? In 24 months, somebody else will give me another credit card" (M. Isika, Personal Communication, December 10, 2024).

We would much rather have our members work with us on alternative options rather than becoming delinquent on a loan. We can do workout loans to renegotiate a loan and help a member continue to make payments. Skip-A-Pay is also an option that can help someone get caught up. If someone is experiencing a hardship, we try and have a conversation with them to determine if this will be short-term or long-term. If we determine their hardship will be long-term, then that's when we will work with them to modify their loan. If their hardship is short-term, we might offer interest only payments for a few months to help them get on their feet. We once had a member with unexpected medical debt, and we allowed her to only pay her escrow payment for 6 months. This made sure she stayed current on taxes and insurance but reduced her monthly payment since she was not paying principal and interest. This is where our credit union philosophy of "people helping people" really shines like the North Star.

Most of our collection efforts are done in-house by our collections department. We do use a third party, Partners in Asset Recovery (PAR), for car repositions. PAR handles recovering the vehicle, skip tracing, and sending them to auction. We also have a collections attorney to help us with difficult bankruptcy situations. Although we try and resolve these issues before needing to invoke a third party.

2. Describe the process for charging off loans, from the time a loan is considered as a candidate for charge-off to the time the charge-off is posted to the lending system(s), and who is involved in those various steps? If different major loan types (e.g. consumer, credit card, mortgage, business) have different processes, then describe each one.

When members hit the 30-day mark of non-payment, we will start placing outbound calls to understand what's happening and help them get on track. Once they hit the 90-day mark of non-payment, then we start the normal charge-off process. If before the 90-day mark we determine that someone will not repay, then we can start the charge-off process earlier. For example, we had a member who violated our member conduct policy and was given an expulsion notice. We gave him an appropriate amount of time to pay off the remaining balance on his credit card. During that time, he made headline news for arson and resisting arrest, which resulted in a ride to prison with no freedom for the foreseeable future. Given this, we charged-off his credit card earlier than the 90-day mark because we knew he would not be making payments on his credit card that was already past due.

For loans that are less than $30,000 and not secured by real estate, our collectors will charge it off in our core system. These loans are also included in a charge-off report that goes to our Board for ratification. If the loan is more than $30,000 or secured by real estate, then the Board must approve it before it is charged-off. Once a loan is charged-off in the system, a report is triggered and sent to our accounting department. Accounting will update our financials and ensure the general ledger matches the charge-off report that the Board approved.

3. What efforts does your credit union utilize to mitigate losses on deposited items, both paper and electronic?

Our Check Hold and Acceptance Policy helps us mitigate losses on paper and electronic deposits. Checks cannot be stale dated, negative balances must be cleared before checks are cashed, and accounts open less than 180 days are subject to review prior to cash back transactions. There are also several reasons that a check may be placed on hold:

- Personal checks—1 business day
- Two-party checks—2 business days
- Non-guaranteed funds to new accounts—11 business days
- Checks in the amount of $5,525 or more—7 business days
- Re-deposited checks—7 business days
- Doubtful collectability—7 business days

We understand that check holds can sometimes be an inconvenience for members, so we do make the first $500 deposit available to them. We also have a Check Hold Exception Procedure that provides guidance to staff if they believe a check hold should be waived. The department manager can waive a hold if the check is verified by calling the maker, funds are verified by contacting the issuing bank, or if the account is seasoned and in good standing.

We also use two third party systems to help us detect potential fraud and mitigate loss. Verafin is a program that helps with fraud detection and compliance with the Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) regulations. If our employees notice any unusual activity on accounts or suspect new account fraud, they can file a referral through Verafin. Verafin will analyze the information within their extensive data warehouse to assess the risk. Another program we use is Advanced Fraud Solutions (AFS) to help determine if a deposit is potentially fraudulent. AFS scans checks that are deposited at the teller line and at the ITMs to detect potential fraud or duplicate checks clearing. For checks that are deposited through our mobile app, we have parameters configured that will flag a check before it's released to the account.

Ultimately, the best defense is a good offense. We train our employees to review checks for completion and watch for red flags. We often will provide staff with copies of bad checks and have them practice searching for what the issues are. This trains their eyes to pay attention to detail and gives them practical application. The more practice they have looking at bad checks, the more comfortable they are spotting them on the teller line.

4. How does your credit union help members avoid, detect and mitigate fraud on their accounts and with their identity? How does the credit union assist members when they are impacted by fraud?

Fraud can make people feel anxious, embarrassed, and violated. It's a startling experience that we try and help our members avoid. We are continuously educating our members on the various types of fraud that exist. We have numerous web articles and videos on social media to warn about phishing, smishing, sweetheart scams, identity theft, card skimmers, checks scams, and card fraud. We explain what each of these scams are and give tips on how to avoid them. If we see an uptick in fraud, we will send reminder emails and letters to our members with information about the scam and how to avoid it.

Even though we educate our members about how to avoid fraud, many still fall victim. There are several processes that we have in place at Yolo Federal to help detect and mitigate fraud. Our employees receive annual training on our Anti-Theft Red Flags Policy. This helps employees detect fraud on accounts by reviewing red flags that could be suspicious. We also have several protective measures available in our mobile app that can alert members of suspected fraud. They can set up custom account alerts that will notify them via email or text message. Multi-factor authentication in the mobile app is another security measure to verify identity and prevent fraud. Members also have complete control of their card in the mobile app and can keep their card turned off when they are not using it. We also use a company called Falcon Fraud Manager to monitor card activity. If a transaction is deemed suspicious, a temporary block will be placed on the card and the member will be notified. If their transaction is legitimate, then they can approve the transaction. If the transaction is fraudulent, then the card is compromised, and we will work with the member on a card replacement. Another protection measure we have in place is card limits and transfer limits. Debit cards have a $1,500 limit and credit cards have a $10,000 limit. Members can request a temporary increase to make a legitimate purchase. The mobile app also has member-to-member transfers limited to $20,000 per day. These limits help us mitigate the total amount we could lose for unrecovered fraud. We also offer free access to Norton LifeLock ID Navigator to our members. The ID Navigator will monitor their information and alert them if they are detected on the dark web, changes to their credit file, or impacted by a large data breach.

Members who are impacted by fraud are provided with provisional credit on their account after a dispute is filed. Disputes can be filed in person, over the phone, or reported through the mobile app. Our Digital Payments department will research the dispute and submit their findings to Visa or our card processor, Valera, depending on how the transaction was processed. A letter is issued to the member once the dispute is finalized and the provisional credit becomes permanent in their account. Beyond that, our goal is to reduce the burden of fraud and support our members to alleviate frustration.

5. What tools does the credit union employ to avoid and detect internal (i.e. employee) fraud?

Our core system allows us to set robust roles and privileges to ensure employees only have enough access to be able to complete their duties. This helps mitigate the risk of employees having unrestricted access to complete unnecessary transactions. The core system also restricts employees from conducting transactions on their own accounts. Our vice president of risk management also regularly reviews reports for employee accounts to detect suspicious activity. These reports come from our core system, Verafin, and AFS. She will notify the appropriate executive if she notices any suspicious transactions. The executive will then assess the situation and determine the next steps for potential disciplinary action or termination. Another layer of protection against employee fraud is the member letters we send when transactions occur on a dormant account. Unfortunately, we have firsthand experience with this protection measure working. We once had an employee who was committing fraud, and it was caught because they were doing transactions on a dormant account that triggered a dormant account transaction member letter.

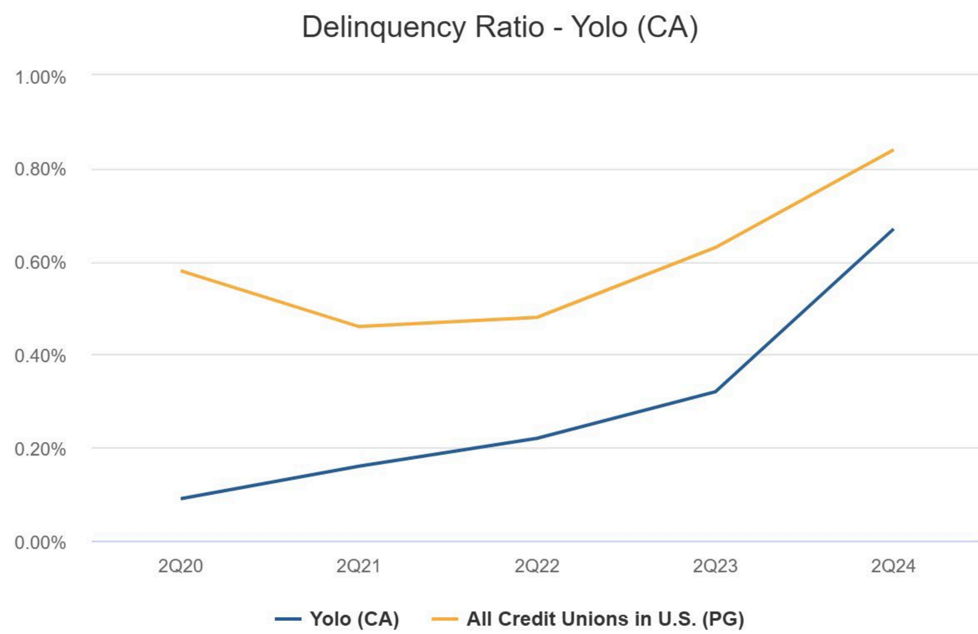
Cash and coin sold to and from the vault, ITMs, and Teller Cash Recyclers (TCRs), must always be sold in dual control. The cash that is sold to the vault must always be strapped and verified in dual control with initials and a date stamp. Surprise cash counts are conducted monthly by the vault custodian and are completed in dual control. Audits are also conducted quarterly by the Internal Audit Officer. Dual control and surprise audits are critical to avoiding and detecting internal fraud.

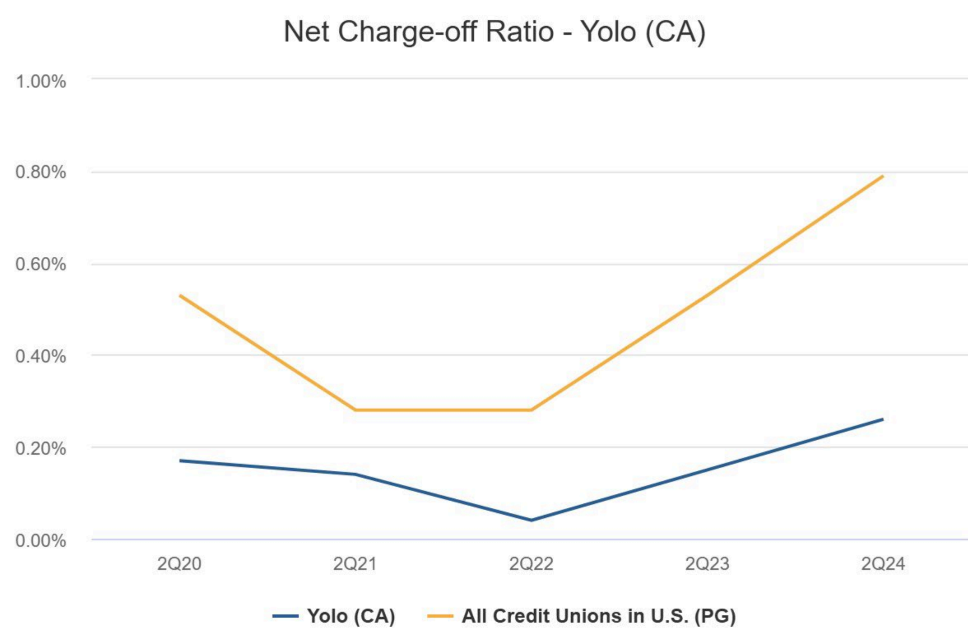
6. Graphs: This section requires inclusion AND written analysis of the following graphs:

a. Delinquency Ratio (comparison)

b. Net Charge-Off Ratio (comparison)

c. Asset Quality Summary





Asset Quality Summary WCMS - Yolo (CA)					
Formula	**Jun-2020**	**Jun-2021**	**Jun-2022**	**Jun-2023**	**Jun-2024**
Delinquency					
Total Delinquency	0.09%	0.16%	0.22%	0.32%	0.67%
1st Mortgage Delinquency	0.05%	0.00%	0.00%	0.24%	0.22%
Other Real Estate Delinquency	0.07%	0.43%	0.80%	0.21%	0.31%
New Auto Loan Delinquency	0.05%	0.25%	0.06%	0.20%	0.36%
Used Auto Loan Delinquency	0.23%	0.28%	0.44%	0.65%	1.92%
Total Auto Loan Delinquency	0.12%	0.27%	0.26%	0.42%	1.18%
Indirect Delinquency	0.16%	0.34%	0.32%	0.47%	1.33%
Credit Card Delinquency	0.38%	0.77%	1.24%	0.99%	2.58%
Commercial Loan RE Secured Delinquency	0.00%	0.00%	0.00%	0.00%	0.00%
Commercial Loan Non-RE Secured Delinquency	0.00%	0.00%	0.00%	0.00%	0.00%
Total Commercial Loan Delinquency	0.00%	0.00%	0.00%	0.00%	0.00%
Other Loan Delinquency	0.20%	0.56%	0.31%	0.33%	0.45%
Participation Loan Delinquency	0.00%	0.00%	0.00%	0.00%	0.00%
Student Loan Delinquency					
Payday Loan Delinquency					
Leases Delinquency					
Net Charge-Offs					
Total Net Charge-Offs	0.17%	0.14%	0.04%	0.15%	0.26%
1st Mortgage Net Charge-Offs	0.00%	0.00%	0.00%	0.00%	0.00%
Other Real Estate Net Charge-Offs	0.00%	0.00%	0.00%	0.00%	0.00%
New Auto Loan Net Charge-Offs	-0.01%	0.02%	-0.01%	0.00%	0.16%
Used Auto Loan Net Charge-Offs	0.45%	0.57%	0.13%	0.33%	0.37%
Total Auto Loan Net Charge Offs	0.18%	0.29%	0.07%	0.16%	0.27%
Indirect Loan Net Charge-Offs	0.19%	0.11%	0.07%	0.00%	0.36%
Credit Card Net Charge-Offs	2.37%	1.03%	0.54%	2.15%	3.80%
Commercial Loan RE Secured Net Charge-Offs	0.00%	0.00%	0.00%	0.00%	0.00%
Commercial Loan Non-RE Secured Net Charge-Offs	0.00%	0.00%	0.00%	0.00%	0.00%
Total Commercial Loan Net Charge-Offs	0.00%	0.00%	0.00%	0.00%	0.00%
Other Loan Net Charge-Offs	-0.19%	1.16%	0.00%	0.26%	0.67%
Participation Loan Net Charge-Offs	0.00%	0.00%	0.00%	0.00%	0.00%
Student Loan Net Charge-Offs					
Payday Loans Net Charge-Offs					
Leases Net Charge-Offs					

Graph Analysis—Loss Mitigation

The previous graphs visually represent Yolo Federal's extraordinarily low delinquency and net charge-off ratios compared to all other credit unions in the U.S. We maintain these low ratios because of our conservative underwriting practices. Automated decisioning is also not enabled in our core system, which means our underwriters are manually reviewing loans with a stringent set of eyes. While it is good to have healthy loans on our books, the gap shows that we have some available margin to minimally increase our risk appetite. We would be able to help more people succeed financially and potentially improve our yield on loans. With that said, our low delinquency and net charge-off ratios have helped us remain as a financially sound credit union. Another contributing factor as to why our delinquency and net charge-off ratios are lower than other credit unions is the strategy we deployed during the pandemic. A lot of financial institutions were offering unlimited Skip-A-Pays, doing massive loan forgiveness programs, or simply allowed their members to not make payments on their loans. When we assessed our membership and local market, we decided a different approach would be a better fit for us. Rather than a blanket approach of loan modifications or forgiveness, we communicated to our members to contact us if they were having trouble making their loan payments. Very few of them needed this additional support. After the pandemic, there was a spike in delinquencies and charge-offs at other credit unions, but ours remained quite low. As noted previously, there were some behavior changes with members after the pandemic. Some of these members took out loans while they had a surplus of money during the pandemic, but once the economy weakened, they decided they no longer wanted the loan. This correlates to the increase in delinquencies and net charge-offs that we see from 2022 to 2024.

I. Human Resources

1. What strategies does your credit union deploy in the recruiting, hiring and onboarding of new employees? In general, what types of people does your credit union seek to hire? What types of hiring challenges, if any, has the credit union encountered over the past three years?

We use an in-house recruiter who works directly with our managers when a position becomes available. The in-house recruiter will customize the screening criteria based on the needs of that position. Vice President of Human Resources, Marcela Bautista, says “We try to zero in on what the managers believes they need for that position, which results in a customized recruiting approach” (M. Bautista, Personal Communication, November 22, 2024). According to Marcela, approximately 83% of our applicants come through Indeed and the remaining 17% come through our applicant tracking software, Breezy, that integrates with our website. Once they make it through the initial screening process with the in-house recruiter, they will have an interview with the hiring manager. In some situations, they might have a follow-up interview with the hiring manager and their executive. A pre-employment assessment might also be given, depending on the type of role the applicant applied for. These assessments measure cognitive abilities, personality traits, and motivators. Once the hiring manager makes their decision, the applicant will receive a preliminary employment offer and go through a background check.

Once the applicant accepts the employment offer and passes the background check and bonding requirements, they will start new hire onboarding. The new hire onboarding is administered by our learning and development manager. It’s a structured program to ensure the employees are trained on what is most relevant to their position. There is also consistency in the training they receive about the history of Yolo Federal, our mission and values, as well as our defined member experience expectations. Once they complete onboarding, they are transitioned to their assigned department for a soft hand-off with their manager. At that point, they will continue to receive training and coaching from their manager.

We seek to hire people who align with our core values of being Accountable, Adaptable, Ambitious, and Authentic. We want people who are committed to Bringing their A Game! When we are going through the hiring process, not only are we looking at experience and qualifications, but their general attitude and disposition as well. Marcela says, “We hope to get to know the candidates in the most genuine way that we can. We want to discover and identify the strongest candidate for that role” (M. Bautista, Personal Communication, November 22, 2024).

The most significant hiring challenge we have encountered over the past three years is when candidates “ghost” us and either don’t respond or don’t show up to the interview. Even when we think we have established rapport with the candidate, they still might not show up to the interview. This has caused frustration and can often delay the recruiting and hiring process. We have also been up against aggressive employers that offer extremely competitive wages for positions that require less skill. For example, Burger King is located across the street from our headquarters, and they offer slightly more than one of our entry level positions. What a lot of these young applicants aren’t taking into consideration, though, is that we offer a better benefit package and more career opportunities. They get dollar signs in their eyes and it’s difficult to persuade them otherwise.

2. What are the credit union's strategies in the area of employee development, career advancement and recognition of its people? Who determines those strategies?

It has been an organizational strategy at Yolo Federal to invest and strengthen our management team. The vice president of human resources determines the tactical approach to accomplish this. One of the ways we do this is through a leadership development partnership with the eLeadership Academy. The eLeadership Academy is an online training program focused on credit unions. Their eLead program is available for leaders of all levels at the credit union and focuses on the principles of leadership, coaching, resilience, and leading with your heart and backbone. They also offer an eCoach program that dives more into the details of coaching. Their eFocus program elaborates on performance, inclusivity, and fostering a healthy workplace culture. Finally, their ExecREADY program is intended for those seeking executive level roles (eLeadership Academy, 2024). The most important aspect of these leadership development programs is that it helps our leadership team develop their emotional intelligence and understand what it means to be a servant leader.

Our core competency program is another piece of our employee development pie. It starts someone with the basics in their role and it breaks down their job in a clear way, so they understand how to develop and earn more money. Someone who is at the top of their core competencies in their role will also have a great opportunity to advance in their career and move into other roles at the credit union. This has helped us maintain longevity at Yolo Federal because employees have a clear roadmap for how they can grow in their career. We also reward employees for longevity with our service awards. All employees are recognized monetarily upon completion of 5 years of service and at the end of every 5 years of service thereafter. We also have employee awards that are presented at our annual holiday party. The Yolo Alliance award is given to someone who displays our values of being Accountable, Adaptable, Ambitious, and Authentic. The Yolo Alliance award is voted on and selected by the Executive Team. We also have two Yolo ACE (Always Creating Excellence) awards for member service and internal service. The Yolo ACE award for member service is given to the employee who had the highest member survey score that year. The Yolo ACE award for internal service is given to the employee who provided exceptional service to their colleagues that year and is voted on by the employees.

3. Describe your credit union's philosophy on employee performance assessment/appraisal and how they are used in determining compensation adjustments, if at all.

We complete annual evaluations at Yolo Federal, but it does not drive our compensation adjustments. Salary adjustments come from the employee and manager based on core competency advancement. We do offer an employee bonus for those who receive a high score on their annual evaluation. Before the annual evaluations are completed, the employee is sent a self-evaluation. The self-evaluation is a great opportunity for the employee to remind their manager of any accomplishments they may have had that year. Even though the manager should already know these things, sometimes it can be missed, and we want to give the employees every opportunity to shine on their evaluations. However, not all employees complete the self-evaluation because they don't want to boast. Marcela says in her typical bubbly fashion, "They say they don't want to toot their own horn. I tell them to please take their horn and toot it! Toot it all day long! We want to hear you" (M. Bautista, November 22, 2025). After the self-evaluation cycle ends, the manager will complete the evaluation that measures their member focus, teamwork and cooperation, and their initiative. Managers are also evaluated on their management effectiveness.

4. On a scale of 1 to 10, with 1 being terrible and 10 being ideal, how effective is the value proposition within your credit union in the areas of salary, benefits and culture in meeting the desires of its employees? Explain your rationale for choosing that rating.

My initial reaction to this question is to say we are a 10, but I am biased, and I also know some of the feedback we have received from employees over the years. Given that, I would objectively rate us at 8. The reason I would rate us highly is that we offer an exceptional benefits package. Since our initial charter was to serve County employees, we were able to enroll in the California Public Employees' Retirement System (CalPERS). CalPERS is a pension that provides retirement benefits based on years of service, age, and final compensation. Even though we no longer solely serve County employees, we were grandfathered into the program. We are fortunate to offer an excellent retirement plan, despite our younger employees not always seeing the value. We also offer phenomenal health benefits with a premium medical plan. The employee cost for medical benefits is only $48.75 per payroll, and Yolo Federal covers the remaining amount. The medical plan has an annual deductible of $0 with an out-of-pocket maximum of $4,000. Primary care visits are $20, urgent care visits are $50, and emergency care is $150 (Yolo Federal Benefits Package, 2024). These coverage rates are superior compared to what other organizations offer in California. Our medical plan also includes access to mental health benefits and behavioral health services. As a mom to a son diagnosed with autism, coverage for behavioral health services has been extremely important to me. An autism diagnosis can at first feel like you are going through the eye of a storm, but knowing you have great medical coverage is like seeing a rainbow in the sky that brings a sense of peace. I am grateful that Yolo Federal invests in a superb medical plan for employee health and well-being.

The culture at Yolo Federal is another reason that my first reaction is to rate us at a 10. I have seen other organizations that have a defined culture that isn't lived out through daily actions. Our "A-Game" culture at Yolo Federal starts at the very top and is seen in our decision making, how we hold people accountable, and how we treat others. It's a culture that allows people to take risks and learn from failure without the fear of losing their job. Our culture reminds me of a quote that is widely attributed to Sally Ride, the first American woman who went to space. Sally said, "There are three secrets to success: Be willing to learn new things. Be able to assimilate new information quickly. Be able to get along with and work with other people" (Sally Ride, n.d.). We encourage our employees not to be afraid to try new things, and we reinforce the importance of collaboration across Yolo Federal. We believe this leads to a healthy workplace culture. In fact, we were once voted Best Credit Union to Work For in a national survey by our employees.

The reason I would adjust our rating to 8 is that we have received mixed feedback from employees regarding our salary ranges. Even though we explain that our salary ranges come from a third-party salary consultant, they still feel that we pay lower than other organizations for similar work. Whether I agree or disagree, it doesn't matter because it's their perspective. As I ruminate on the effectiveness of our value proposition, I must take into consideration the employee sentiment regarding salaries and the impact it has on our overall rating. However, my hope for our employees who want to chase dollar signs somewhere else is to fully understand their entire compensation package. Good benefits carry a hefty cost, and Yolo Federal bears the weight of that so our employees don't have to. An extra dollar at another organization is not going to help someone more than a rich benefits package will.

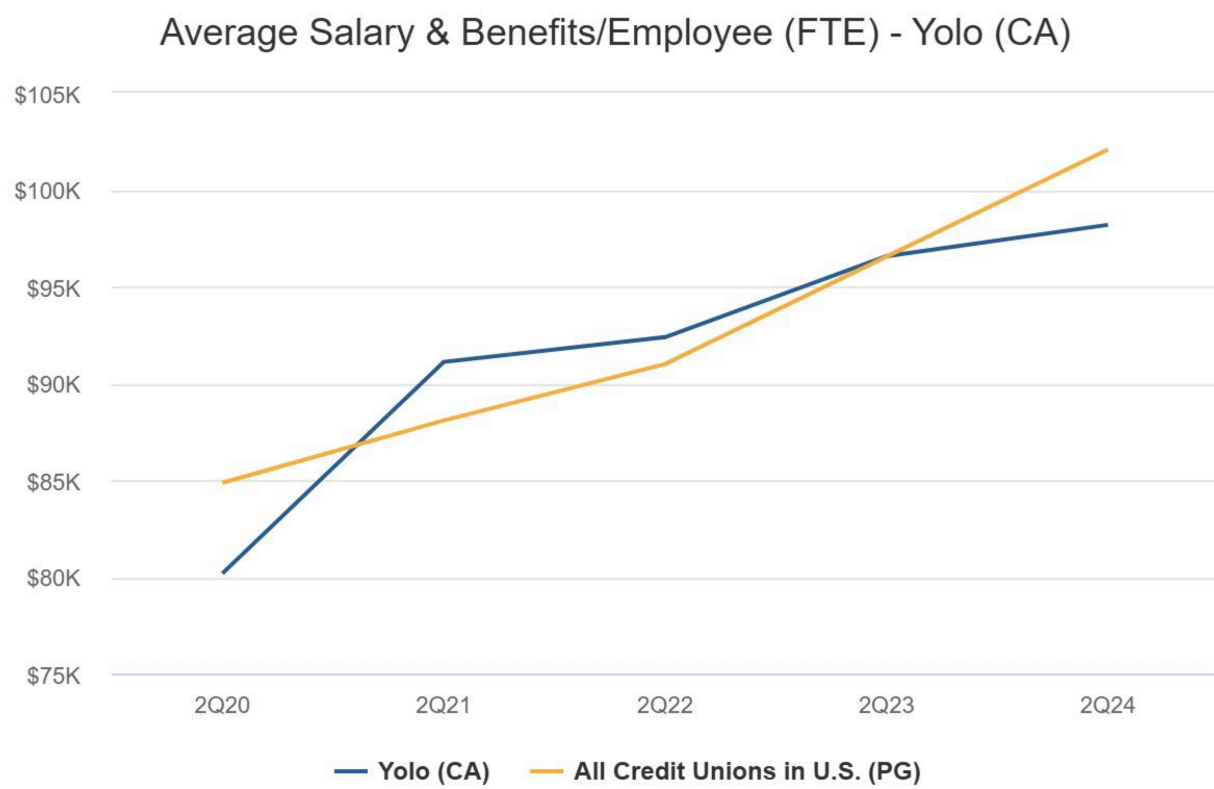
5. In this scenario, you are trying very hard to hire your project reader to come work at your credit union. In 50 words or less what is the "elevator pitch" you would give to that person on why they should work at your credit union?

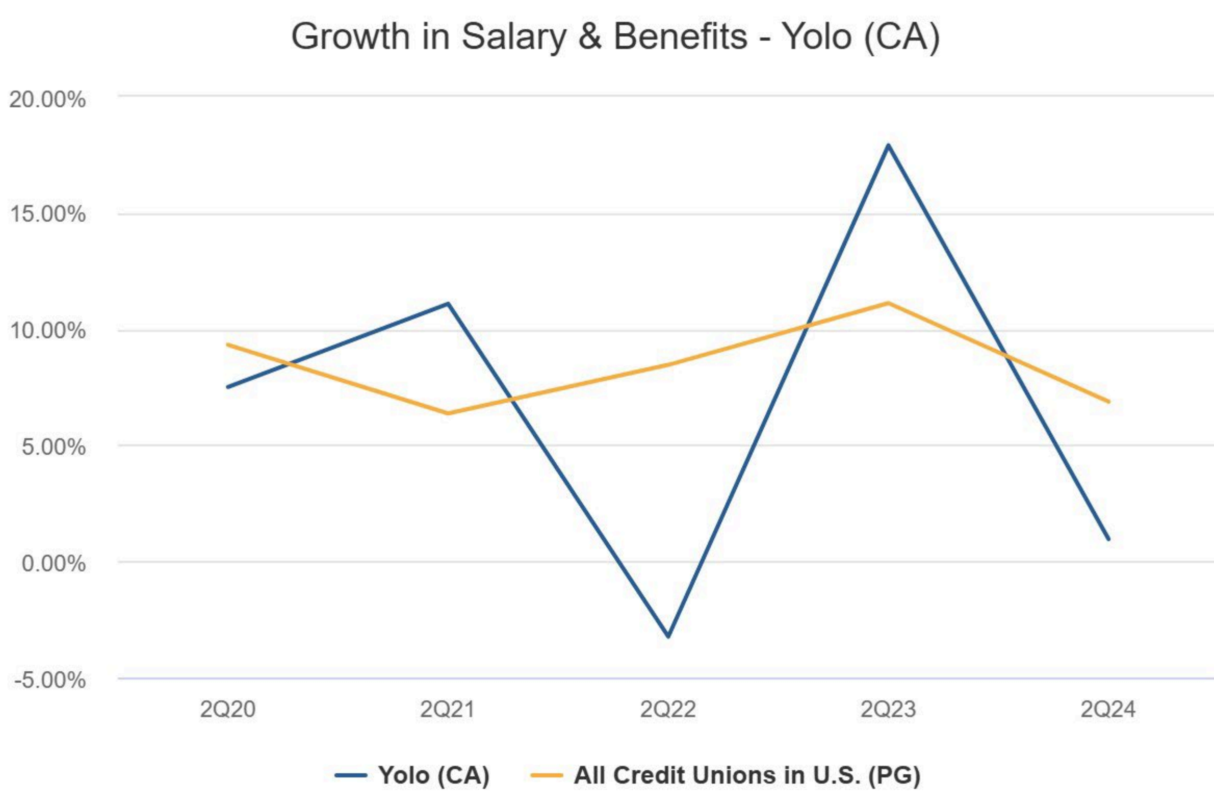
At Yolo Federal, you can wear many different hats until you find the one that feels right. You can go from teller to CEO, marketing coordinator to COO, or branch manager to vice president of human resources. Those are real examples from a culture that believes in developing their people.

6. Graphs: This section requires inclusion AND written analysis of the following graphs:

a. Human Resources Summary
b. Average Salary & Benefits/FTE (comparison)
c. Growth in Salary & Benefits (comparison)

Human Resources Summary - Yolo (CA)					
Formula	**Jun-2020**	**Jun-2021**	**Jun-2022**	**Jun-2023**	**Jun-2024**
# Full-Time Employees	66	64	61	69	70
# Part-Time Employees	2	3	3	3	0
Branches	5	5	5	5	5
Members	20,394	21,002	21,307	21,746	22,238
FTEs per Branch	13	13	13	14	14
Members per Branch	4079	4200	4261	4349	4448
Loan & Share Accounts per FTE	663	700	744	673	898


Average Salary & Benefits/Employee (FTE) - Yolo (CA)
$105K
$100K
$95K
$90K
$85K
$80K
$75K
2Q20
2Q21
2Q22
2Q23
2Q24
Yolo (CA)
All Credit Unions in U.S. (PG)


Growth in Salary & Benefits - Yolo (CA)
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
2Q20
2Q21
2Q22
2Q23
2Q24
Yolo (CA)
All Credit Unions in U.S. (PG)

Graph Analysis—Human Resources

During the pandemic, we saw other credit unions offering hazard pay. We decided not to do this and instead rewarded our employees in other ways. This is one reason our average salary per employee was lower in 2020 than other credit unions in the U.S. Our average salary per employee increased in 2021 because of a higher-than-average salary rate increase for our market area. We had to increase salaries so we could attract and retain talent. We see salary and benefit growth dip in 2022 because our CFO decreased the bonus accrual that year. There are two reasons we experienced a 14.49% growth in salary and benefits in 2023 (Callahan & Associates, 2024). We increased expenses because we met a few of our corporate goals early in the year that resulted in us paying bonuses. We also added employees in preparation for our core conversion in July 2023.

J. Technology

1. In general, how does your credit union provide technological support to the employee users of its front line (i.e. related to deposits, lending and direct member service) systems and tools?

The Information Technology (I.T.) department has focused their efforts over the past few years on automation, efficiency, and streamlining processes to help improve technological support. CIO, David Plaut, says, "Efficient technological support is critical. We want our employees to focus on doing their job without having to worry about technology issues. It keeps their confidence high in our ability to support them" (D. Plaut, Personal Communication, December 3, 2024). A few years ago, whenever an employee had an issue with their computer, the I.T. department would have to log someone out of their computer to troubleshoot. It would often take a long time to resolve the issue, and it wasn't very efficient. Our I.T. department has since modernized their support so that they can remote into someone's computer while they are still logged on and can quickly fix the problem. They also have automated updates enabled so they are often notified of an issue before the employee even reports it. As mentioned previously, we also upgraded several of our technological platforms, such as our core operating system, which has significantly improved the support for our front line employees. We also have a Help Desk ticketing system to track and resolve issues. Employees can email the Help Desk and it automatically creates a ticket that is assigned to an I.T. employee. This keeps issues organized, resulting in faster response times and improved technological support.

2. Cite a recent new back-office technology (i.e. not related to deposits, lending or direct member service) introduced within your credit union and explain the business need(s) it sought to address. Describe the general processes used to:

> **a. Consider options and decide upon the ultimate solution selected**
> **b. Test the selected solution**
> **c. Deliver training to the solution's end users and to the technology staff responsible for supporting it, and**
> **d. Assess its post-implementation effectiveness in achieving the desired goals**

We recently implemented a new web filter solution with Cisco Umbrella. The purpose of the web filter is to restrict employee access to various websites that could open us to unnecessary vulnerabilities. We explored various other vendor solutions for web filters but ultimately selected Cisco Umbrella because it was the most robust and it offered integration with our current systems. We tested the solution by implementing with designated users first to gauge the functionality and identify potential issues. Our I.T. department received training on the admin portal, and they learned how to modify the settings. They communicated to our employees about the web filter changes and provided guidance on what to do if they are restricted from a website that they legitimately require access to. They evaluated the effectiveness by reviewing the efficiency of blocking desired categories and the ability to make changes quickly. The I.T. department believes they have achieved their desired goals because the percentage of blocked websites has increased, which reduces our cybersecurity risks.

3. How is the credit union mitigating the risk relative to cybersecurity and how has the effort evolved over the past five years in terms of time and resources invested in it?

Cybersecurity issues are becoming more prevalent every single day. As much as our I.T. department would love to lock down our network systems as much as possible, they also know this isn't possible. They mitigate the risk with policies, processes, and other technology platforms that support an efficient member experience that is rooted in safety. We have two-factor authentication for many of the platforms our employees use, as well as for online banking for our members. All our data is encrypted so that if someone were to steal one of our laptops, they wouldn't be able to access any information. Employees also receive annual training about cybersecurity to help them avoid falling prey to hackers. Our I.T. department also loves to test our employees with social engineering emails. In fact, they have turned it into a contest to see which I.T. employee has the most clicks on the phishing email they designed to test employees.

The time and resources we have spent on mitigating risk relative to cybersecurity has drastically increased over the past five years. According to David, we were far too vulnerable a few years ago. For example, our backup servers were never fully set up and tested appropriately. Fortunately, prior to David joining our team, we had never experienced an issue where we needed to rely on our backup servers. However, soon after David started at Yolo Federal, we experienced a massive storm that knocked out power for an extended period of time. We found ourselves needing to use our backup servers, which thrust David into a situation where he needed to make it work quickly. He encountered a few issues but eventually our backup server was up and running. This caused him to rethink how we operate our backup servers. He made the decision to move our backup servers to a co-location data center. The data center has 24/7 diesel generators so if the power goes out, they will continue to run. All our data is also duplicated so even if we encounter a cybersecurity issue, we still have backup data that we can restore to. If we can't find David, we know he's probably hibernating at the co-location data center with his energy drink in hand and blocking potential hackers from even thinking about accessing our data.

4. Describe the 3-5 most significant factors that influence the decisions whether to introduce new technological tools for internal use at your credit union?

When our I.T. department is considering new technological tools for internal use at Yolo Federal, they are looking at efficiency, security, and hardware elevation. They always want to be sure they are improving efficiency when they implement a new tool because this will reduce operational costs and streamlined processes. If the tool is going to provide an increased layer of protection for security, then that is something that will heavily influence their decision too. Increased security protects our members' data as well as our reputation. They are also focused on tools that elevate our hardware so that we are proactive in transforming the way we operate behind the scenes. Improved hardware has a rippling effect that spills over into how our employees do their jobs, which can improve the member experience.

Graphs: There are no graphs required for the technology section.

K. Marketing

1. How does your credit union determine the marketing strategies it deploys?

As the executive over marketing, I prepare our annual marketing plan based on the strategic initiatives from our Board. I consider the most effective approach to execute on these initiatives by conducting market and demographic research, reviewing industry trends, and understanding the media channels that will help us reach our goals. I will use a tactical example to demonstrate how we do this. One of our strategic initiatives is to expand into the Sacramento market. When a financial institution is entering a new market, a key initiative must be to build brand awareness. I conducted research to better understand the consumer sentiment relating to financial institutions. According to a poll published by the Statista Research Department, only 20% of consumers in the United States completely trust their financial institution (Statista, 2024). Another survey conducted by MX Technologies found that trust is the most important factor for someone when choosing a financial services provider (MX Technologies, 2024). These research findings help me conclude that our brand awareness strategy must center on establishing trust.

Once I have defined the strategy based on market research, I will complete a demographic and psychographic analysis. The demographic analysis will help me understand basic information about our target audience. This includes their household income, gender, homeownership status, and ethnicity. The psychographic analysis gives a deeper understanding of the behaviors and habits of our target audience. Combining this information provides us with a complete picture of the people we are trying to reach, and that will influence our marketing strategies. Using our expansion into the Sacramento market as an example, we must know our audience to build trust with them.

This information will also dictate what industry trends we will capitalize on to reach our target market. Based on demographic and psychographic research, we know a large segment of consumers in the Sacramento market are baseball fans. In 2024, Major League Baseball (MLB) announced that Sutter Health Park in Sacramento would host the Athletics for the 2025-2027 seasons. This presented us with a golden opportunity to build brand recognition in Sacramento through a partnership with the Athletics. A popular industry trend right now is influencer marketing, and although this partnership is a little different than typical influencer marketing, we are still leveraging their brand and media reach to positively influence consumers.

2. How does your credit union gauge the effectiveness of its marketing efforts?

We gauge the effectiveness of our marketing efforts by evaluating key performance indicators (KPIs). The decisions we make are data-driven. Whether we are running a promotion, considering a new media channel, or determining the most effective messaging style, we are evaluating the data. This includes open rates, click-through rates, conversion rates, cost per click, impressions, bounce rate, web traffic metrics, A/B test results, and return on ad spend. If something is not performing the way we expect it to, then they will need to adjust the marketing strategy. Another critical component is calculating the return on investment any time you spend money on marketing. As a marketer, one of my greatest pet peeves is hearing other marketers say, “I’m a creative! I’m not a numbers person.” My response to that is you better learn to be both. You cannot be an effective marketer if you are unable to calculate a return on investment.

3. What is the credit union's current branding tagline? When and how was it created? If the credit union does not have a branding tagline, what is the organization's rationale for that decision?

Our previous tagline was *Discover the Local Difference!* This was originally created to promote our competitive advantage of being local. Since then, consumer habits have changed and being local is no longer valued to the same degree it once was. After we expanded our field of membership, we decided it was time to emphasize the values and service that make us different from our competitors, rather than focus on being local. With a minor revision, we remained true to our original identity while aligning ourselves with what consumers value most. On December 6, 2023, our Board approved our recommendation to alter our tagline to *Discover the Difference!*

4. In today's world, what do you believe is the best way to get the attention of consumers? Why do you hold this belief? (Note: This is a question about consumers in general, and not about trying to attract customers to credit unions.)

One of my favorite marketing quotes is attributed to Seth Goldin when he said, "People do not buy goods and services. They buy relations, stories and magic" (Godin, 2018). We see thousands of ads and brands every day. We are constantly being sold to or influenced to believe that we need some type of product to make our life easier or better. How can a brand even stand a chance to attract consumer attention? I believe that brands need to appeal to emotion and create a human connection that people can relate to. They also need to understand how a product or service will benefit them and enhance their well-being.

Another important strategy to gain consumer attention is marketing personalization. Social media giants, such as Meta, and large fintechs have nearly perfected this. It has resulted in consumers expecting every experience to be personalized for them. Serving an advertisement at the precise moment someone might need a particular product can drastically increase the likelihood of moving them through the marketing sales funnel.

5. What impact does consumer driven social media have on your credit union?

Social media can have a significant impact on Yolo Federal. We closely monitor our brand reputation through social media channels. There are many community groups that exist on social media, and people can become keyboard cowboys who complain about the slightest inconvenience, most often in an overly dramatic fashion. A quick response with problem resolution can put an end to a conversation that could otherwise spiral out of control and tarnish our brand reputation. In fact, many years ago, when we went through our first online banking conversion, we experienced some bumps that found their way on social media. I responded to every single message and worked to move those conversations off social media. In return, we gained favor in the eyes of these community groups because they had never seen a financial institution actively solving issues publicly on social media. Even if the problem can't be resolved, people just want to be heard. Too many brands have been destroyed on social media because there was not strong oversight with a public relations strategy. Ignoring social media does not make the problem go away.

6. Conversely, how does your credit union use social media to drive member engagement and how does it measure the effectiveness of its social media efforts?

Over the past few years, we have changed our content creation strategy to focus on quality over quantity. Most of our previous content was admittedly a little boring. We are spending more of our time creating engaging short videos and using social trends. Picture this: A quirky millennial manager at Yolo Federal is awkwardly trying to attract Gen Z to bank at Yolo Federal by using slang that only the younger generation would understand.

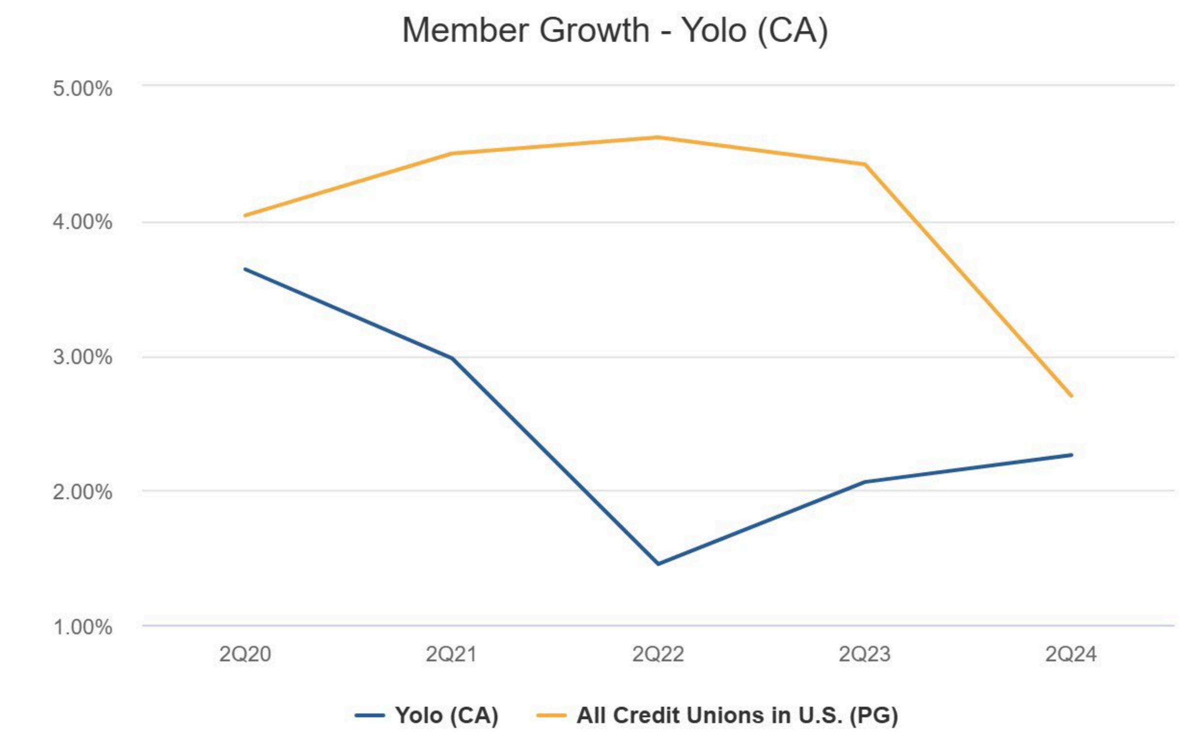
<u>Video Script</u>

Today, I'm showing you why Yolo Federal is goated. No cap, we have the best technology when it comes to banking. Our ITMs will have you saying, "What the sigma?" Our member service representatives are always here and ready to help. It's giving 5 star service. If you have our Visa Platinum card, you're definitely giving main character energy. Our products and services are low-key bussin'. From member discounts to financial literacy programs, Yolo Federal is here to make your banking experience lit. Don't take the "L"; become a member of Yolo Federal and get your aura up (Yolo Federal Instagram, 2025).

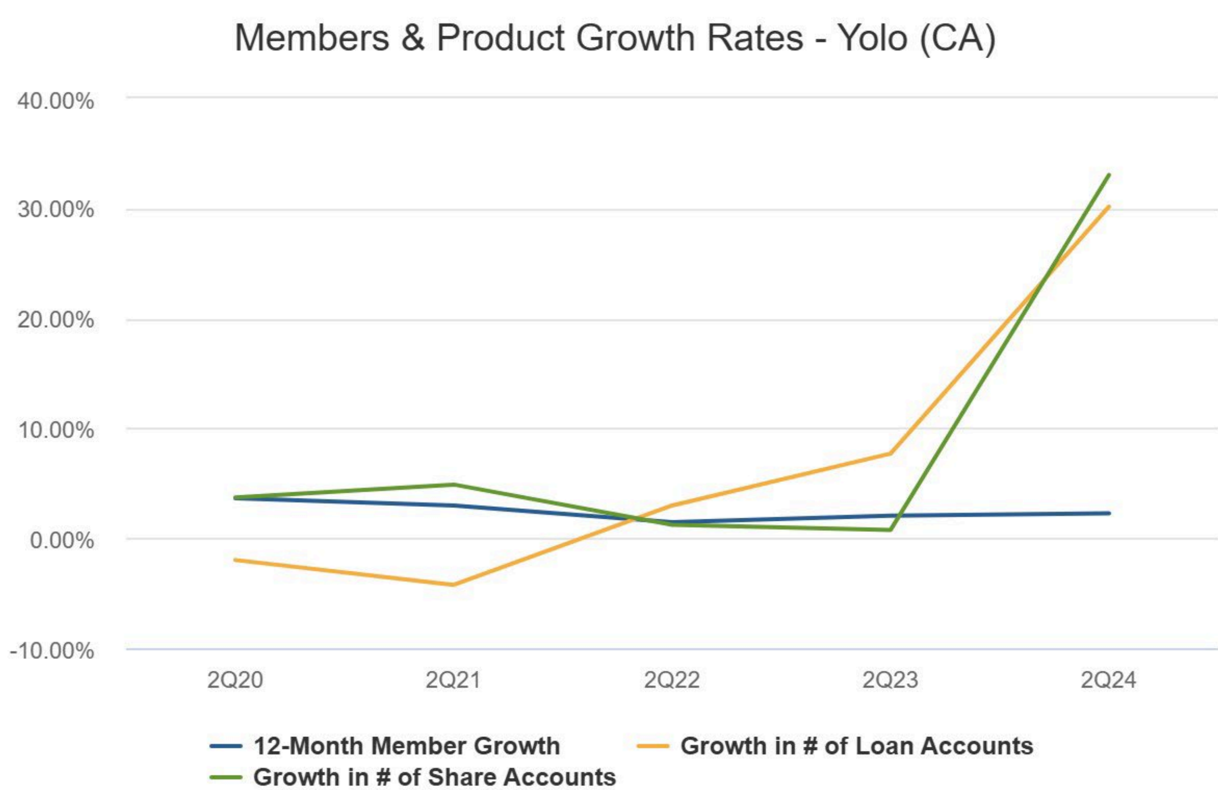
This engaging social media video is embarrassingly awkward in the best way possible. It caught people's attention, and they interacted with us in a way they never have before. We know this strategy is working because our engagement rates are improving, we are experiencing tremendous organic growth, and we are seeing a higher traffic of new users to our website that are coming from social media. In 2024, our social media impressions increased by 1,231% and our click-through-rate on social media advertisements increased 389% (Yolo Federal Digital Media Report, 2024).

7. Graphs: This section requires inclusion AND written analysis of the following graphs:

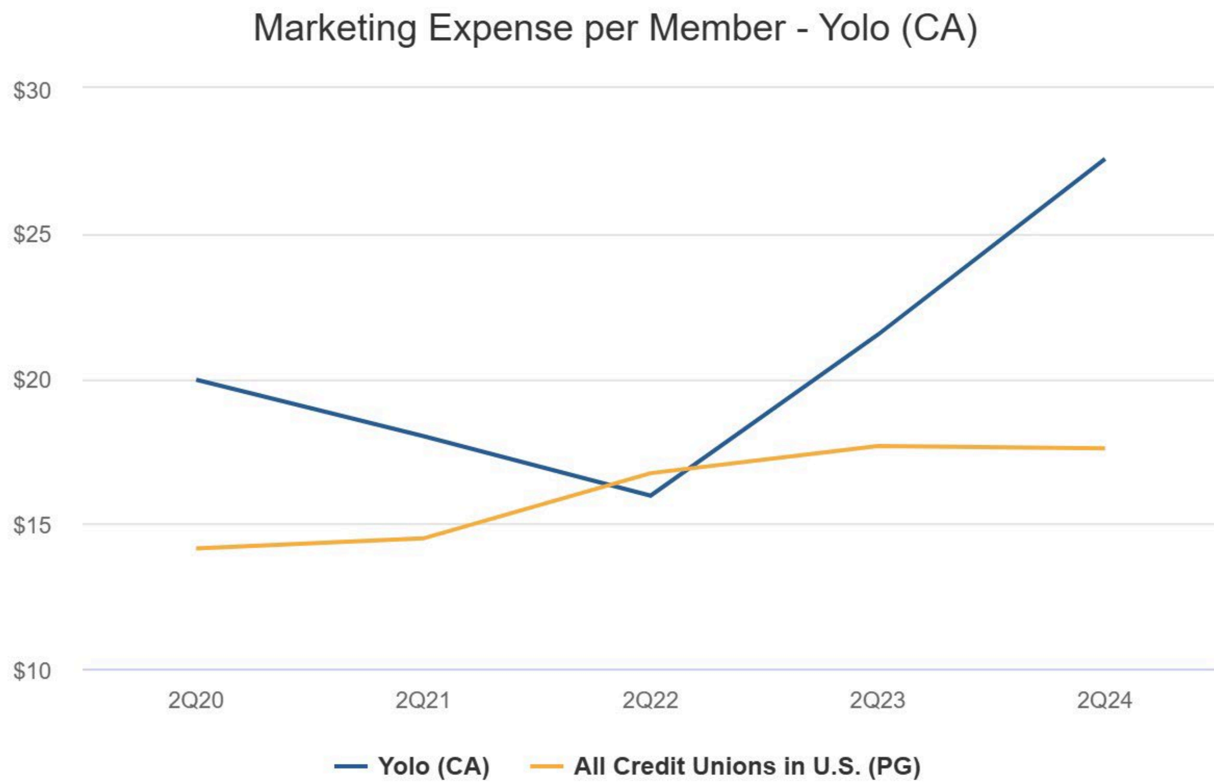
- **a. Member growth (comparison)**
- **b. Members & Product Growth Rates**
- **c. Marketing Expense per Member (comparison)**



Member Growth - Yolo (CA)
5.00%
4.00%
3.00%
2.00%
1.00%
2Q20
2Q21
2Q22
2Q23
2Q24
Yolo (CA)
All Credit Unions in U.S. (PG)



Members & Product Growth Rates - Yolo (CA)
40.00%
30.00%
20.00%
10.00%
0.00%
-10.00%
2Q20
2Q21
2Q22
2Q23
2Q24
12-Month Member Growth
Growth in # of Loan Accounts
Growth in # of Share Accounts



Graph Analysis—Marketing

As a marketer and a passionate advocate for Yolo Federal, it's disheartening to see our member growth rate lagging other credit unions in the U.S. However, I know a large component of this relates to mergers at other credit unions, which impacts the membership growth rates. We did see a membership growth rate of 81 basis points from 2022 to 2024, while other credit unions in the U.S. experienced a decline of 192 basis points (Callahan & Associates, 2024). Our membership growth during those years is primarily a result of our field of membership expansion and our auto loan rates. We also offered extremely low auto loan rates compared to our competitors, and we saw a significant uptick in new members from our indirect lending efforts. This can also be seen in the members and product growth rates graph where loans increased by 2,247 basis points (Callahan & Associates, 2024). While not all of that is from indirect lending, it does account for a major portion of it.

The marketing expense per member graph is a bit unique because it doesn't tell the entire story. At first glance, it appears that Yolo Federal spends significantly more money on marketing than all other credit unions in the U.S. However, we report marketing expenses on the call report that aren't traditionally categorized as marketing expenses. For example, our accounting department classifies printing and the cash back rewards for our Visa Platinum Credit Card as a marketing expense. This can inflate our marketing expense numbers to appear greater than they are. From 2022 to 2024, there was a marketing expense increase of $12 per member (Callahan & Associates, 2024). The increased expense was primarily due to the added marketing costs from our core conversion and field of membership expansion.

L. Risk Mitigation & Compliance

1. What areas of your credit union lead the efforts to assess, monitor, test and report on its risk exposure? What are the processes those areas use to fulfill those roles?

Yolo Federals' Vice President of Risk Management, Jewel Trottier, is responsible for all areas of our risk mitigation. We also use a vendor, Ncontracts, to help assess, monitor, and report risk exposure through their Nrisk platform. Jewel says, "Really, all department managers and executives are responsible for monitoring risk, but Ncontracts helps us document that risk and I oversee the management of our risk assessments to ensure it is completed" (J. Trottier, Personal Communication, January 2, 2025). These risk assessments are submitted by managers and executives. They evaluate if an inherent risk is low, moderate, or high depending on the impact and likelihood of the risk occurring. It also requires mitigating controls for each risk and rating effectiveness and residual exposure. These assessments require an annual review, which is then reported to the Board.

2. What mechanisms exist within your credit union to identify emerging risks in the economic environment and their potential impacts to the institution?

Nrisk sends announcements when they detect emerging risks that could impact us. We also subscribe to several trade organizations, such as America's Credit Unions, that send notices about industry risks. Another critical aspect of identifying risks in the economic environment is managers and executives remaining educated and knowledgeable on the unique risks associated with their business units.

3. What mechanisms exist within your credit union to address the potential member impacts and public reactions to a significant "risk event" that may occur (e.g. extended I.T./phone system failure, temporary unforeseen branch closures, broad scale card breach, a situation resulting in an injury or loss of life, etc.)?

The marketing department plays a significant role in publicly addressing "risk events" that may occur. Yolo Federal has always maintained a strong public relations strategy for these types of situations. This strategy has evolved over the years as the risks have grown and changed. For example, we now have implemented a policy for how we would respond in the event of a cybersecurity attack. Our goal is to have clear communication to help minimize speculation from members and the community. Our communication is expected to be timely and frequent, outline actions taken, and provide reassurance. We have different plans for internal and external communication, as well as a roadmap for how to respond if our systems are unavailable for an extended period of time. We want to provide members and employees with clear and actionable guidance. These are critical mechanisms to help us mitigate the member impact.

4. Describe the process your credit union goes through to assure appropriate compliance with new or updated laws or regulations.

The process is different depending on the type of regulatory or legal change. If it's a simple language update that doesn't change processes, then Jewel will work with our forms vendor to make the appropriate updates. If there is a major update that impacts our members or alters how we do business, then that is typically discussed at the executive level to determine how we want to proceed. For example, California passed Senate Bill 1075 that limits state-chartered credit unions to cap overdraft fees to $14 starting January 1, 2026. Although we are federally chartered and aren't required to comply with this new law, we know there will be a rippling effect. Our Executive Team met to discuss a strategy for how to respond. This will result in a change to our fee schedule, disclosures, budget, core operating system, staff training, and will require employee and member communication. This is the same process we would go through for any other updated law or regulation. Jewel would monitor these processes to ensure we are complying with these changes. We will surely hear from her, with her red pen in hand, if we are out of compliance.

5. You are a developing leader within a business and an industry that is laden with risk on a variety of fronts. As a leader, what single risk area within your credit union that has not been mentioned elsewhere in your project is most likely to keep you awake at night and what can reasonably be done in that area to help you sleep more peacefully?

I believe the most unpredictable risk that is often overlooked and could severely damage a business is reputation management. A reputation can be tarnished for a variety of reasons, including data breaches, poor service, product issues, corporate values that don't align with its targeted audience, a disaster, or even an employee inadvertently saying something they shouldn't. All these things can drastically change the narrative you are trying to control. People can be very unforgiving, and if something goes awry and isn't properly managed, then the negative consumer perception could be difficult to change. How you respond can make or break your business. There are many factors associated with reputation risk, and if any one of them isn't effectively handled, then it could have extreme consequences.

Having a strong reputation management plan can help a developing leader sleep more peacefully. The reputation management plan should include various communication protocols to help respond to issues when they arise. These communication protocols should align with the core values of the organization and be rooted in transparency. It also should detail which employees have the authority to respond on behalf of the business and what information can and cannot be shared. Having a clearly defined escalation guide can also be helpful so employees know who to go to for issues they are unable to resolve on their own. Managing reputation risk requires effort, the ability to understand consumer behavior, and taking proactive action to de-escalate situations with strong communication.

Graphs: There are no graphs required in the Risk Management & Compliance section.

M. Financial Budget & Performance Management

1. How does your credit union's budget get developed, and who is involved? How does the budget get approved? Describe how the approved budget is utilized in the management of the credit union?

Our budget development timeline at Yolo Federal is a 5-month process. We start in August when the executives begin discussing what we expect for the coming year and set priorities. We also review current expenses and revenues to support this conversation. The executives will then meet with their managers to prepare their individual department budgets. All budget requests are due to the CFO, Matt Lane, in September. Matt will then work with his accounting manager to prepare a preliminary budget to include all requests. The preliminary budget is reviewed in October at the annual strategic planning session with the Board. Adjustments will be made to the preliminary budget based on the strategic planning session discussions. The executives will meet again to review the budget and determine if anything needs to be removed so that it aligns with our strategic goal metrics. An updated preliminary budget will be shared with the Board in November. If there are any proposed adjustments, then those will be incorporated, and the budget will be updated again. The final budget is sent to the Board for approval in December.

Our budget is built to align with our strategic growth metrics and includes expenses to help us achieve those goals. It also includes operational costs such as employee salary and benefits, equipment and hardware, professional services, and facilities, just to name a few. The budget balance sheet includes our anticipated asset growth, liabilities and equity, revenue from investments, and other sources of income. Budget scenarios are also an important aspect of the budgeting process. This looks at various scenarios to determine the impact on return on assets

(ROA) and net capital if loan loss expense and net charge-offs double, investment income is 50% less than projected, loan growth remains flat, and rates increase 1% on certificates of deposits. Everything we do at Yolo Federal must align with our approved budget. We have some authority to change what we are doing, but we will need to go to the Board for approval if it significantly strays from the approved budget. We also closely monitor our growth to ensure it is tracking with what we forecasted in the budget. If we start to notice a gap, then it gives us an opportunity to dig deeper and figure out what might be happening to cause that and potentially make some adjustments.

2. What is your credit union's process for managing its revenue streams?

We continuously monitor our actual performance against what we forecasted in the budget. Sometimes we will notice something is not trending the way we expected it to. If that happens, then it gives us an opportunity to dig deeper and figure out what might be causing that and potentially make some adjustments to improve revenue. Matt says, "Sometimes it's just an inaccurate budget estimate, and it's something we need to fix internally to get that revenue returning to us. It could also be an anomaly that we need to address" (M. Lane, Personal Communication, January 24, 2025).

3. What is its process for managing its operating expenses?

The process for managing operating expenses is similar to how we manage revenue streams. We monitor operating expenses each month and look for variances between what we expect and what is happening. If expenses are greater than what we budgeted for, then we can investigate further to ensure we understand the reason. We also utilize a program called Avid Ascend that helps us manage operating expenses. All credit union purchases require a corresponding receipt and approval from the manager and/or executive. These approvals are routed through Avid Ascend, which adds a layer of visibility to the operating expenses because multiple people are reviewing these purchases.

4. Describe the process at your credit union for determining and approving the types and dollar amount of capital expenditures it makes.

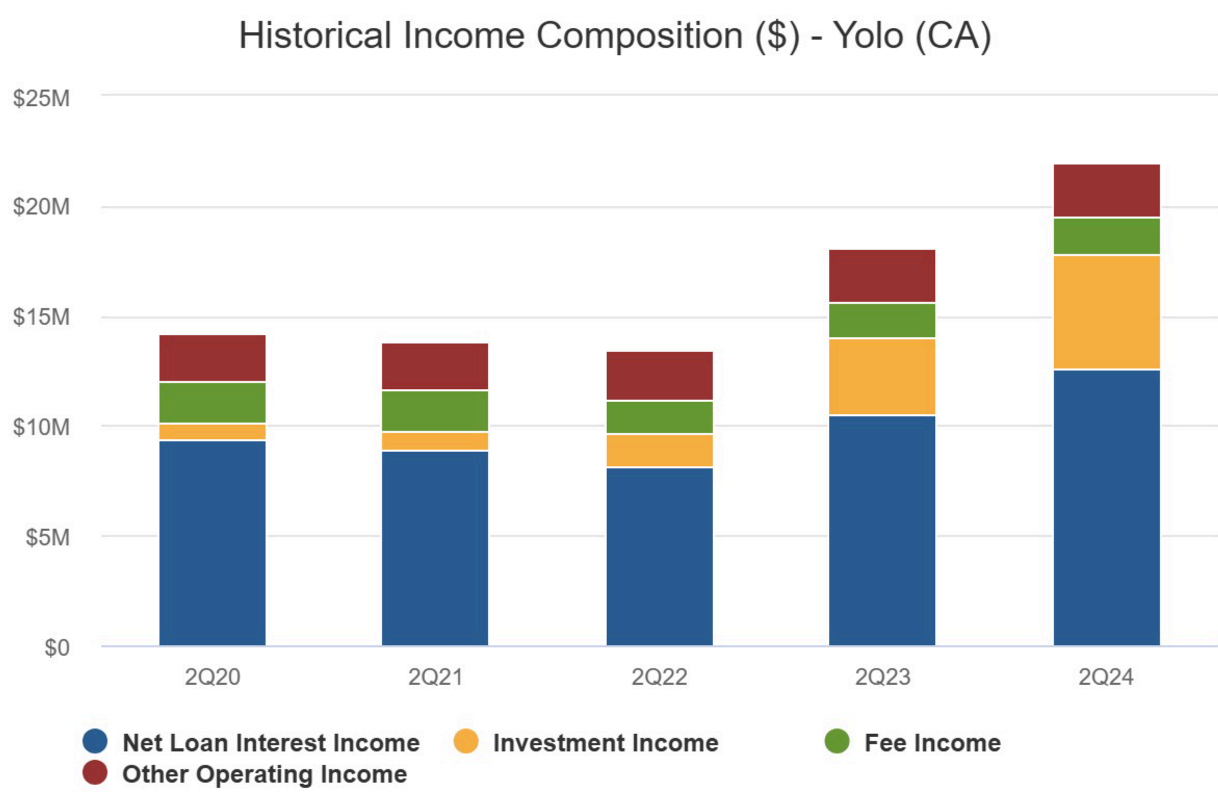
Capital expenditures can have a massive impact on our budget. They typically cost a lot of money, so our primary focus is to ensure the value outweighs the cost. Some of our budget's most costly capital expenditures are typically related to technological enhancements. Matt says, "If we don't evolve technology, then we can't remain competitive. Capital expenditures come down to value and necessity" (M. Lane, Personal Communication, January 24, 2024). We must know what impact this will have on our bottom line if we spend money. All capital expenditures are evaluated against our strategic goals and included in the budget that the Board approves.

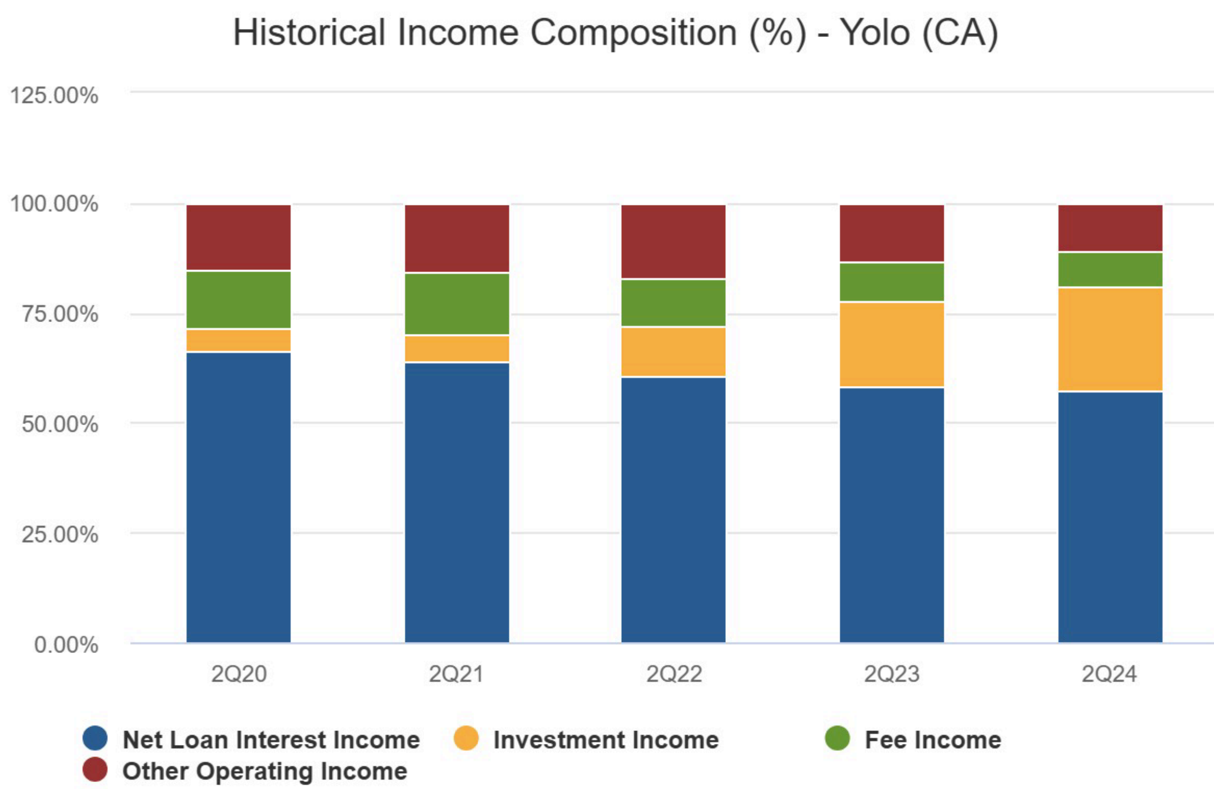
5. What financial metrics does your credit union's Board of Directors use to assess the success of the institution? What non-financial metrics does it use?

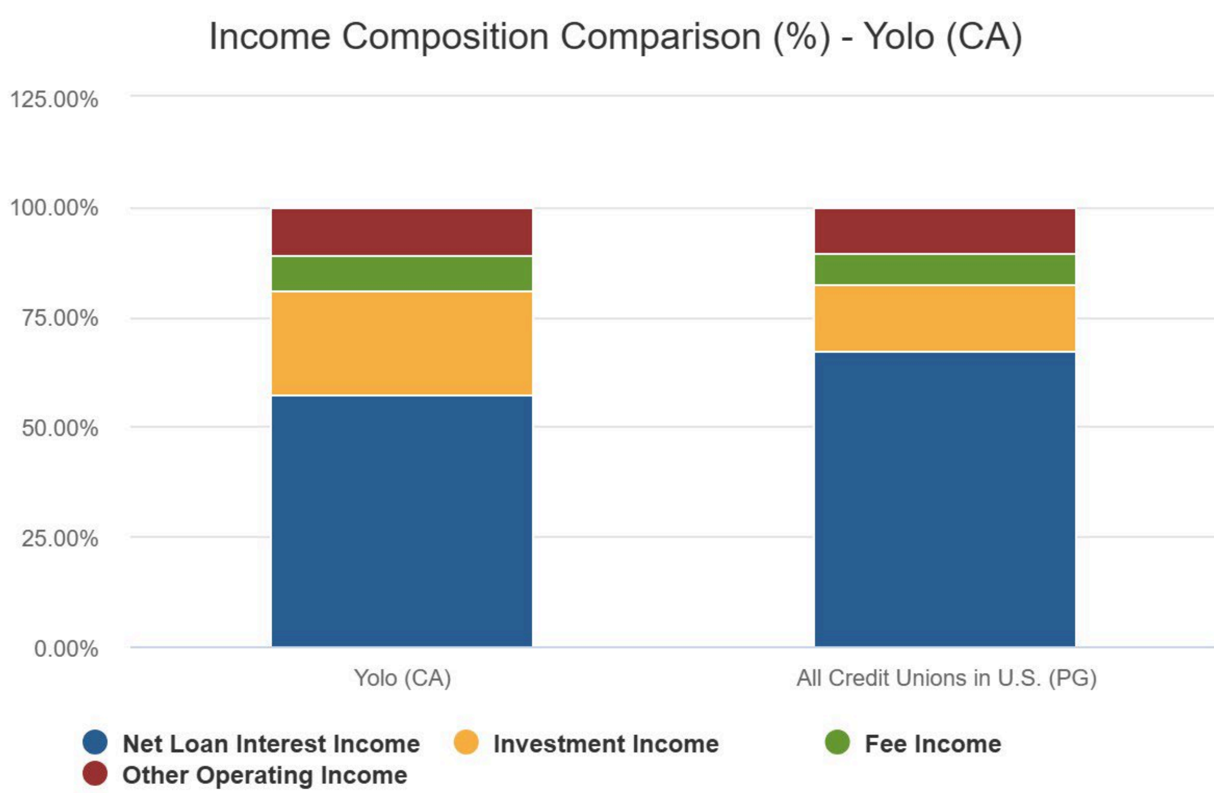
Our Board focuses on the financial metrics of the loan-to-shares ratio, annual net charged-off ratio, and the annualized return on assets. These metrics are important because our goals are derived from them, and they help our Board monitor our success. The Board receives quarterly updates on these metrics at the Board meetings. The non-financial metric that our Board focuses on is our Net Promoter Score (NPS). The NPS is a marketing metric that measures member loyalty and satisfaction. We ask them on a scale from 0-10, how likely they are to recommend us to a friend. Their response is translated into a score from -100 to +100. We continuously review peer benchmarks to ensure we stay above average.

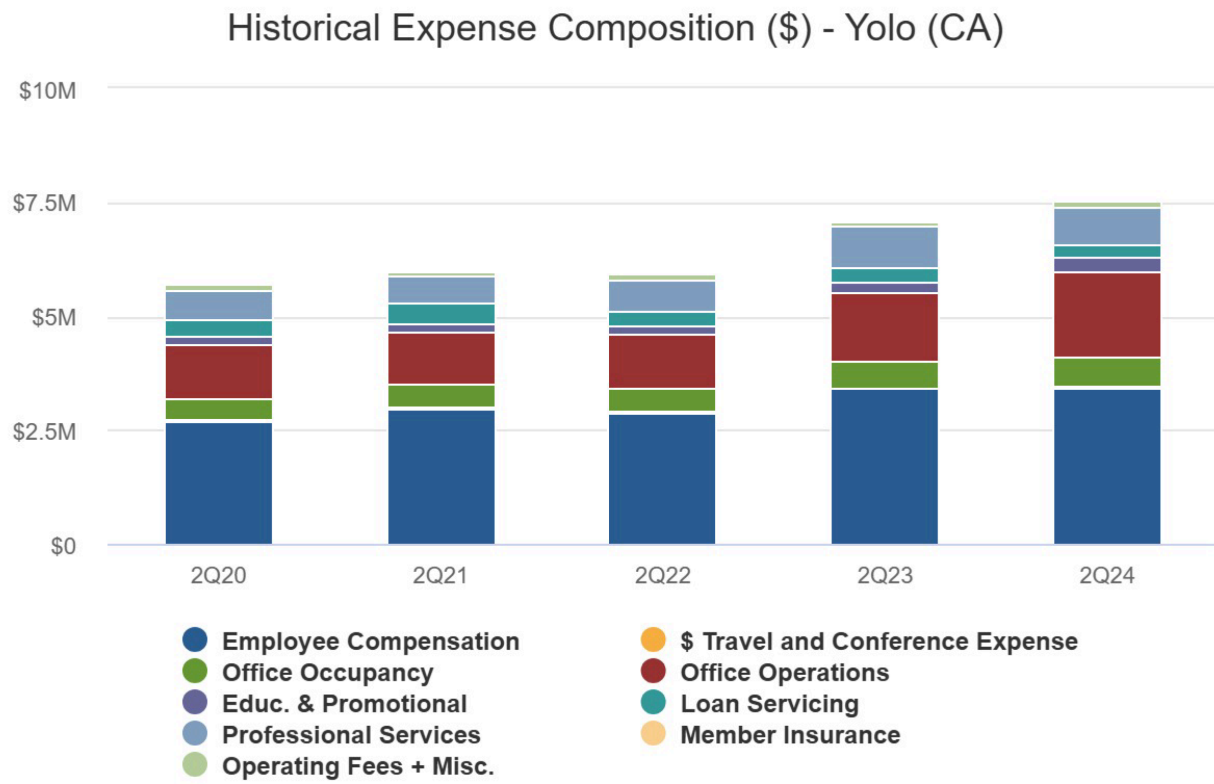
6. Graphs: This section requires inclusion AND written analysis of the following graphs:

- **a. Historical Income Composition ($)**
- **b. Historical Income Composition (%)**
- **c. Income Composition Comparison**
- **d. Historical Expense Composition ($)**
- **e. Historical Expense Composition (%)**
- **f. Expense Composition Comparison**
- **g. Spread Analysis (as a % of Avg. Assets) Comparison**

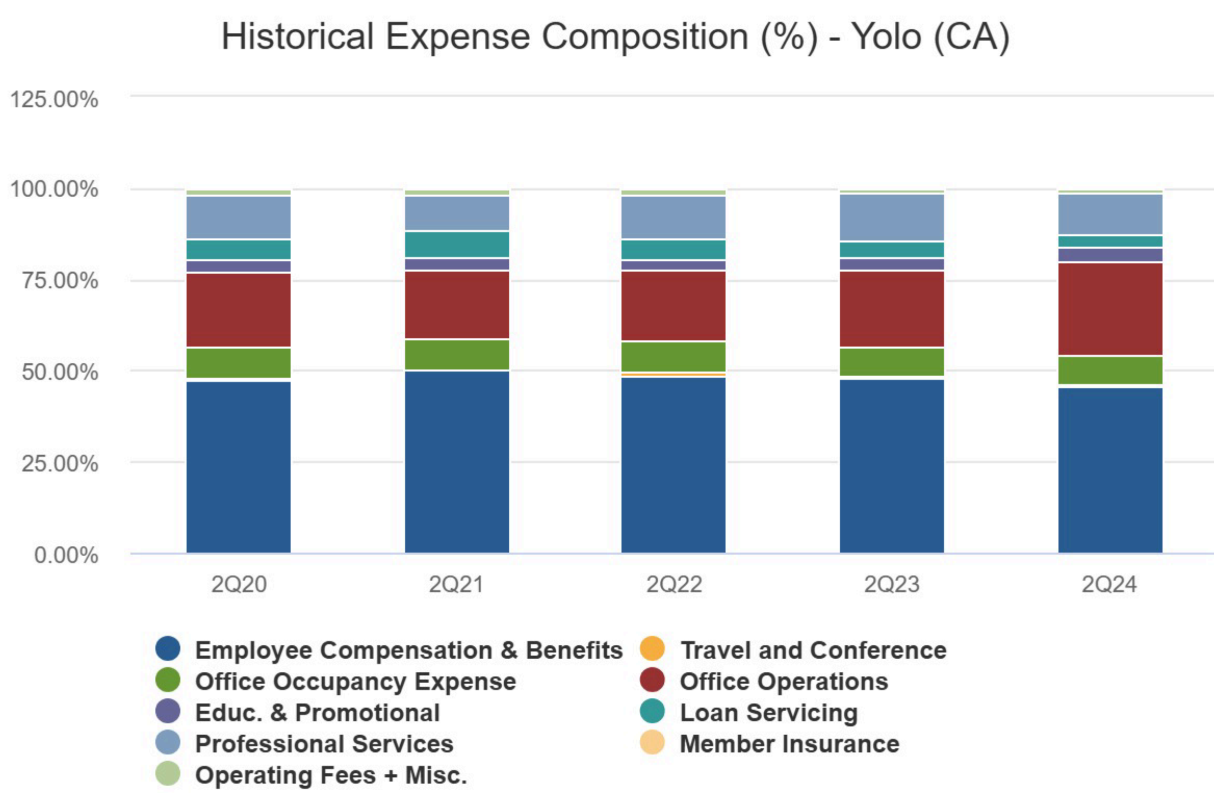



Historical Income Composition (%) - Yolo (CA)
125.00%
100.00%
75.00%
50.00%
25.00%
0.00%
2Q20
2Q21
2Q22
2Q23
2Q24
Net Loan Interest Income
Investment Income
Fee Income
Other Operating Income

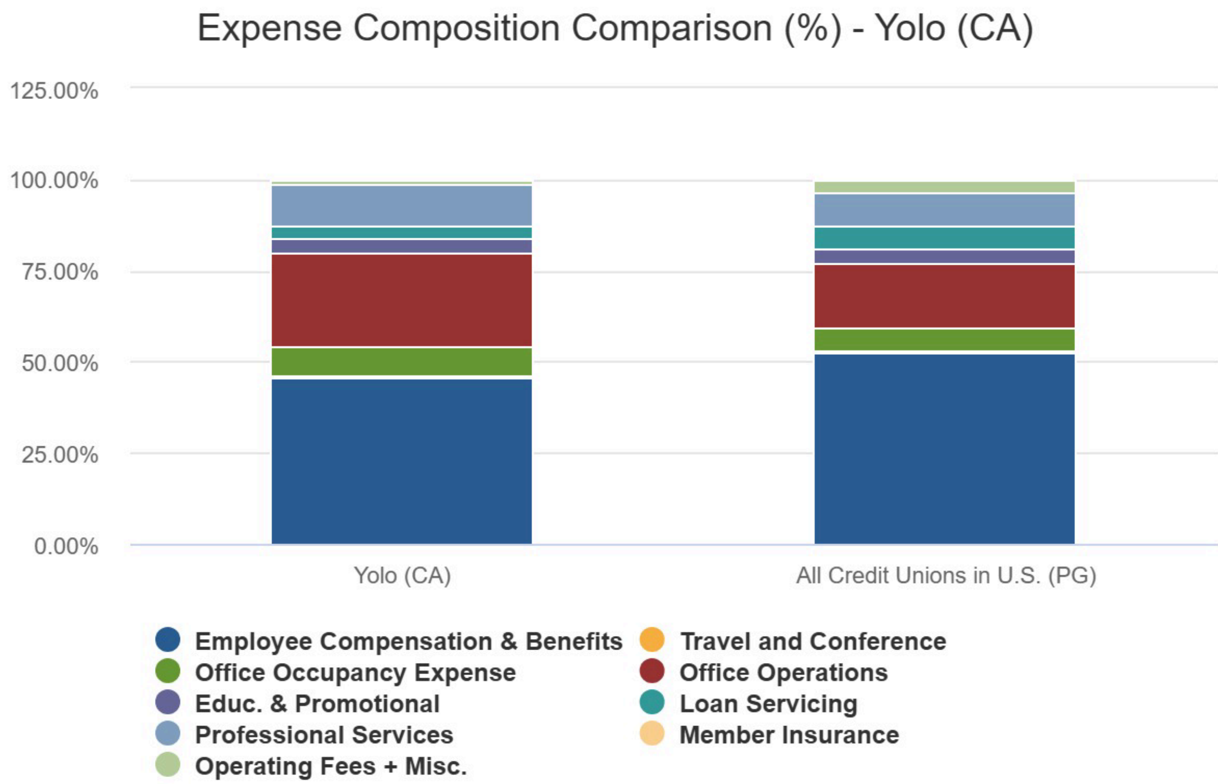

Income Composition Comparison (%) - Yolo (CA)
125.00%
100.00%
75.00%
50.00%
25.00%
0.00%
Yolo (CA)
All Credit Unions in U.S. (PG)
Net Loan Interest Income
Investment Income
Fee Income
Other Operating Income



Historical Expense Composition ($) - Yolo (CA)
$10M
$7.5M
$5M
$2.5M
$0
2Q20
2Q21
2Q22
2Q23
2Q24
Employee Compensation
Office Occupancy
Educ. & Promotional
Professional Services
Operating Fees + Misc.
$ Travel and Conference Expense
Office Operations
Loan Servicing
Member Insurance



Historical Expense Composition (%) - Yolo (CA)
125.00%
100.00%
75.00%
50.00%
25.00%
0.00%
2Q20
2Q21
2Q22
2Q23
2Q24
Employee Compensation & Benefits
Office Occupancy Expense
Educ. & Promotional
Professional Services
Operating Fees + Misc.
Travel and Conference
Office Operations
Loan Servicing
Member Insurance



Spread Analysis (as a % of Avg. Assets)		
Formula	**Yolo (CA)**	**All Credit Unions in U.S. (PG)**
Loan Income	2.95%	4.04%
Plus: Investment Income	1.20%	0.89%
Total Interest Income	4.15%	4.93%
Less: Dividend Expense	0.87%	1.58%
Less: Borrowed Money Interest	0.18%	0.30%
Net Interest Margin	3.09%	3.06%
Less: Operating Expenses	3.51%	2.98%
Less: Provision for Loan Losses	0.00%	0.57%
Plus: Other Income/Expense	1.08%	1.19%
ROA	0.67%	0.69%

Graph Analysis—Financial Budget & Performance Management

Most of the fluctuations in our income composition over the past 4 years have been from net loan interest income and investment income. Our net loan interest income increased nearly 50% from 2022 to 2024 (Callahan & Associates, 2024). This was primarily due to increased lending activity and a higher rate environment that helped improve our yield on loans by 125 basis points (Callahan & Associates, 2024). Our investment income increased nearly 99% from 2022 to 2024 (Callahan & Associates, 2024). We began investing more money since we had an influx of deposits. Fee income and other operating income have remained steady without any major variances.

The spread analysis comparison between Yolo Federal and all other credit unions in the U.S. shows that our ROA is similar, but there are stark differences between our income. Our loan income is 109 basis points lower than other credit unions, but we make up for this with our investment income, which is 31 basis points higher than other credit unions (Callahan & Associates, 2024). Our interest income is 78 basis points lower, which can be traced back to our low rates that earn a smaller yield than other credit unions (Callahan & Associates, 2024). Our conservative underwriting practices also have an impact on our interest income since a major portion of our loan portfolio is tiers 1 and 2, resulting in a lower yield on loans. Our dividend expenses are 71 basis points lower than other credit unions, which helps us maintain a net interest margin that is 3 basis points higher than other credit unions (Callahan & Associates, 2024).

N. Vendor Management/Credit Union Service Organizations (CUSO)

1. Who is responsible for maintaining the credit union's vendor management program? What is its process for engaging new vendors? What is its process for renewing relationships with existing business partners? Besides cost, what other aspects does your credit union use to determine the value delivered by its current vendors?

The Vice President of Risk Management, Jewel Trottier, maintains our vendor management program but all other executives and managers are involved. When a department wants to engage a new vendor, the executive or manager will most often send a Request for Proposal (RFP) to several vendors with a deadline for submission. The RFP will usually provide a brief background on who we are, an overview of what we are looking for, contact information, relevant dates, goals, objectives, and requirements. Once the RFPs have been returned, the manager or executive will review them and make a final decision regarding who they will complete due diligence on. The due diligence report asks a series of questions to gauge risk, impact on investment, a review of financial statements and a background check for the vendor, an insurance assessment, reference checks, and a legal review. We also use Ncontracts to help us complete due diligence on high-risk vendors. The process to renew relationships is a much more simple process. The executive or manager will evaluate the existing relationship and review the renewal contract to ensure it meets our expectations.

A cost benefit analysis is completed on the value being delivered by our vendors. Sometimes there is an obvious answer to where the metrics show we are earning more than we are paying the vendor. In other situations, it isn't as clear-cut because the value is intangible or qualitative. Our return on investment might be in the form of improved efficiency, member satisfaction, or we determine it's just the cost of doing business.

2. How does the existence of CUSOs benefit the credit union industry?

Credit Union Service Organizations (CUSOs) were created to maximize on the credit union philosophy of "people helping people." Not only do they benefit the members of credit unions, but they also help credit unions succeed by providing them with helpful resources and income opportunities. It can help bridge a gap for credit unions who need support in a specific area of their credit union or are trying to reach certain goals. For example, a small credit union might not have the resources for a marketing department. They might use a CUSO to help them with their marketing efforts, which could help them keep their marketing costs lower while they are trying to grow. Conversely, a larger credit union with more resources might establish a CUSO that is focused on marketing support, which can help them increase their income.

3. What CUSOs, if any, does your credit union have equity (i.e. ownership) in? What are the general services those CUSOs provide to the credit union?

We have ownership in a Private Investment Fund (PIF) through the CU Business Group. The purpose of the PIF is to create additional commercial lending opportunities for credit unions. The credit unions will hold commercial real estate loans that are expected to provide a premium yield. Credit parameters and loan structures are in place to mitigate risk. We have the benefit of earning a higher loan yield with minimum effort on our part. We also recently established our own CUSO called Alliance Support, LLC. Our goal is to provide technological support to smaller credit unions and other businesses. Think of it as the "Best Buy Geek Squad" but for the credit union industry. We are still in the early stages of formulating this CUSO, but we believe we can make a difference for those struggling with their technology resources or needing enhanced support.

Graphs: There are no graphs required in the Vendor Management/CUSO section.

O. Laws, Regulations & Advocacy

1. Which state or federal governmental agency is your credit union's primary regulator and what specific statue (i.e. law) gives that agency the authority to regulate your credit union?

President Theodore Roosevelt once said, "Keep your eyes on the stars and your feet on the ground" (Roosevelt, 1904). Thirty years later, his distant relative, President Franklin D. Roosevelt, did just that. He dreamed of helping working-class Americans and made it happen when he signed the Federal Credit Union Act into law. The Federal Credit Union Act was a part of the New Deal that aimed to help people suffering from the Great Depression. It created a structure for credit unions to operate in the United States, which would give people of small means access to affordable loans and banking services. This new law included the creation of the Bureau of Federal Credit Unions, now known as the National Credit Union Administration (NCUA). "The Federal Credit Union Act is the rare legislation that's still important 90 years later," said NCUA Vice Chairman Kyle Hauptman. "Credit Unions themselves have been in America for 115 years. Our job at the NCUA is to ensure that Americans can continue to have a wide array of unique options for their banking needs" (NCUA Newsroom, 2024). Yolo Federal was established as a federal credit union, regulated by the NCUA, 20 years after the Federal Credit Union Act became law.

2. Discuss the role your credit union currently plays in advocating for or against proposed legislative and regulatory changes that could effect it? Which individuals (provide their names and titles) lead that effort, and why does that responsibility reside with them?

The Executive Team at Yolo Federal closely monitors legislative and regulatory changes that could impact the credit union industry. While many of our Executives are involved with advocacy in various ways, we don't have anyone formally designated to lead these efforts. If there is a proposed change that we are passionate about, then our CEO, Jenee Rawlings, might consider sending a letter to our legislators expressing support or concern. Jenee also attends various advocacy events, such as the Government Relations Rally. Our CFO, Matt Lane, has also "Hiked the Hill" for credit union advocacy in Washington, DC while attending the Governmental Affairs Conference hosted by America's Credit Unions. Our Board Member, Xochitl Rodriguez, is also interested in political advocacy. She has considered representing Yolo Federal at Capitol-to-Capitol (Cap-to-Cap), which brings together community leaders in Sacramento to advocate for important issues on Capitol Hill.

3. What impacts have legislative and regulatory changes affecting the credit union industry had on your credit union, employees and members over the past 5 years?

There are several legislative and regulatory changes that have affected Yolo Federal over the past 5 years. The Current Expected Credit Losses (CECL) accounting standard went into effect for credit unions in 2023. CECL stems from the Dodd Frank Act that was enacted in 2010. The Dodd Frank Act addressed transparency issues with financial institutions and made changes to protect consumers. This helped to clear up deficiencies in the financial system, but there was a missing key element. Prior to CECL, financial institutions predicted future losses based on historical data, which could become a problem if loan losses rapidly increase and they aren't prepared for it. CECL was developed to solve that problem from an accounting standpoint. Rather than only looking to the past to predict future losses, financial institutions now need to look at the past, present, and future data. This requires financial institutions to assume a percentage of their loans will go bad, and they record those losses now instead of in the future. Our Accounting department had to invest in software that would help them comply with CECL, and they had to undergo additional training. This also had an impact on our financial metrics when it went into effect. Our CFO, Matt Lane, said, “We were allowed a one-time adjustment against retained earnings, rather than running it through the income statement. This reduced our capital by 15 basis points” (M. Lane, Personal Communication, April 2, 2025).

Cybersecurity regulations have continued to expand as cyber threats become increasingly common. The most recent change that impacted us was the Cyber Incident Notification Requirements from the NCUA. As of 2023, all federally insured credit unions are required to notify the NCUA of a cyber incident no later than 72 hours after it occurred. Cyber incident has a broad definition under the NCUA and could involve anything from a data breach to a ransomware attack. Credit unions must include the include the cyber incident notification in their response plan, and employees must receive relevant training on how to comply. All cyber incidents must also be appropriately documented. Credit unions are audited by the NCUA to ensure compliance with these cybersecurity regulations. At Yolo Federal, we updated policies and procedures to ensure compliance. Our employees were also affected because additional training was needed.

Not all regulatory changes have a negative impact on us; there are some changes we celebrate because they support our growth or help us improve operations. One of those changes being the amended field of membership rules to include a combined statistical area (CSA). According to the NCUA, “Beginning October 14, 2020, prospective and existing federal credit unions seeking a community charter may use a CSA or portions of a CSA (within certain limitations, as defined in the rule) as a basis for defining their proposed service area without documenting how a CSA’s residents interact or share common interests. The Board’s approval of this final rule will facilitate greater access to safe and affordable financial services for all

Americans" (NCUA Regulation & Supervision, 2020). The regulation was much stricter prior to this change, which made it difficult for some credit unions to expand. This change allowed us to apply for a field of membership expansion with a CSA, and we were approved in January 2023. Our field of membership changed to include 3 more counties so that we now serve the counties of Yolo, Sacramento, Placer, and El Dorado.

Another positive regulatory change that impacted us is when the NCUA amended the federal credit union bylaws that allow for member expulsion. The change broadened the reasons someone can be expelled, which includes dangerous and abusive behavior. It also allows for a member to be expelled by a two-thirds vote of the Board. This change went into effect on August 25, 2023. Prior to this change, it was extremely difficult to expel a member since it required a two-thirds vote of the membership at a special meeting. There were several problems with the previous regulation. The most critical issue is that members who have poor conduct often need to be dealt with quickly. As the executive over operations, I have personally dealt with the unruliest of members. Everything from people stripping down to their underwear in our branch to yelling obscenities at our staff and threatening violence. These are not situations where you would want to wait to call for a special meeting for a vote by your membership. Our employees should feel safe while at work, and promptly addressing member issues helps to protect them. Yolo Federal's Senior Branch Manager, Aubrey Scott, says, "Having the support of our Executive Team and Board is huge. It shows they care about our staff, and they aren't silent when a member issue needs to be addressed" (A. Scott, Personal Communication, April 2, 2025). Our Board is always quick to respond if we need their approval to expel a member.

4. Discuss what you personally do today to try to improve credit union statutes and regulations, and how you might additionally engage in that process in the future. In such advocacy something you are interested in? Why or why not?

My current involvement with improving credit union statutes and regulations is limited. Not because of disinterest but I've been focused on other priorities in my role. However, last year I met with California Congressman Mike Thompson to discuss credit unions and some of the challenges we experience. It was an engaging conversation, and I appreciate his willingness to have a face-to-face conversation with me. I will consider other advocacy opportunities where I believe I can have an impact. We are located only 20 minutes from the California State Capitol, and there are advocacy events occasionally held there that I could attend. I'm interested in credit union advocacy because I know the difference it can make in the lives of our employees and members.

Graphs: There are no graphs required in the Laws, Regulations & Advocacy section.

P. Social Impact

1. Do you believe a credit union should be involved in efforts to impact the well-being of people beyond delivering financial services to its members? Why or why not? Describe any such efforts your credit union puts forth within your membership and/or the community at large. How does the credit union benefit from these efforts? What challenges do they bring about for the credit union and its employees?

British Poet Nikita Gill is attributed with saying, "We have calcium in our bones, iron in our veins, carbon in our souls, and nitrogen in our brains. 93 percent stardust, with souls made of flames, we are all just stars that have people names" (Nikita Gill Quotes, n.d.) Credit unions understand that we serve people and not account numbers. The world is filled with people who have dreams, feelings, struggles, and challenges to overcome. Every person is unique and deserves to be treated as such. This means that we have a responsibility to help improve their well-being beyond financial services.

Edward Filene says, "Frequently, we get to thinking about wealth as things—especially things that people want. But that is a little to one side of the facts. Wealth consists of things people want *and which are available to them.* There may be many things on the moon which we could use if we could get at them; but until we can discover a way of getting at them, we cannot reckon them as wealth (Filene Reports, 2008). Financial institutions tend to focus on how their products can help someone reach a goal. That is a very tactical approach for those who are qualified for the product. What about the people who want to access a product but were never taught how to manage their finances? Suppose someone wants to get a loan to purchase their first home, but their poor financial habits result in an abysmal credit rating, and they never had the knowledge to develop good savings habits. That home might as well be located on the moon because they'll have a difficult time accessing it. Helping someone achieve wealth is more than offering financial products at great rates. Credit unions should have a holistic approach to help someone improve their well-being long before they ever need us for our products.

At Yolo Federal, we provide financial wellness education in various forms. We offer an online platform called Achieve, where people can learn about different financial topics. This ranges from how to build a budget to climbing out of debt and buying a home. This program is available to anyone in our community, regardless of their membership status. We also partner with local schools to educate kids about smart financial habits. Our goal is to help our community be financially wise so that when the time comes for them to use one of our products, they are in the best position possible to be successful.

People first need to trust you before they are willing to learn from you. At Yolo Federal, we establish and nurture relationships within our community so that people have confidence in us. We do this by giving back monetarily and through volunteerism. We donate to local non-profits that make a positive impact on our community. We also give our employees 20 hours of paid volunteer time per year. We want our dollars and employees to make a difference in the lives of our community members. We boost our reputation in the community when we help people beyond the minimum expectation of delivering financial services. We benefit from this approach just as much as they do. The only challenge I see is that we must understand that we are operating on delayed gratification. It's a marathon, not a sprint, but eventually, we will see our community achieve financial success. To quote Spock from Star Trek, we want to see the people in our community "Live long and prosper" (Nimoy, 1984).

Graphs: There are no graphs required in the Social Impact section.

III. Research Component

Embedded Finance describes the blending of banking products or services into a non-financial transaction. Examples include: Buy Now, Pay Leter (BNPL), point-of-sale lending (such as indirect auto loans) or insurance offerings (such as travel insurance), even loading cash on your Starbucks app. By incorporating the financial product/service directly into the customer experience, embedded finance seeks to reduce frictions and improve overall customer satisfaction. While embedded finance offers many possibilities for consumers, it will reduce member utilization of traditional credit union products like credit cards and other loans. Your 2025 research section allows you to explore how embedded finance may affect your credit union in the years ahead.

1. In your own words, in two pages or less, briefly describe embedded finance, its benefits for consumers and some examples of embedded finance.

For many years, credit unions focused on member journey mapping to evaluate their experience in the branch and through digital channels. The purpose was to understand the process a member goes through when they engage with us and identify gaps or pain points. This worked well to improve the member experience, but it often lacked innovation that would deepen engagement and truly transform the experience. Other companies caught on to the fact that we were missing the beat, and they began embedding financial products into the products they deliver. According to an article published by EY, “Their goal is to amplify brand loyalty and customer stickiness; increase conversion; and generate repeat purchases” (EY, 2023). Some of the most popular brands in the world are led by out-of-the-box thinkers who understand how to create a seamless experience that doesn’t require involvement from traditional financial institutions. Consumers take the bait because we live in a fast-paced world, and any relief to our overstimulated brains is appreciated. Even if there is a price to pay. These days, convenience beats thrift. The numbers substantiate the claims that people are paying for these seamless transactions. According to Forbes, “The embedded finance market is valued at $58 million, showcasing its substantial impact on the fintech industry. Looking to the future, this market is projected to expand at a compounded annual growth rate of 29% from 2023 to 2032" (Beck, 2024).

Embedded finance covers many categories: lending, insurance, and investments. Most people think of Venmo or Apple Pay when it comes to payments, but I think one of the more intriguing examples comes from the Amazon ecosystem. Amazon One and Amazon Go work in harmony together to enhance the shopping and payment experience. The Amazon One account is configured with payment information that is connected to your biometrics. Your transaction is completed when you hover your palm over the payment device. This also allows you to enter an Amazon Go store to grab the items you need and then walk out when you are finished. Many consumers utilize Buy Now Pay Later through companies like Klarna without realizing this is technically a loan. Insurance products are also becoming embedded into products, most notably for travel insurance. The travel industry has experienced an array of issues since the pandemic, which means more people are utilizing travel insurance for extra peace of mind. Companies like Revolut offer the option to easily purchase travel insurance. Revolut also promotes investing with the ability to buy stocks and cryptocurrency through their product. According to Deloitte and the Institute of International Finance (IIF), these types of companies have capitalized on 'moment of need' matching. "When done right, embedded finance delivers the right product/service bundle to the customer in the precise moment of need, or at the moment when a key financially linked decision is being made" (Deloitte & IIF, 2023).

2. Discuss four of the most significant threats where you see embedded finance may disrupt your credit union's ability to serve its membership. Do you have evidence that specific behaviors of your credit union's membership have already shifted in response to embedded finance? Is your credit union currently taking any steps in response?

Credit unions are recognizing that we need to partner with embedded finance companies rather than trying to compete with them. Partnerships have been formed so that credit unions can offer embedded finance services to their membership, but this comes with several risks. According to a 2024 report by Alloy, regulatory scrutiny on embedded finance is impacting financial institutions. They say that "Reputational damage often results in increased regulatory scrutiny, including more frequent examinations and document requests. This heightened oversight can strain resources and pose ongoing operational challenges" (Alloy, 2024). The regulatory scrutiny and reputational risks have slowed the adoption of embedded finance at Yolo Federal. The issue is that members do not care about these risk factors. They see other companies offering it so they expect we should too. If we choose not to because of the regulatory risks associated with it, then this could threaten our growth and reputation. In response, we pay close attention to regulatory risks and reputation management when we evaluate potential embedded finance partners.

Payment solutions that use embedded finance, such as Venmo and Apple Pay, are another significant threat that may disrupt our ability to serve members. I've mentioned this previously, but when the word Venmo becomes a verb (Venmo me!), there's a problem. Competing against Venmo and Apple Pay is almost laughable at this point. Rather than trying to scale that mountain, we have taken alternative steps in response. Our strategy now is to get our members to input their Yolo Federal account information into their Venmo and Apple Pay wallets. A key element of this is our connection with Plaid. Plaid, also an embedded finance company, allows our members to securely link their Yolo Federal account as their preferred financial institution to move money.

Cryptocurrency is another embedded finance threat that we are closely monitoring. Several platforms offer the ability to purchase cryptocurrency. Companies such as Cash App allow the easy purchasing of cryptocurrency directly within their app. We often receive inquiries from our members about cryptocurrency, so we explored options for our members to buy, sell, and hold cryptocurrency within our online banking and mobile app. We ultimately chose not to implement it due to reputation risk concerns. Cryptocurrency has been volatile and isn't insured by the NCUA. We are hesitant to offer an unpredictable product that could negatively impact our members' finances and harm our reputation. Despite the issues with cryptocurrency, we know it is still growing in popularity. At some point, our members might expect us to offer this to them

There's also a growing misalignment of products being developed and the demographics of our membership. At Yolo Federal, we are committed to offering products, such as embedded finance, that resonate with a younger demographic so that we can "grow younger." Like many other credit unions, we have an ageing membership. Only 24% of Yolo Federal members belong to Generation Z (born 1997-2012) and Generation Alpha (born 2013-2024) (Yolo Federal Marketing Customer Information File, 2024). As we transform our product offerings to meet the needs of a younger generation, we could experience growing pains with our existing membership base. While this could disrupt the service we provide to our members now, we are trying to prepare for the future by considering embedded finance products that will attract younger consumers.

We have an abundance of transactional data that shows our members are using embedded finance. We are also constantly supporting them when they encounter an issue with an embedded finance product that impacts their Yolo Federal account. Gone are the days when people had a Primary Financial Institution (PFI). Their banking relationship is more like the solar system. The consumer is the sun at the center, and the planets are the credit unions, banks, and fintechs, all rotating around their desires and needs.

2. Discuss two specific opportunities within your field of membership where your credit union might leverage embedded finance to better serve its membership in a new way. (For credit unions already engaged in indirect lending, please do not include indirect lending unless you are proposing a significant change in what you already provide.) Briefly evaluate each of your two proposals. Do you have evidence that your credit union's membership might be interested in these opportunities? Would you expect the idea to be technologically feasible and financially viable? What reputational and other risks or benefits would you expect from implementing your ideas?

Buy Now Pay Later is an embedded finance product that we could leverage to better serve our members. Before Buy Now Pay Later, when people didn't have the money to purchase something, they would either save money and wait, take out a small personal loan, or use a credit card. Consumer behavior is now shifting because they essentially have immediate access to a small loan and can feed the beast that is instant gratification. We know our members at Yolo Federal are already shifting their behavior. In 2023, we analyzed the utilization of Buy Now Pay Later and found that we had over 3,200 transactions being sent to these providers per month (Yolo Federal Marketing Customer Information File, 2024). It's clear that our members are using this type of product. There are several third-party vendors we can partner with to offer this to our membership. There is a company called Equipifi that offers this type of product for credit unions. Partnering with Equipifi would make it technologically feasible to implement. I expect it will also be financially viable since we could set the pricing to ensure a return on investment.

My only concern with implementing Buy Now Pay Later with Equipifi is product adoption and mission alignment, which could affect our reputation. While the product is intriguing, I'm concerned that it may not be well utilized because of the way it is structured. Our members would need to first make the purchase with their debit card, and then they can choose an installment plan after the transaction processes. This operates differently than other Buy Now Pay Later programs that allow you to select the installment plan before purchasing. I also question whether this product aligns with our mission to help members achieve financial success. On the one hand, we would be giving them a tool to defer payments that could help them when they need additional support. This could be a good solution for someone who needs help making ends meet. On the other hand, do Buy Now Pay Later products enable poor money management habits? However, if we don't offer this product, they will still likely access it somewhere else.

Another opportunity for us to leverage embedded finance is to adopt point-of-sale loan originations. We have already been successful with indirect auto lending for many years, which is evidence that members are interested in this type of point-of-sale loan origination. Implementing point-of-sale loan originations for other purchases could follow that same path of success. Other credit unions are starting to take a closer look at embedded lending for point-of-sale loan originations, and some are experiencing rapid growth because of it. According to a case study by FintechOS, "Vibrant Credit Union originated over $40 million in loans within six months of implementation, with projections of reaching $100 million in 2024" (Reed, 2024).

Partnering with a company like FintechOS would make this product technologically feasible and financially viable for us. FintechOS claims they "Accelerate and lower the cost of digital product delivery with a low-code/no-code builder that enables anyone to create and launch data-driven financial and insurance products and customer journeys" (Reed, 2024). We don't have the internal resources to create this type of platform on our own, so partnering with a company like FintechOS would be critical to implementation.

We are surrounded by locally owned businesses in the communities we serve and could start offering these point-of-sale loan originations for them. Small businesses have limited resources, which often impacts the technology they use and can strain their growth. If we can make their sales process easier with this type of technology, then we could help them compete at a higher level against big box stores. This would enhance our reputation while simultaneously strengthening local businesses. Point-of-sale loan originations also align with our mission to help members achieve financial success because more people would have easy access to a loan from us with a low rate to help them save money.

IV. Your Conclusions

A. What were THREE key takeaways about your credit union that you discovered as a result of completing this project?

As a Yolo Federal Executive Team member, I already have regular interactions with our senior leaders and engage in strategic discussions. Despite that, I wanted to understand every facet of our credit union on a deeper level. I met with my fellow executives in person to *really* dig into the business units they oversee. These conversations were filled with honesty, insightfulness, and a bit of laughter. I left those interviews in awe of the people who I get to claim as my colleagues. This project also allowed me to travel back in time and learn more about our founders. I listened to hilarious stories from our Board Chairman, Bill Schemel, and his early days as a hippie chairman. I leaned into the wisdom and knowledge my CEO, Jenee Rawlings, shared with me. I have been grateful for Yolo Federal since my first day working in a cubicle as a marketing coordinator. Yet, as I sit here today, typing at my desk as the COO, nearing completion of my project, I'm somehow even more grateful. That's because I have learned at a more granular level our dynamic history of people wanting to make a difference and seeing how the same holds true today.

My second takeaway is that we must be committed to digital transformation. There are some areas within Yolo Federal where we are slow to adapt. The research component about embedded finance opened my eyes to emerging threats. This is more than just digitizing traditional banking products; we must think outside the box to meet our members where they're at. We need to think like a fintech while maintaining the values and structure of a credit union. If we do that, then we'll beat the fintechs every time.

My last takeaway is that numbers don't tell the whole story. I hope my "outer space" theme that I've sprinkled throughout my project is evident by now, so I'll use the following as an example. If we are sitting on a beach with our toes in the sand while we stare at the night sky, we might assume there are more grains of sand on the Earth than stars in the sky. We have a limited view of outer space but an expanded view of what is here on Earth. The reality is that what we see at first glance isn't the full picture. There are far more stars in the universe than grains of sand, but you have to dig through other pieces of research and information to know that. I found the same to be true with the graph analysis portion of the project. There were several times when I looked at a graph and was concerned about what I saw. Once I investigated further, I found a lot more going on that caused something to happen. Sometimes, it eased my concern; sometimes it didn't. It at least gave me a 360-degree view so that I could provide an accurate explanation.

B. How will the experience of completing this project, including the interactions you had with your credit union's volunteers and various senior leaders, influence how you approach your job and your view of how your position fits into your credit union's mission?

I have always had the philosophy to "stay in my lane" if I see a potential issue outside my business unit. It's not because I'm worried about how others will respond; our team maintains a high level of respect and collaboration. We have never operated in a vacuum, and we are not siloed, but there have been moments in the past when I was hesitant to promote certain ideas or try to make a change if it was outside of the scope of my role. This is primarily because I've wanted to remain respectful and not overstep. What I've learned, though, is that we are all interconnected. Yolo Federal is not a freeway with clearly painted lines on the road. It's more like a hiking trail in the woods where you might need to cross over a few paths and hold out a hand to support another department up the mountain. The decisions we make impact each other and the credit union. This project has motivated me to look at the credit union holistically and share more ideas backed by data and strategy. Our mission is to help members achieve financial success, which means I need to speak up when I see something that could impact our ability to deliver on our mission and service promises.

C. What did you learn about your own project management skills through the completion of this project.

I learned why "start early and start often" is a mantra that rings through every form of communication at WCMS. Even though I had time blocked off on my calendar every week to work on my project, the reality is that I oversee Operations and not a day goes by when there isn't a problem that needs to be solved. I was frequently pulled away from working on my project since I needed to attend to other critical matters. I'm a mom, though, and multi-tasking is what I do best. I was able to quickly shift gears when needed.

I also learned to delegate more so I could dedicate time to completing my project. I leaned on my incredible team when I knew I needed to barricade myself in the office to work on my project. My Marketing Manager, Megan Wessling, and Director of Operations, Christina Salcedo, independently managed their areas and were patient with me if I had a delayed response to something. I made sure they knew I would drop what I was doing if there was an urgent situation that required my support. I also could not have completed this project without the unwavering support of my husband, Robert Jacobsen. He saw when I needed help, and he lightened my load at home to give me the capacity to complete this project. Even with the tremendous support that I received, I need to "delegate more and delegate often" in addition to "start early and start often" with my next WCMS project.

D. What section of this project did you most enjoy and why?

I love history, so researching our past and completing the interviews was fun. Even though I already knew our background, I discovered many details that I had not known before. I also appreciated learning more about our investments. This was an area that I previously only knew minor details about. I feel much more confident now that I understand our investment portfolio better. I also enjoyed reading our bylaws because it strengthened my overall understanding of how we operate as a credit union.

E. What section of this project was the most challenging for you? What steps can you take to improve your competency in this area?

Even though I enjoyed learning about our investments, it was a challenging section of the project since it's not something I typically deal with in my role. In the future, I plan to pay closer attention to the investments in our financials and ask more questions in our ALCO meetings when we review them. I will also educate myself by completing online training courses, finding resources to read, and attending relevant webinars.

F. What recommendations do you have for improving the project? Were there any subjects that you would have liked to have had included in the curriculum that would have helped you complete the project?

The curriculum is extremely detailed and well thought out. My only suggestion is to consider reordering a few of the subjects. For example, I felt that loss mitigation should be placed after lending, human resources after organizational structure, investments after financial budget, risk management after laws and regulations, and social impact after marketing. The only subject that I would have liked to have been included is electronic payments. Since the payments platform is constantly evolving, it could be beneficial to write about cards, ACH, wires, and other forms of payment.

V. Project Appendix

References

Alloy. (2024). *Alloy Reports.* Retrieved from Alloy: https://www.alloy.com/state-of-embedded-finance-report-2024?utm_campaign=state-of-embedded-finance-report-2024&utm_medium=paid-social&utm_source=prnewswire

Beck, S. (2024, January 25). *Understanding the Role of Embedded Finance in the Fintech Revolution*. Retrieved from Forbes: https://www.forbes.com/councils/forbestechcouncil/2024/01/25/understanding-the-role-of-embedded-finance-in-the-fintech-revolution/

Callahan & Associates. (2024). Retrieved from https://callahan.com/

Coyle, D. (2018). *The Culture Code.* New York: Bantam Books, a division of Penguin Random House LLC.

Deloitte & IIF. (2023). *Deloitte Documents.* Retrieved from Deloitte: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/finance-transformation/us-the-ecosystem-imperative--embedded-finance.pdf

eLeadership Academy. (2024). Retrieved from https://www.eleadershipacademy.com/certificate-program

EY. (2023, June 5). *How banks are staking a claim in the embedded finance ecosystem.* Retrieved from EY: https://www.ey.com/en_us/insights/banking-capital-markets/how-banks-are-staking-a-claim-in-the-embedded-finance-ecosystem

Filene Reports. (2008, May 21). Retrieved from Filene: https://www.filene.org/reports/speaking-of-change-a-selection-of-speeches-and-articles-from-edward-a-filene

Godin, S. (2018). *This is Marketing.* New York: Portfolio Penguin.

Kershner, I. (Director). (1980). *Star Wars* [Motion Picture].

MX Technologies. (2024). Retrieved from https://www.mx.com/research/what-influences-where-consumers-choose-to-bank/

NCUA. (2024). Retrieved from https://ncua.gov/news/publication-search/cybersecurity/cybersecurity-and-credit-union-system-resilience-annual-report-congress-2#:~:text=Based%20on%20cyber%20incident%20reports,percent%20of%20total%20reported%20incidents.

NCUA Newsroom. (2024, June 26). Retrieved from https://ncua.gov/newsroom/press-release/2024/reflection-past-and-future-marks-federal-credit-union-act-90th-anniversary

NCUA Regulation & Supervision. (2020, September). Retrieved from NCUA: https://ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/amended-field-membership-application-requirements-combined-statistical-area-and-core

Nikita Gill Quotes. (n.d.). Retrieved from Good Reads: https://www.goodreads.com/quotes/7450272-we-have-calcium-in-our-bones-iron-in-our-veins

Reed, K. (2024, April 17). *Blog.* Retrieved from FintechOS: https://fintechos.com/blogpost/breaking-barriers-with-embedded-lending/

Roosevelt, T. (1904). *Theodore Roosevelt Center*. Retrieved from https://www.theodorerooseveltcenter.org/Research/Digital-Library/Record?libID=o285148

Sandberg, S. (2013). *Lean In.* New York: Alfred A. Knopf, a division of Penguin Random House LLC.

Schapiro, L. (2018, August 30). *Daily Democrat*. Retrieved from https://www.dailydemocrat.com/2009/10/02/veterans-needs-caused-formation-of-yolo-federal/

Schemel, B. (2024, December 17). (K. Jacobsen, Interviewer)

Scott, S. (2017). *Fierce Conversations.* New York: Berkley, an imprint of Penguin Random House LLC.

Statista. (2024). Retrieved from https://www.statista.com/statistics/1321847/trust-in-financial-institutions-in-the-us/

U.S. Bureau of Labor Statistics. (2024). Retrieved from https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm

Wright, R. (2011, September 19). *NASA Johnson Space Center Oral History Project*. Retrieved from NASA: https://historycollection.jsc.nasa.gov/JSCHistoryPortal/history/oral_histories/ChiaoL/ChiaoL_9-19-11.htm

Yolo Federal Benefits Package. (2024). Woodland.

Yolo Federal Check Hold & Acceptance Policy. (2024). Woodland.

(2024). *Yolo Federal Consumer Loan Policy.* Woodland.

Yolo Federal Credit Union Charter. (1954, March 10). Woodland, CA, Yolo County.

(2024). *Yolo Federal Credit Union Fee Schedule.* Woodland.

(2024). *Yolo Federal Digital Media Report.* Woodland.

(2024, December 31). *Yolo Federal Financial Statement.* Woodland.

(2024). *Yolo Federal General Ledger Report.* Woodland.

Yolo Federal Instagram. (2025, February 17). Retrieved from https://www.instagram.com/share/BAGbQ9dgQy

(2024). *Yolo Federal Investment Policy*. Woodland.

(2024). *Yolo Federal Marketing Customer Information File*. Woodland.

(2023). *Yolo Federal Rate Sheet*. Woodland.

(2024). *Yolo Federal Rate Sheet*. Woodland.

(2024). *Yolo Federal Rate Sheet*. Woodland.

A. **Three items from the "Peer Analysis" folder in Peer to Peer for your credit union:**

1. The Balance Sheet
2. The Income Statement
3. Key Ratios

Balance Sheet - WCMS - Yolo (CA)					
Formula	**Jun-2020**	**Jun-2021**	**Jun-2022**	**Jun-2023**	**Jun-2024**
Auto Loans	$66,485,446	$62,012,234	$72,236,964	$90,172,437	$98,332,499
Real Estate Loans	$152,322,250	$157,927,158	$149,812,643	$150,994,742	$149,388,888
Credit Card & Unsecured Loans	$11,665,355	$10,735,589	$10,904,743	$14,003,937	$14,598,675
Other Loans	$4,248,340	$3,282,835	$2,823,950	$3,038,794	$3,662,072
$ Loans (total outstanding)	$234,721,391	$233,957,816	$235,778,300	$258,209,910	$265,982,134
Allowance for Loan Loss	$1,605,711	$1,625,955	$1,659,479	$2,398,988	$2,061,896
Investments & Cash	$79,605,129	$142,420,935	$158,784,758	$134,718,573	$140,863,787
Fixed & Other Assets	$16,738,090	$17,112,614	$18,556,443	$19,834,295	$22,254,871
NCUA SIC Deposit	$2,495,560	$3,070,266	$3,452,603	$3,443,947	$3,495,743
Total Assets	$331,954,459	$394,935,676	$414,912,625	$413,807,737	$430,534,639
Checking	$76,068,667	$83,520,376	$92,148,741	$92,761,858	$91,222,909
Savings	$135,309,437	$182,800,252	$194,869,697	$183,202,567	$170,694,515
Money Markets	$53,363,266	$57,822,835	$64,324,394	$55,801,555	$42,872,686
Certificates	$17,456,718	$18,495,999	$17,017,415	$19,750,080	$53,395,089
Other Deposits	$7,638,003	$7,695,855	$8,934,981	$8,623,934	$8,998,024
Total Deposits	$289,836,091	$350,335,317	$377,295,228	$360,139,994	$367,183,223
Other Liabilities	$2,193,512	$2,412,891	$3,847,187	$19,877,570	$25,068,822
Net Worth	$39,557,969	$42,377,825	$42,647,805	$44,779,314	$47,887,997
Other Equity	$0	$0	$0	$0	$0
Unrealized Gain/Loss	$366,887	-$190,357	-$8,877,595	-$10,989,141	-$9,605,403
Total Liabilities and Equity	$331,954,459	$394,935,676	$414,912,625	$413,807,737	$430,534,639

Income Statement - WCMS - Yolo (CA)					
Formula	**Jun-2020**	**Jun-2021**	**Jun-2022**	**Jun-2023**	**Jun-2024**
Net Loan Interest Income	$9,401,764	$8,884,112	$8,162,720	$10,502,322	$12,630,208
Investment Income	$772,746	$844,684	$1,500,062	$3,550,348	$5,142,756
Fee & Other Operating Income	$4,042,008	$4,139,918	$3,755,382	$4,014,218	$4,193,810
Total Gross Income	$14,216,518	$13,868,714	$13,418,164	$18,066,888	$21,966,774
Compensation & Benefits	$5,371,244	$5,967,014	$5,773,606	$6,807,466	$6,872,582
Travel & Conference	$82,248	$58,724	$104,282	$68,346	$108,030
Office Occupancy	$981,036	$1,000,952	$987,886	$1,119,736	$1,206,496
Office Operations	$2,318,384	$2,244,030	$2,344,212	$3,042,220	$3,784,756
Marketing	$406,936	$378,248	$340,058	$467,656	$613,070
Loan Servicing	$658,014	$936,678	$633,108	$649,744	$549,488
Professional & Outside Services	$1,331,144	$1,155,198	$1,446,502	$1,821,118	$1,662,068
Member Insurance & Other Oper	$224,776	$199,608	$213,434	$201,788	$229,140
Total Operating Expense	$11,373,782	$11,940,452	$11,843,088	$14,178,074	$15,025,630
Non-Op Gain/Loss	$79,660	$190,432	-$1,674,368	$49,998	$446,360
Dividends	$234,480	$277,874	$278,216	$304,028	$3,743,926
Interest on Borrowed Money	$0	$0	$0	$193,738	$780,256
Total Cost of Funds	$234,480	$277,874	$278,216	$497,766	$4,524,182
Provision for Loan Loss	$900,110	$586,952	$97,420	$569,618	$2,000
Net Income	$1,787,806	$1,253,868	-$474,928	$2,871,428	$2,861,322

Key Ratios - WCMS - Yolo (CA) - Yolo (CA)					
Formula	**Jun-2020**	**Jun-2021**	**Jun-2022**	**Jun-2023**	**Jun-2024**
Net Worth Ratio	11.92%	10.73%	10.28%	10.97%	11.22%
Return on Assets	0.57%	0.33%	-0.11%	0.69%	0.67%
Asset Growth	11.16%	18.97%	5.06%	-0.27%	4.04%
Deposit Growth	12.09%	20.87%	7.70%	-4.55%	1.96%
Cost of Funds	0.09%	0.08%	0.07%	0.13%	1.18%
Loan Growth	4.50%	-0.33%	0.78%	9.51%	3.01%
Loan Yield	4.07%	3.74%	3.52%	4.16%	4.77%
Delinquency (total)	0.09%	0.16%	0.22%	0.32%	0.67%
Loan Charge Offs	0.17%	0.14%	0.04%	0.15%	0.26%
Member Growth	3.64%	2.98%	1.45%	2.06%	2.26%
Loans to Shares	80.98%	66.78%	62.49%	71.70%	72.44%

B. Full copies of the articles used for your Research Component (Section III).

Shape the future with confidence

How banks are staking a claim in the embedded finance ecosystem

Contributors
Matt Hatch,
Christopher Schmitz,
Jochen Kaempfer

10 minute read
05 Jun 2023

Related topics

Banking and capital markets

Banking transformation

Finance in the experience age heralds a new era for customers and banks alike, with embedded finance as the key to success.

In brief

- Customers want financial products and services that are built into their daily activities.
- Embedded finance offers both banks and nonfinancial services brands the ability to provide a frictionless customer experience.
- Banks need a clear embedded finance strategy to unlock new revenue streams successfully.

The seamless integration of financial services into customers' daily lives is entering a new era. For many consumers and businesses, financial services propositions are optimal when embedded into an interconnected customer journey, rather than offered as a separate series of interactions accompanying a journey.

Consumers and businesses increasingly expect financial products and services to be tightly integrated into their daily activities, for example, being able to pay for parking as they drive into a parking garage or getting financing at the point of purchase in real-time. Fundamentally, these integrated experiences go beyond "digital financial services," and instead, are moving us closer to the next revolution in finance. Financial services will become an embedded component of a broader value chain experience: financial services in the experience age.

New financial experiences

Nonfinancial businesses have been faster to recognize that the age of "digital citizens" and "borderless and seamless financial services" is upon us. Many of these businesses are leveraging customer data and insights to maximize the customer experience and generate new growth paths. Their goal is to amplify brand loyalty and customer stickiness; increase conversion; and generate repeat purchases. Financial services in the experience age are best delivered in a way that reduces friction in financial interactions while increasing ease and elevating convenience.

Embedded finance defined +

Evolving customer expectations are a primary driver of this new era of embedded finance. Retailers, software companies, online marketplaces, automotive original equipment manufacturers (OEM)s, and e-commerce platforms are steadily embedding financial products and services into their end-to-end customer journeys.

According to the more than 20 global financial technology leaders recently contacted by EY teams, 94% believe the key to success is the relevance of a financial product in addressing customers' real-time needs (note that many current financial products are not real-time). [1] In turn, there is a rapidly growing interest in creating embedded propositions among both nonfinancial and financial institutions (FIs), which has generated possibilities to capture meaningful growth for both parties.

Usability first

%

of respondents to an EY survey believe the key to success is the relevance of a financial product in addressing customers' real-time needs

---

It is estimated that the market size of global embedded finance across the entire value chain will grow from US$264b in 2021 to US$606b in 2025[2].

1

Chapter 1

Embedded propositions on the rise

FinTechs, and technology overall, are at the heart of the embedded finance revolution.

Banking-as-a-service (BaaS) providers use modern API platforms to offer nonfinancial services brands modular banking solutions, using a licensed bank's regulated infrastructure. Open API platforms and bespoke front-end customer journey technologies are making it faster and easier for FinTechs to partner with brands. The advance of cloud computing, digital architecture, and the proliferation of mobile devices, all enable rapid scale, real-time data exchange and greater connectivity between brands and customers.

As a result, several embedded value propositions are on the rise. For example, retailers that store customers' credit or debit card information on their apps enable instant, one-click payments. And e-commerce platforms that allow merchants to open a financial account within the platform eliminate the need for a separate, traditional (business) bank account. Our survey indicated that over 70% of respondents believe that more than half of financial services will be offered via nonfinancial services platforms in the near future.

Switching platforms

%

of respondents believe that more than half of financial services will be offered via nonfinancial services platforms in the near future

---

For a nonfinancial services company, the benefit of owning a significant amount of customer transactional data means it can further enrich its insight into each customer profile and tailor the offering to the customer's desires.
"Financial services and nonfinancial services companies should pay attention to embedded finance because it's the biggest opportunity for growth," says Remy Carole, Chief Operating Officer at Treasury Prime. "Embedded financial services in products are starting to become commonplace. There's a future where embedded finance is as ubiquitous as web technology is today."

It's clear that online marketplaces, retailers, automotive OEMs and software companies will play a growing role in influencing the future of financial services. However, embedded finance creates significant opportunity for financial services and nonfinancial services organizations, both separately and in concert.

> "There's a future where embedded finance is as ubiquitous as web technology is today. "
>
> **Remy Carole**
> Chief Operating Officer, Treasury Prime

Capturing this market opportunity requires banks, and broader FIs, to rethink their positioning, business models, value propositions and capabilities to excel in a hyper-dynamic, real-time world.

Payments as the gateway

Embedded finance covers many domains, but payments is the largest game in town in terms of revenue. According to our research, the volume of payments through embedded channels reached US$2.5t in 2021 and is expected to reach US$6.5t by 2025[3]. Nonfinancial businesses use payments as the first, and continuous point of customer interaction, leveraging vast amounts of data from each customer journey. With a variety of propositions such as pre-ordering, gifting, and discounts on offer, payments help to build new experiences, increase brand loyalty, and drive customer retention. And as

How EY can help

FinTech and Ecosystems

Discover how EY teams work with startup and scale-up FinTech...

Read more

brands integrate the payment flow, it also becomes easier to add other products to that payment flow, like lending or insurance.

In parallel, the rapid adoption of digital wallets worldwide has transformed payments for consumers and merchants alike. According to the EY report **The Rise of PayTech – seven forces shaping the future of payments**, the share of mobile commerce outpaced desktop e-commerce in 2021, with transaction value from mobile devices reaching 52% of all e-commerce spending. In fact, mobile wallets held a 49% share in global e-commerce payments in 2021. With various value-added offerings such as loyalty programs, security and an open loop payments system on offer, the total number of digital wallet users is expected to exceed 5.2b globally by 2026, up from 3.4b in 2022[4].

Buying on the go

%

of all e-commerce spending in 2021 came from mobile devices

The role of financial services providers

Overall, the disruption brought about by embedded finance represents an inflection point for traditional banks. Fundamentally, they are being faced with a choice on which position to take – to embrace the embedded finance transformation, to enable others by leaning on their core strengths (e.g., risk, regulatory), or to do nothing.

Many traditional financial institutions need to catch up to customer expectations. The ability of nonfinancial service brands to move into the role traditionally held by banks rests on the fact that they can tap into a behavioral response from customers. Brands that offer embedded finance at the customer's point of need create a seamless, end-to-end experience that customers want and make buying decisions based on.

To effectively determine their place in this developing ecosystem, banks need to clearly assess where their strengths lie and therefore how best to unlock distribution opportunities. The following questions provide a basis for banks to critically assess what route to take.

- Is there a high level of conviction in the growth potential offered by an embedded proposition that warrants increased capital investment and embracing new ways of thinking?
- Has the bank considered what its real value is to customers and businesses? If its value is solely its balance sheet, maybe it should not play a customer-facing role.
- Does the bank have the brand affinity and customer loyalty that will allow it to retain the customer, in an embedded experience?
- Can the bank benefit from harnessing the brand loyalty and affinity of a well-known nonfinancial brand to extend its customer reach?
- Are there specific value chains or experiences that the bank has the greatest involvement in, the power to lead, or the greatest value to add through the products and services it is best at?
- Is the bank open to not being the marquee brand at the point of distribution, but leveraging new modes of distribution to increase deal flow, customer awareness, data access, and gain increased services fees?

- Does the bank have the baseline digital maturity needed to be involved in profitable ways, or is partnering with an enabling technology or software a must? And if not, is it brave enough to place significant strategic bets in domains it is less knowledgeable about?
- Is the bank open to rethinking long-standing business models focused on narrow bands of revenue, e.g., transaction and interchange fees, to models that expand the revenue possibilities, e.g., subscription, data monetization, pay-per-use, but require dramatically different thinking?

2

Chapter 2

Choose a strategy for success

Establish a path to unlock new revenue streams.

Once banks have a clear overview of their capabilities, the next step is to establish what type of embedded finance strategy could successfully unlock new revenue streams. There are several ways to do this, but four distinct archetypes stand out.

1. Customer- or product-centered approach:

This is a customer-oriented model, aligned to a traditional product-focused approach. Here, banks extend products to others but maintain a focus on innovating products and services already at the core. It requires banks to re-evaluate what they know about their customers to gain a better understanding of who their customers are. It also demands that banks focus on innovative products to maintain their customer base as embedded propositions grow.

2. Enabler approach:

This approach enables a bank to extend its products and services through a platform business model. It requires setting up a digitized set of core banking products and services and developing a compelling go-to-market proposition to embed services into third-party platforms. In choosing this route, the bank needs to understand what products and services are best suited to being embedded into a third-party platform, e.g., payments, consumer loans. It also requires insight into what partnership models are best suited to the bank, based on its existing capabilities.

3. Builder approach:

Here, the bank owns the platform and orchestrates a mix of in-house and third-party products (open ecosystem). This requires heavy technology investment, with strong partnership capabilities integrated directly into customer offerings. It relies on an agile organization and operating model that's able to continuously improve, adapt and coordinate with third-party platforms to evolve functionalities. The bank must consider what technology capabilities and products need to be built in-house and who it should collaborate with to provide best-in-class products and experiences.

4. Owner orchestrator approach:

In this case, the bank owns the platform, orchestrates products, and owns the customer distribution channels (vertical integration). In addition to the capabilities required of the "builder," an orchestrator needs to invest in specific, targeted nonfinancial services sectors and sector expertise and create the technological ability to be directly placed at the point of customer interaction. This requires an agile organization with a scalable operating model to improve, adapt and evolve functionalities continuously. The bank must be able to measure the success of the platform and how best to retain customers and drive brand recognition.

The problem facing most banks today is that many customers are choosing embedded channels to conduct relatively simple finance services such as payments, digital loans and buy now pay later (BNPL) financing. As a result, they are migrating from traditional bank channels such as branches or online banking websites. With this, banks must find a way to still engage with these customers through new, embedded channels, or else suffer from high turnover.

However, it's worth noting that not all products are the same. The more complex the product, the more challenging it is to embed it and for nonfinancial services firms to replicate it – for example, pension planning. Overall, banks have an opportunity to create a differentiated offering to competitors, while capturing additional value from any new distribution model.

The future is frictionless

Ultimately, the evolution of financial services toward invisible, interconnected customer experiences is not one that financial institutions will dictate. Instead, it will be mainly driven by innovation outside the sector that looks to financial services as an enabler. However, most financial services institutions are reluctant to take a back seat.

The juxtaposition of what brands and customers demand from embedded finance propositions against the traditional financial services modes of generating profitability creates a dilemma that is only solved through a clear articulation of how, and where, a financial institution will compete to capture growth in the space, or if it will at all.

Banks have a choice to reimagine offerings in an embedded world and compete on differentiated customer propositions. Alternatively, banks that are happy to play a utility role, will require a distinct set of scalable technological capabilities that will allow them to compete in a hyper-connected world.

Resting at the heart of it all is the need to explore new platform business models, harness partners as assets to open new distribution channels and embrace new, non-traditional revenue streams, while amplifying complimentary offerings that remain highly relevant, e.g., cash and treasury management.

The path to a lucrative embedded finance proposition requires the proactive definition of an institution's strategic ambition, a willingness to innovate, and appetite to invest significant capital ahead of the curve.

The tectonic shifts underpinning this fundamental change in the provision of financial services continue to expand and accelerate, and in turn, taking a wait-and-see mode is not a viable option.

Show article references

Jochen Kaempfer, Principal, Strategy and Transactions, Payments and Banking, EY-Parthenon, Ernst & Young LLP, contributed to this report.

Summary

Customers increasingly expect financial services and products to form a part of their daily lives. Nonfinancial services' brands are meeting customers' evolving expectations by offering embedded finance solutions such as payments, at customers' points of need. To unlock new distribution opportunities within this developing ecosystem, banks must determine an embedded finance strategy that enhances their core strengths and delivers long-term growth.

About this article

Contributors

Matt Hatch, Christopher Schmitz, Jochen Kaempfer

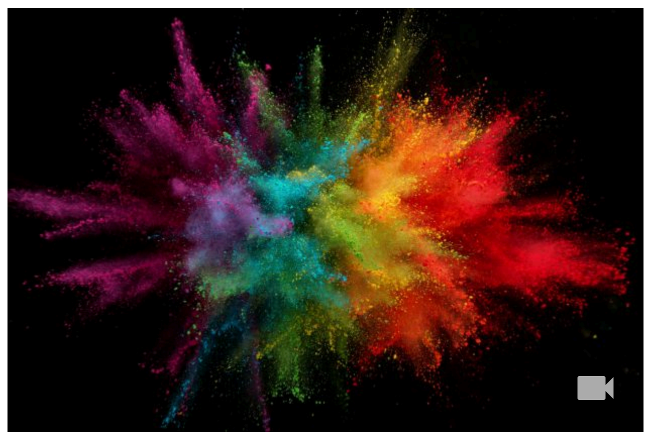
Related topics

Banking and capital markets   Banking transformation

Related articles

How the rise of PayTech is reshaping the payments...

21 Oct 2022 | **Diana Halder + 3**



The CEO Imperative: How mastering ecosystems transfor...

24 Jan 2022 | **Greg Sarafin**

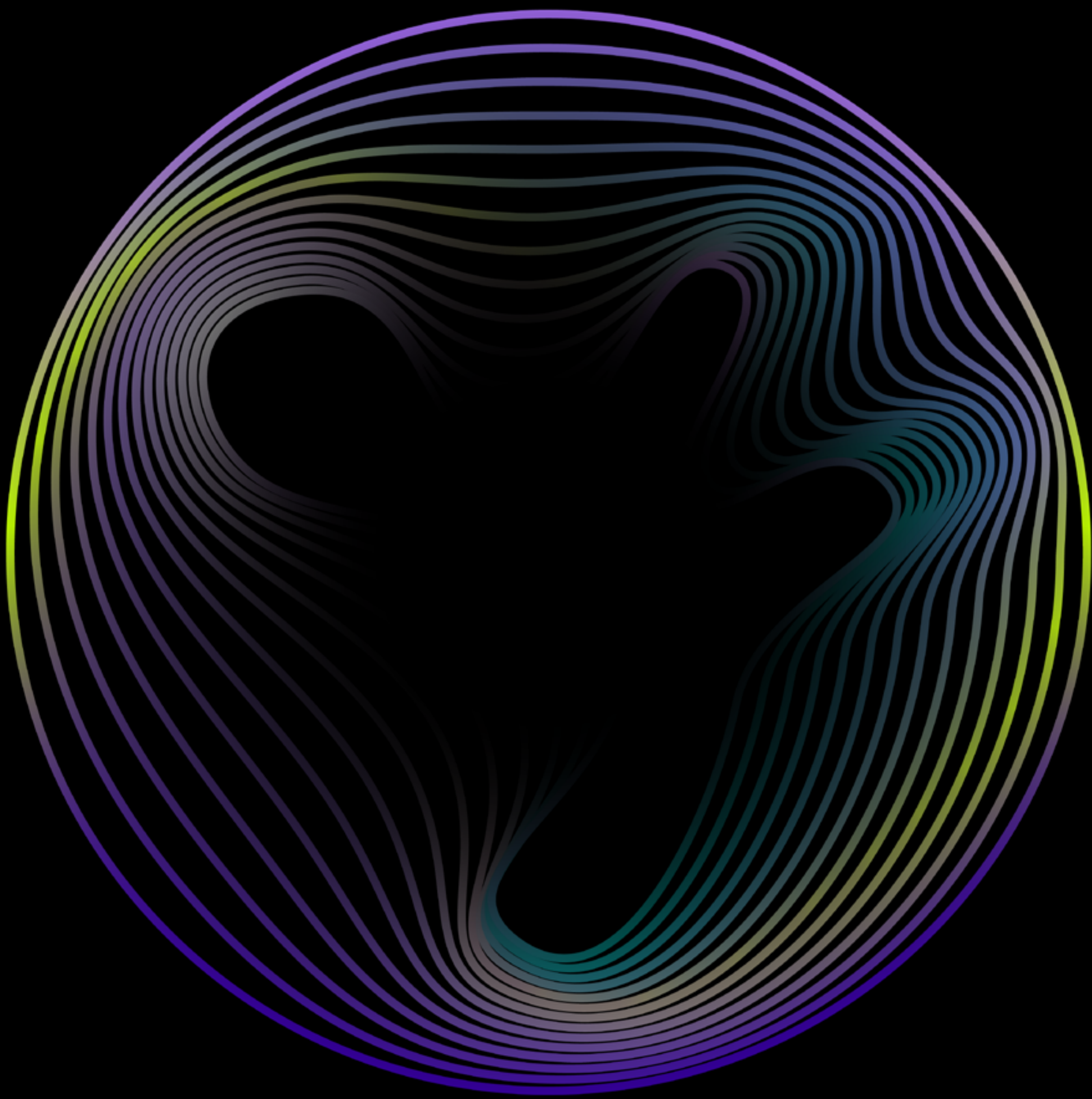
Shape the future with confidence

Connect with us

Our locations

Deloitte.

Institute of International Finance



The ecosystem imperative

Embedded finance: customer relationships and value web dynamics

Contents

Executive summary

Strategic impacts of embedded finance

Embedded finance is becoming an important strategic consideration for financial institutions (FIs). Many innovators, including traditional FIs, fintechs, and third-party service providers, are already investing in and deploying the capabilities required to embed financial services into non-financial offerings; or investing directly in non-financial services providers that already embed some financial products in their ecosystems.[1]

In this report, the second in a series of four on financial services ecosystems, the Institute of International Finance (IIF) and Deloitte Global explore the concept of embedded finance, and how it impacts customer experience. In summary, we find that customer experiences are evolving rapidly as financial products and services become ubiquitous, available for the customer whenever and wherever they need it, and increasingly embedded in non-financial transactions or activities.

This paradigm shift also implies a transformation in the value web of financial products and services. In fact, the emergence of embedded finance models is further evidence that financial services value chains are evolving into non-linear "value webs," where multiple players are contributing value simultaneously (vs. sequentially) to bring a product to the end consumer. What becomes visible for the consumer is often the service, good, or value proposition they are looking for, while the underlying financial service becomes more transparent (or increasingly frictionless to access). This can also impact how financial services providers are perceived by consumers, as well as on the user experience and availability of options for corporate and retail customers.

Key concepts and takeaways:

- Embedded finance integrates financial services and products into the digital experience of a non-financial service or good.
- According to recent estimates, by 2030, the market for embedded finance will grow to US$7.2 trillion.[2]
- Some of the benefits that embedded finance can bring include:
  - improving the user experience;
  - enhancing financial inclusion;
  - enabling better and more tailored offers of products and services;
  - creating new or enhanced revenue streams;
  - reducing FIs' costs of acquiring new customers; and
  - facilitating scalability.

  These benefits are often materialized through partnerships and collaboration.
- Embedded finance also brings some challenges for FIs, including maintaining customers´ trust; supporting customers´ optionality; maintaining consumer protection; achieving interoperability and seamless user experience; and deciding how to optimally deploy it in combination with other key evolutions in the market (e.g., Open Data, Digital ID).
- Embedded finance has not reached its full extent. We expect more development in the business-to-business (B2B) arena, with growing business cases for small-to-medium enterprises; increased deployment of automation and artificial intelligence (AI) in embedded finance use cases that can help consumers make better financial decisions; as well as certain consolidation in the market, driven by the integration of services, and the platformization phenomenon (i.e., the creation of central marketplaces that bring together consumers and multiple service providers).[3]
- Although there are embedded finance use cases emerging across many verticals within financial services (e.g., payments, insurance, credit, and investments), the most mature use cases today lay in payments and insurance. According to the interviews conducted for this research, other areas are still growing, and we will see more maturity in different business cases.

Overview and context

What is embedded finance?

Embedded finance integrates financial products and services into the digital experience of a non-financial service or good. According to the World Bank,it can be defined as “the seamless incorporation of financial products or services into non-financial products or services.[4]” It is also known as “contextual banking” as it engages customers in different contexts or journeys where they operate.

In other words, embedded finance can allow customers to access the products and services they want or need, along with the financial services they require, in the same experience or along the same customer journey. And its use cases tend to come with an enhanced user experience, where the financial service is rendered in the most convenient and seamless way to customers, wherever they are (i.e., physically or digitally) and whenever they need it.

While this may sometimes increase the ‘distance’ between certain FIs and their customers, it can also open up new, scale-based profit pools, allows FIs to access new customer bases, and helps them explore exclusive relationships with key marketplaces and service providers.

Embedded finance can reach its full potential when deployed alongside other technologies that allow for a better contextualization and ubiquitous service, such as geolocation, Internet of Things (IoT) (e.g., smart homes, smart cars, smart cities, smart fridges, etc.), AI and machine learning (ML).

This report will cover a number of relevant questions for practitioners, policymakers, and consumers, including: What is embedded finance? Why has embedded finance flourished? How is it manifesting? And, where is the embedded finance trend headed?

Why has embedded finance flourished?

Often, retail and business financial services are used as a means to an end. They are used by customers who wish to achieve broader lifestyle or business objectives. For instance, people do not apply for a loan because they wish to have a debt obligation; they do so because they want to be able to own a home, drive a car, or get educated (for example), and are unwilling or unable to purchase these goods and services outright. Similarly, consumers avail of insurance because they want to engage in a ‘risky’ activity (e.g., driving) while still having some degree of protection in case of adverse outcomes.

Embedded finance benefits both individual and business customers, and among its main characteristics, we often find the following:

- A user experience that makes it easier for customers to access and execute financial services "on the go."
- The ability to integrate financial products at the moment and place of need. In many cases, this means integrating financial services into apps or marketplaces that are accessed every day by consumers and corporations, and where financially-linked decisions are made. This provides "one-stop" solutions to customers.
- It can promote financial inclusion, as it offers services that might be needed but not otherwise accessible or known by customers.
- It leverages the power of data from platforms, IoT, application programming interfaces (APIs), AI and ML, and partnerships to build better and more tailored products and services.

The idea of embedding financial services in the customer journey is not new. Historical examples include point-of-sale financing that has been offered by car dealerships and big-box retailers for decades, and embedded 'pay now' buttons on retail websites. However, the acceleration and digitization of customer journeys due to digitalization, together with the growth of platforms and digital ecosystems, has led to an increase in the number and variety of use cases available.

Super-apps such as WeChat or Alipay in China, and Grab in Southeast Asia, are examples of embedded finance in all-in-one platform environments. Major platforms and marketplaces also offer embedded finance (e.g., Airbnb with Air Cover, and Mercado Libre with Mercado Pago).

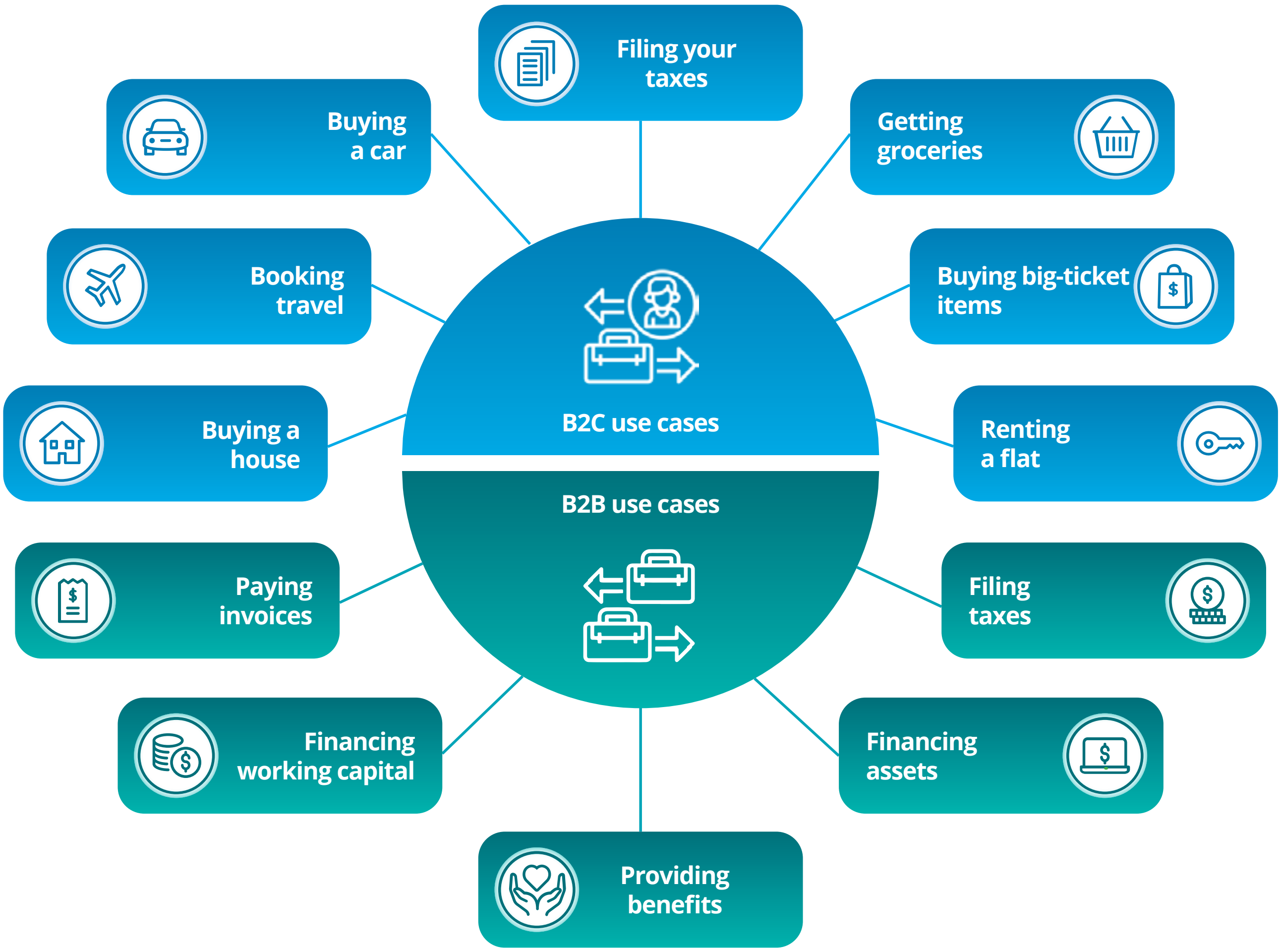
To date, embedded payments are the main use case being deployed in embedded finance. Indeed, a report from Bain Capital in 2022 analyzing the United States embedded finance market stated that "consumer payments account for more than 60% of all embedded finance transactions".[5]

Insurance is another area where more development has been seen in the last number of years. As well as many others, such as embedded lending, embedded investment, and wealth management, across business-to-customer (B2C) and B2B domains alike[6].

How is it manifesting?

Embedded finance can act as an enabler for different business models. Indeed, it has been especially useful to help develop many platform economy models (e.g., renting cars and other mobility options, renting houses, buying all kinds of goods, etc.) Figure 1 illustrates this.

Figure 1: Embedded finance as an enabler[7]



We can find embedded finance in different formats depending on who renders the services to whom:

Business-to-Customer (B2C): Some of the most visible use cases tend to be in B2C, where a business offers payment solutions, consumer credit, buy now pay later (BNPL), insurance, or other embedded financial products to customers, in their existing customer journeys.

Business-to-Business (B2B): Where businesses and platforms offer financial services to other businesses, including those related to payments, international trade, inventory financing, etc.

Customer-to-Customer (C2C): Transactions among consumers are more frequent due to the growth of the sharing economy. Mobile payments and peer-to-peer lending are some examples of this.

B2B2B and B2B2C: Partnerships between companies (e.g., FIs, fintech companies, platforms, retailers, etc.) allow for more complex product and services offerings both to businesses (B2B2B) and to consumers (B2B2C).

In some cases, we are also witnessing 'reverse embedding'–FIs looking to have non-financial products and services embedded in their customer journeys, to provide exceptional financial-adjacent experiences to their own customers. For example, DBS Bank's integrated ecosystem, DBS Marketplace, is a one-stop shop for consumers to access services and deals beyond banking, such as property listings and valuation, flight and hotel bookings, healthcare services and education courses; and Santander Boutique in Portugal offers a marketplace of technology, home appliances, and fashion, amongst others.[8]

Partnerships and other commercial agreements between FIs, non-FIs, digital players, application programming interface (API) providers, and technological capabilities providers are making it possible for additional embedded finance use cases to flourish.[9]

Value generated: How is embedded finance shifting the value web?

In most embedded finance relationships, you can find the following primary players, whose roles, as well as the value they generally derive from embedded finance, are described below:

- **FIs:** They manufacture the financial product or provide the financial service. These players will often hold the regulatory license to offer these products and services, maintain a balance sheet, and provide the required treasury and risk management functions on behalf of the ecosystem; they can also play a role in orchestrating the embedded finance relationship. FIs increasingly interact with non-financial service providers and can benefit from taking part in embedded finance value web, primarily through the introduction of new revenue streams and efficiency opportunities. In fact, 82% of banks rank embedded finance as an important revenue stream.[10] Therefore, financial institutions interested in taking part in that value creation and capture should analyze the strategic implications of offering embedded finance to their customers and the impact on the FI's relationship with other relevant actors in the ecosystem as a result.

  On top of the financial benefits of embedded finance, FIs could also take advantage of the strategic benefits introduced in the section "Embedded finance's benefits, challenges, and drawbacks" in this report.

- **Customer interfaces:** These are non-FIs, including specific platforms, marketplaces, brands, and other non-financial organizations that provide adjacent, non-financial offerings, and who benefit from having a financial product or service embedded in their customer journeys.

  Virtually every company that is not an FI could embed finance services in their product offering and/or platform, adding potential value at each part of the value web through:

  - **Broadening offerings to customers and suppliers:** For example, an e-commerce platform could offer credit to consumers so they can purchase goods on the platform, or offer lending lines so merchants can buy the goods that they then offer to customers through the platform. This addition of financial services and/or tools can drive additional revenue for businesses –it is estimated that Software-as-a-Service (SaaS) businesses that leverage embedded finance can increase revenue per user by 2 to 5x (compared to standalone software subscriptions).[11]
  - **Improving overall customer experience:** Offering frictionless experiences is a differentiator for consumers interested in getting what they need in the easiest way possible. Thus, connecting financial services to the customer journey will likely facilitate business operations and drive better results.
  - **Increasing revenue:** Incorporating financial touchpoints in every step needed in the customer journey could speed up the time for making an offering available to consumers. For example, adding Know-Your-Customer (KYC), creditworthiness assessments, automatic payments from a checking account, and renters' insurance to a lease agreement process could allow the landlord to gain days, or even weeks, which then could be converted into having the property empty for less time.

- **Middleware providers:** They provide the key capability stack–including data, technology (e.g., APIs), operations and processes, and user experience –that allows FIs and customer interfaces to connect their products and services. Sometimes, customer interfaces will establish relationships directly with an FI, and contract with middleware providers to provide this stack. Other times, customer interfaces will contract directly with middleware providers who distribute financial products and services based on pre-existing relationships with FIs.

The continued advancement in technology, automation, and rapid scaling has enabled cloud-based solutions and digital platforms as well as consumption-based pricing. Additionally, the rise of "API-fication" has allowed distributors to natively embed propositions onto third-party sites, further enabling growth in financial services and products offered "as-a-service." As such, middleware, and intermediaries such as "banking-as-a-service" (BaaS) orchestrators/providers have continued to enter the market, seeking business opportunities in a growing market:

- **Reaching new verticals:** With the proliferation of SaaS-based business models as well as proven qualitative and quantitative benefits, more industries have started to adopt and employ embedded finance in new and innovative use cases both in B2B and B2C settings.
- **Expanding products/offerings and use cases:** Since the emergence of BaaS, middleware players such as Additiv have been expanding to include and integrate additional financial services products, including wealth management products. Specifically, within embedded wealth, Additiv estimates that there is an addressable market of US$33 trillion in assets globally that could result in potential value capture for providers of US$1 trillion given a 10x revenue multiple.[12]

- **Customers:** Embedded finance adoption is predominantly driven by customer demand and consumers are well-positioned to extract the most value out of embedded finance. Some of the ways in which customers could see this are:
  - **Seamless access to financial products and services**, which they have access to 'in the moment of need.'
  - **Better user experience**, paperless, fully digital, and designed for their convenience.
  - **Faster transaction execution,** for example, Shopify Pay's seamlesss shopping experience that saves customer information allows users to securely speed through checkouts, translating into an average checkout-to-order rate of 1.7x higher than transactions without Shopify Pay.[13]

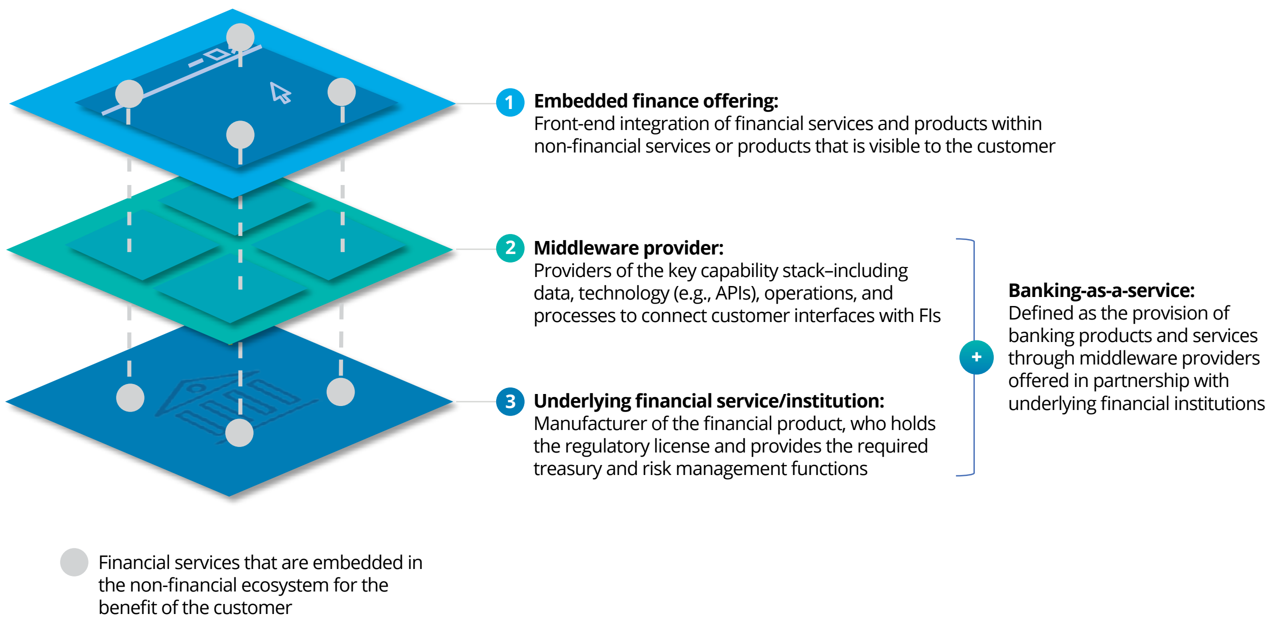
Embedded finance and adjacent concepts

While embedded finance and BaaS are closely related concepts, they are not exactly the same. According to the World Bank, BaaS can be defined as a "business model in which fintech firms and other third parties that meet a bank's security, legal, and compliance requirements integrate banking products into their own offerings without obtaining their own banking licenses, allowing them to leverage the bank's regulatory infrastructure."[14] Complementarily, the Institute of International Finance (IIF) has also defined BaaS as the "provision by a FI of a cloud-based banking solution enabling other 'downstream' FIs to provide banking services without having to develop the core technologies used."[15]

While embedded finance can be seen as the front-end integration of financial services and products within non-financial services or products, BaaS refers to the back end, the "rails" and the connection with regulation (e.g., rendering anti-money laundering or anti-fraud as a service, regulatory compliance as a service, user interfaces as a service, or even the banking license as a service). Though, there are some definitions of BaaS that can lead to identification with embedded finance (see Figure 2).

Both embedded finance and BaaS are often built on APIs, and in some cases, BaaS is a pre-condition for embedded finance to take place. As mentioned above, different layers of banking services can be provided in an as-a-service format.

Figure 2: Embedded finance[16]



Also, open banking and open finance are adjacent concepts to embedded finance, implying sharing data through standardized and secured interfaces (APIs) with the consent of consumers. The IIF and Deloitte have recently analyzed these dynamics in a previous report, available on Deloitte.com.

Embedded finance developments

Embedded finance as a driver to ecosystems

Integrating financial services into digital customer journeys creates an ecosystem where FIs converge with institutions from other sectors, to serve the customer at the point of need. In the words of one executive from a LATAM regional bank, "*ecosystems are about making end-to-end journeys for what people consume.*" Furthermore, an executive we spoke with from an Asian financial services company noted, "*these ecosystems are becoming more common to comply with customer's desires and frictionless offerings of services.*" In this regard, the chief innovation officer of a global insurance company based in Asia also noted that "boundaries between financial and non-financial activities are blurring, which is challenging for the private sector and also for regulators and supervisors."

A financial industry executive pointed out that "*embedded offerings have challenges, but the financial industry has shown extreme resilience toward new technologies and many other major challenges.*" In that sense, "embedded finance comes from having a broad vision of what banking means. Banking is not only offering financial services, but also participating and partnering with customers and other companies so that we can improve customers' day-to-day lives, whether by offering financial services directly, or by offering the infrastructure where transactions take place." as noted by the partnerships head of a global bank based in Europe.

Embedded finance connects financial and non-financial services in a seamless way. In the words of a chief ecosystem officer of a leading financial group in LATAM, "*organizations are recognizing that they don't need to be in front of everything, but that they can become the rails or enablers of some other activities from partners…This allows FIs to offer simplicity and velocity in parts of the journey that are heavily regulated and supervised.*" But other institutions have noted how embedded finance can make them less visible to customers, how it can weaken their customer relations, and reduce cross-selling opportunities.

This reality poses strategic decisions for the C-suite. The chief platform officer of a European conglomerate puts it this way: "*FIs need to strategically define which things they are willing to outsource, and which things they shouldn't or wouldn't outsource. That means that each institution needs to define which activities are at its core (e.g., credit scoring), and which aren't its core or specialty (e.g., loyalty programs).*" The chief innovation officer of an insurer based in Asia stated, "*we are seeing the unbundling of financial services and a shrinking of what the FIs are exclusively doing. When you unbundle, you eliminate cross-subsidization and, over time, you will see some sort of specific re-bundling that allows to exploit economies of scale.*"

What are the key conditions for success considered by the C-suite?

As mentioned in the section entitled "*Value generated: how is embedded finance shifting the value web*" in this report, embedded finance has the potential to drive significant benefits for FIs, non-financial players, and customers alike. Unlike other ecosystems with a greater degree of centralized coordination (e.g., Open Data), embedded finance ecosystems can be thought of as highly decentralized and unique webs of contractual, data-sharing, and value-flow relationships between customers, customer interface(s), middleware providers, and FIs. In other words, there is not one embedded finance ecosystem. Therefore, conditions for success may differ substantially across different offerings.

Nevertheless, through conversations with executives this report concludes that a well-functioning embedded finance ecosystem has at least five critical success conditions:

- **An activities-based policy framework:** Operating within an activities-based policy framework that focuses on overseeing specific types of sensitive financial activity (e.g., lending), as opposed to an entity-based approach alone, can ensure a balance between innovation, consumer protection, and system stability. It allows for some key financial processes (e.g., marketing, underwriting) to happen outside the walls of a traditional FI, while extending the regulatory perimeter to ensure that there are no blind spots for the authorities.
- **'Moment of need' matching:** When done right, embedded finance delivers the right product/service bundle to the customer in the precise moment of need, or at the moment when a key financially linked decision is being made. The ability to embed the product/service as close as possible to that moment requires deep and accurate customer data and continuous analysis to target the right offer at the right time.
- **Systems to build trust:** Customer trust is critical to FIs. This need is only magnified in the context of embedded finance, where consumers are often availing themselves of products and services from non-traditional providers, and where growth-focused distribution activities are separated from risk management-focused activities. These systems include methods for capturing explicit and informed customer consent, assigning, and enforcing liability, and providing recourse for customers.
- **Proper balance of friction:** Embedded finance can promise seamless access to financial services. While this seamlessness can create great experiences for customers, the ease with which customers can access risky products (e.g., lending, investing) could create systemic challenges if left unchecked. It is important that, in building good user experience, financial providers also build opportunities for customers to review and improve their exposures, understand the financial implications of their decisions, and make sensible choices.
- **Common interoperability standards:** Building seamless experiences can require the easy movement of data and funds across multiple intermediaries. A common set of technical standards, technology architectures, and processes can ensure that every player in the value web work together to deliver a unified experience protecting consumers throughout the journey.

When looking specifically into organizational capabilities, financial services executives are mostly looking at four fronts:

1. **Technology**
   - Modern and modular data architecture (e.g., based on APIs) to facilitate the transfer of data and value across multiple entities
   - ·Advanced data processing, analytics, and automation capabilities to make real-time product and service decisions about customers

2. **Governance and risk management**
   - A sophisticated partnership management function responsible for creating trusted relationships with third parties by aligning interests, flexibly managing service-level agreements, efficiently and fairly managing conflicts, and adhering to ecosystem rules and norms
   - Robust third-party risk management and cybersecurity protocols, in order to understand, monitor, and safeguard against potential threats (e.g., API security)
   - Enhanced risk management capabilities for FIs, in order to properly assess customers 'at a distance'

3. **Organizational and process design**
   - Excellent user experience research and design capabilities, and the ability to share insights across partners in the ecosystem in a secure way.

4. **Strategy**
   - For customer interfaces: Permission to provide customers with products and services that go beyond the organization's traditional scope of services in a way that will not be perceived as 'overstepping boundaries' by the customer.
   - For FIs: Strategic decision to think about financial services in a broad view, allowing financial services to be included in everyday customer journeys.

How to measure success

As shown above, developing new capabilities is important. In doing so, organizations should focus on KPIs that help land the embedded finance imperative for their institutions. We have included some examples that portray how success might be measured by different stakeholders in this section:

At the geographical level

At the geographical level, embedded finance can be a driving force behind increased financial access and inclusion, by **further reducing a number of traditional barriers** to access, including limited product knowledge, **time spent on lengthy applications**, and thin files for products like credit and insurance.

In fact, a study by CGAP of thousands of embedded finance customers in Asia concluded that more than 50% of them were able to access certain useful services for the first time.[17] This hints at a second benefit–unlocking additional, latent economic activity that can be lost due to difficulty in accessing a financial product or service. For example, when a customer decides not to make a purchase because they are not easily able to access short-term financing and cannot afford the upfront sticker price, potential economic output is lost. In fact, a study by Dealroom suggests that the total market value of embedded finance could top US$7 trillion by 2030.[18]

At the institutional level

For FIs, embedded finance can give them **access to new, diverse customer pools and greater volumes, at a much lower cost of acquisition** (by some measures, 4x lower than an e-commerce provider and 30x lower than a retailer).[19] For customer interfaces, embedded finance can create new opportunities to drive increased loyalty and customer stickiness, by **keeping customers on their platform and minimizing 'offramps**.' It can also create new pools of revenue–generally, the FI will pay a fee per product/service distributed through its customer interface partner. Additionally, more seamless experiences drive greater customer satisfaction. Finally, for middleware providers, embedded finance can present a new opportunity to drive **greater transaction volumes** through their services.

At the customer level

At the customer level, the benefits are clear. Customers can save time and effort when financial products are delivered to them exactly in the moment of need. They can also benefit from the outcomes of increased competition that embedded finance will surely drive, including a greater array of options and lower costs.

Embedded finance's benefits, challenges, and drawbacks

Benefits

Reduces the costs of acquiring new customers for FIs

According to a report by ABN Amro and Dealroom.co, banks and insurers must spend 4x more resources than e-commerce platforms, and 30x more resources than a retailer, to acquire a customer.[20] Embedded finance provides a venue for FIs to appear exactly when and where they are needed by customers, which provides new ways to connect with customers.

Streamlines customer experience

Customers are looking for easier and faster ways of getting what they need. This applies not only to financial products, but to all interactions customers have with other companies, whether it is mobility, retail, commerce, technology, and even healthcare, customers are requiring features that make their lives easier. Including embedded finance in the mix of products being offered, this gives companies an advantage on this front.

Enhances partnerships and business creation

Through fintech integrations, SaaS businesses have the potential to increase revenue per customer by 2 to 5x and gain access to new markets.[21]

62% of banks said that they viewed creating new products and services in partnerships with fintech operators within the banking industry as a high priority. Correspondingly, 42% of banks placed that same priority on collaborating with non-banking start-ups to provide new products and services.[22]

Leverage data to produce rich insights

Acceding to new types of customer data and being able to capture that information to improve the services offered of both the financial and non-financial partners.

Improve accessibility and scalability

The embedding of financial services within the customer´s journey of other services or products can increase the accessibility to financial services in some contexts, as well as their scalability.

Loss of opportunities for FIs

Having their products embedded in someone else's digital journey implies a significant change in how customers access financial services and how they perceive those services. This means that, in some cases, FIs loose direct relationships with their customers, and thus, also customers' visibility of the problem or particular service that FIs are solving by providing such products and services. By losing that primary relationship, FIs could often risk losing access to data (as relevant data are now acceded by the company or marketplace offering the non-financial products or services), while FIs might lose opportunities to cross sell products and grow customer value.

Challenges

Keeping customers' trust

This is especially true in an ecosystem that involves multiple partners, jurisdictions, and regulatory boundaries, leading to uncertainties around responsibilities, reliability, integrity and availability of the services that are attached to the primary product or service required by the consumer.

Creating interoperability

Enabling the technological and operational capabilities that drive interoperability between organizations from different sectors, with different backgrounds, different regulators, and different expectations, is a non-trivial problem that requires substantial collaboration across the public and private sector.

Maintaining cybersecurity standards

This also includes maintaining infrastructure and data security levels on an ongoing basis. This should be treated a priority to avoid a less secure environment being provided to clients as a result of connections made through other services, systems, and platforms.

Building robust KYC and know-your-machine (KYM) capabilities

With customers, companies, and even machines (i.e., with IoT) all playing a role in embedded finance, ensuring that customers, products, and orders (i.e., payments, transfers, requests for products or services) are compliant, legitimate and accurate, could play a significant role in maintaining customers' trust. Therefore, implementing measures that allow participants to verify the authenticity of the operations and players could be key.[23]

Enabling consumer protection and choice

This all hinges on disclosure of relevant information. Those involved in transactions must be sufficiently visible to the consumers and comply with local regulatory requirements so they know whom (and how) to contact in case of an inconvenience or error. Additionally, consumers need to know who is in charge of the rails of the operations and be confident in the service provider. Finally, clarifying who bears the risks behind a given product would provide transparency that would be valued by all stakeholders.

Enhancing user experience

Enhancing the user experience in a way that avoids friction while connecting multiple actors requires strong design and technological capabilities and similar mindsets/strategies by the partners involved. Composability, and thus the ability to build solutions that can be improved by adding new blocks, is necessary.

Enabling Digital ID protocols

Digital ID can serve as an important foundational capability to create seamless digital experiences. It also helps facilitate simpler and safer processes, and can aid compliance with other processes such as KYC, fraud monitoring, etc. For more detail on Digital ID, please see the Digital ID call-out box in our previous report.

Revisiting regulatory boundaries

As non-FIs increasingly enter the market and offer financial products and services outside the traditional regulatory boundaries of financial institutions, cross-sector regulators should collaborate to explore activity-based approaches to regulation that observe the principle "***same activity, same risk, same approach***"to protect customer rights.[24]

Innovations in the embedded finance landscape are quickly widening the gap between manufacturing and distribution activities in the financial services space. In fact, the distributor of a financial product that is embedded on such a platform may not have any direct relationship with the underlying manufacturer (i.e., the FI), as this may be fully intermediated by middleware. For example, many well-known BaaS providers offer full-service account opening & management to their clients via one or more underlying bank partners.

Ensuring that this ecosystem functions well, and balances the trade-off between innovation and safety, necessitates two additional responsibilities:

Consumer protection

As manufacturing and distribution activities diverge, and embedded finance reduces some of the traditional frictions associated with availing oneself of financial services (thereby accelerating consumers' path to purchase), a strong consumer protection framework is fundamental. This is especially important in the case of highly regulated services such as lending, investing, and advice provision. Consumers must still be fully aware of the risks associated with such services and give consent knowingly and explicitly. Additionally, given that many distributors (i.e., customer interfaces) will fall outside of the typical financial services policy framework, regulators should work to increase their visibility into these activities to manage potentially hidden systemic risks (e.g., similar to shadow banking) and avoid regulatory asymmetry between FIs and non-FIs that may be able to offer the same products or services but under asymmetric rules.

Risk management

The divergence of manufacturing and distribution also implies that key risk management activities performed by FIs (e.g., KYC/AML checks, underwriting, credit risk management) are often happening at arm's length from the customer relationship (held by the customer interface). This underscores the need for actors involved to take a closer look at key processes (e.g., due diligence on customer documentation) to ensure that they are holding customers of their 'embedded' services to the same level of scrutiny as others.

Developments and trends shaping embedded finance

It is clear that embedded finance has an important role to play in the present and the future of financial services. While we are still early in the development cycle, looking ahead, we expect three developments in the coming years:

Increased automation of financial decisions

As AI, Open Data and embedded finance advance and converge, we will increasingly witness greater automation of day-to-day financial decisions. As customers become more comfortable with AI tools making decisions (within certain parameters) on their behalf, and Open Data provides these tools with a fuller view of customers' financial picture and key non-financial information, many low-stakes decisions will be automated. For example, at the checkout point embedded in a digital marketplace, AI will recommend the optimal payment card for a transaction, or automatically turn the transaction into an installment loan if the transaction will bring the user's available balance below a set threshold. Later on, autonomous devices–such as vehicles–will embed financial tools (e.g., payments mechanisms, wallets) allowing them to execute pre-set decisions on behalf of their customers (e.g., renew insurance, automatically pay for electrical charging, accept ridesharing fares from other customers when the primary owner is not using the vehicles, and others).

Greater penetration of B2B market

Today, a significant amount of innovation in embedded finance is occurring in the B2C space. However, we believe the B2B space is primed for the next wave of disruption. Firstly, commercial customers see a disconnect between their own personal banking experiences and their commercial banking experiences; as company representatives are demanding greater innovation. For example, 86% of CFOs believe digitizing accounts receivable and account payable processes is key to driving customer satisfaction.[25] Secondly, especially in the small-to medium enterprises space, key platforms–such as accounting (Xero) and merchant (Shopify, Amazon, Mercado Libre) platforms–are beginning to embed financial services into their offerings. In doing so, they are quickly becoming a "one-stop shop" for business owners and/or finance executives and leveraging massive datasets to provide services like real-time lending. With the proliferation of new B2B embedded finance offerings, the market is expected to continue to grow. To name one example: the embedded B2B payments market is expected to reach US$2.6 trillion and embedded business lending, US$1.3 billion, by 2026.[26]

Scale-based consolidation

In many product and service categories of embedded finance, scale economics of the FIs involved will be critical to success. A simplified, commoditized product shelf, enhanced by some data-driven customization (e.g., dynamic pricing) can service many of the basic needs that customers expect when choosing a convenient, embedded product. It may also be technically difficult to embed more complex products and maintain the same level of streamlined experience. Additionally, given that the FI could be further away from the core customer relationship, its share of the revenue pool may be thin in many categories. Therefore, driving up volume and streamlining costs are imperative. For this reason, we may see the providers of embedded products and services coalesce around a small number of large, scaled players competing on price, simplicity, and speed, although small, specialized competitors may also emerge to fill specific customer needs.

Conclusion - where are we headed?

The leaders we have spoken to have observed that an increasing number of financial services are being embedded and delivered through non-financial channels across different ecosystems. They conclude that this will have a marked impact on the financial services industry, creating new strategic considerations and risks as FIs make critical business choices about partners and ecosystems.

FIs need to be right where the financial operation is going on, wherever is needed by the client.

Chief Digital Solutions Officer for a European G-SIB

Estimates suggest that by 2030, the market for embedded finance (including embedded lending, embedded payments, and embedded insurance) will grow to US$7.2 trillion.[27]

As embedded finance ecosystems require interacting with other companies and sectors, FIs are rapidly approaching and being approached by potential partners that could complement the offerings whether from the financial services perspective, or from the real economy. Building these relationships is driving FIs to ask for high requirements from potential partners/ providers to better protect one of their most valued assets: customer trust.

FIs could play dual roles in the future. In some cases they might end up as orchestrators of embedded finance ecosystems–which allows them to have more control over the risks in the ecosystem, and therefore more control over the consumer trust–, and in some cases, they might add value by being one of the many actors within the ecosystem–without needing to be the orchestrators.

Playing different roles in different ecosystems makes sense, and will keep making sense in the future, as long as FIs can keep the trust of their customers

Five years from now, we expect to keep the pace of innovation and engagement with customers, and that can only be the case if we are able to keep customers' trust.

Executive of a European G-SIB

The future of embedded finance will grow alongside non-financial companies, as these other companies will need to "tie money movement to their primary offering, because it's easier. It´s easier to use a ride-hailing app than it is to check if you have the cash to pay the taxi driver. And that same principle is going to apply to all businesses" quoted the head of innovation and digital partnerships at a global payments network. Also, the next horizon of embedded finance is already being foreseen by some industry leaders as the intersection of payments and "embedded machines" or the IoT, where machines (cars, gas pumps, refrigerators, etc.) will connect to each other to buy gasoline, groceries, schedule maintenance, etc.

Deep Dive: Embedded finance across industry verticals

Although this is a relatively nascent space, there are already a significant number of consumer-facing use cases of embedded finance, with innovation occurring rapidly. A fulsome treatment of all these examples could fill a report unto itself. However, a simple way to provide an overarching classification system for this space is to think about the different financial products and services that could be embedded. Below, we list out the major categories of embedded finance, and provide some market examples:

Payments

Embedded payments products help facilitate the transfer of funds between two parties-generally a customer and a customer interface but can also include peer-to-peer transfers. This is the earliest and most common form of embedded finance and has been around from the early days of e-commerce, serving as a means to allow consumers to use their credit cards to make online purchases. Recently, a few key trends are reshaping this space. Firstly, the experience is becoming more seamless, with self-sovereign payment method storage and natural authentication experiences (e.g., advanced biometrics), reducing the friction involved in paying for goods. Secondly, it is becoming more autonomous, with IoT devices now involved in autonomously making and receiving payments, based on pre-defined business rules and consent (e.g., smart fridges that automatically orders staples). Finally, innovations in the retail market are beginning to extend into B2B–platforms such as Shopify are building digital-first B2B payment experiences, complete with invoicing, customized terms, card-on-file capabilities, payment logic, quoting, and reordering.[28]

Leading examples:

Checkout-free retail stores (such as Amazon Go and AmazonOne) are an example of fully frictionless embedded payment experiences that is becoming increasingly common, with the number of checkout-free retail stores tripled in 2021 and are set to cross the 10,000 mark by 2027.[29] In the case of Amazon Go, the consumer then visits an Amazon Go retail store, they scan their mobile app, and simply grab the items they wish to purchase before walking out of the store. A system of cameras and sensors determines what they have purchased, and the payment method on file is charged. In the case of Amazon One, consumers store specific details, including payment methods and biometric markers, allowing consumers to identify themselves and make contactless payments through their palms.

Lending

Embedded lending products provide customers with the means to access financing for purchases at the point of sale. Financing can range from short-term, small dollar retail installment loans (such as BNPL) schemes to large working capital lines of credit. In some cases, merchants may also issue a card product (e.g., a credit card) at the point of sale, using the card to complete the purchase. Compared to traditional forms of credit, embedded lending differs in that typically the underlying credit origination and extension happens in near real-time at the point of sale, instead of asynchronously. Lenders may choose to underwrite these loans based on different data points, including history with the lender or merchant, financial data (e.g., available via Open Banking), soft-pull credit checks, or other means.

Leading examples:

Apple's 'Pay Later' product automatically integrates into all online and in-app platforms that already accept the Apple Pay® mobile payments solution, allowing customers the ability to take out a small-dollar, zero-interest loans from Apple's in-house lender (Apple Financing LLC) to turn a single payment into four payments spread over six weeks.[30]

Insurance

Embedded insurance products provide customers with protection over an asset or activity, that is generally underwritten at the point of sale and bundled (if consumers desire) directly into the purchase price of that asset or activity. For example, Wakam provides trip delay and cancellation insurance that can be embedded directly into a travel agency's booking experience.[31] As well, Raiffeisen Austria offers short-term ski accident insurance directly in its payment app, when a lift ticket or ski resort stay ticket is purchased.[32] Often, embedded insurance products are tied to parametric outcomes. For example, in the case of travel, insurers monitor airport arrival and departure statistics to automatically initiate claims on the customer's behalf.

Leading examples:

As digital advice powered by AI continues to improve, we are also seeing more examples of embedded insurance purchases being recommended, or triggered, autonomously. CoverGenius' Geniebot solution can analyze a consumer's transaction history, and proactively recommend real-time protection on purchases (e.g., cancellation protection on concert tickets).[33]

Investments and advice

The embedding of investment and advice products is a nascent space, but we are beginning to see early examples emerge–allowing users to view market data or purchase securities directly from third-party, non-broker platforms. Furthermore, with the rise of Generative AI, it's not hard to imagine a future where an AI-based personal assistant (perhaps one linked to a FI) that 'follows' your online and financial activity and is able to provide real-time advice and recommendations. For example, it may recommend an insurance product after you have made a large asset purchase (e.g., a car), or automatically sweep your paycheck into different spending, saving, and investing pools based on your goals and risk tolerance.

Leading examples:

For example, in early 2023, Twitter announced that it would allow users to view market information on the platform, as well as buy and sell securities linked via the 'Cashtag' feature–all made possible through a partnership with broker-dealer eToro.[34]

All the embedded finance examples discussed can take place via business-to-business (B2B) or business-to-consumer (B2C) transactions, as shown in the examples below:

Figure 3: B2B journey example[35]

B2B example: paying invoices

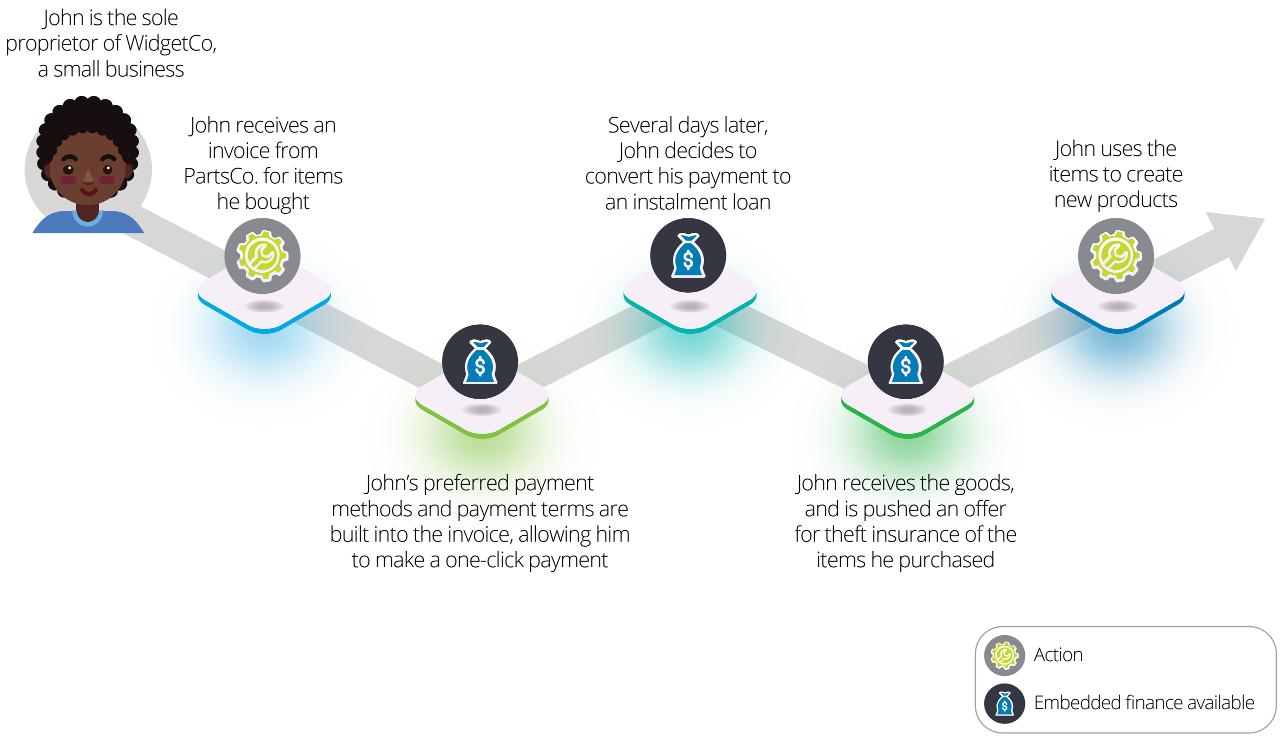
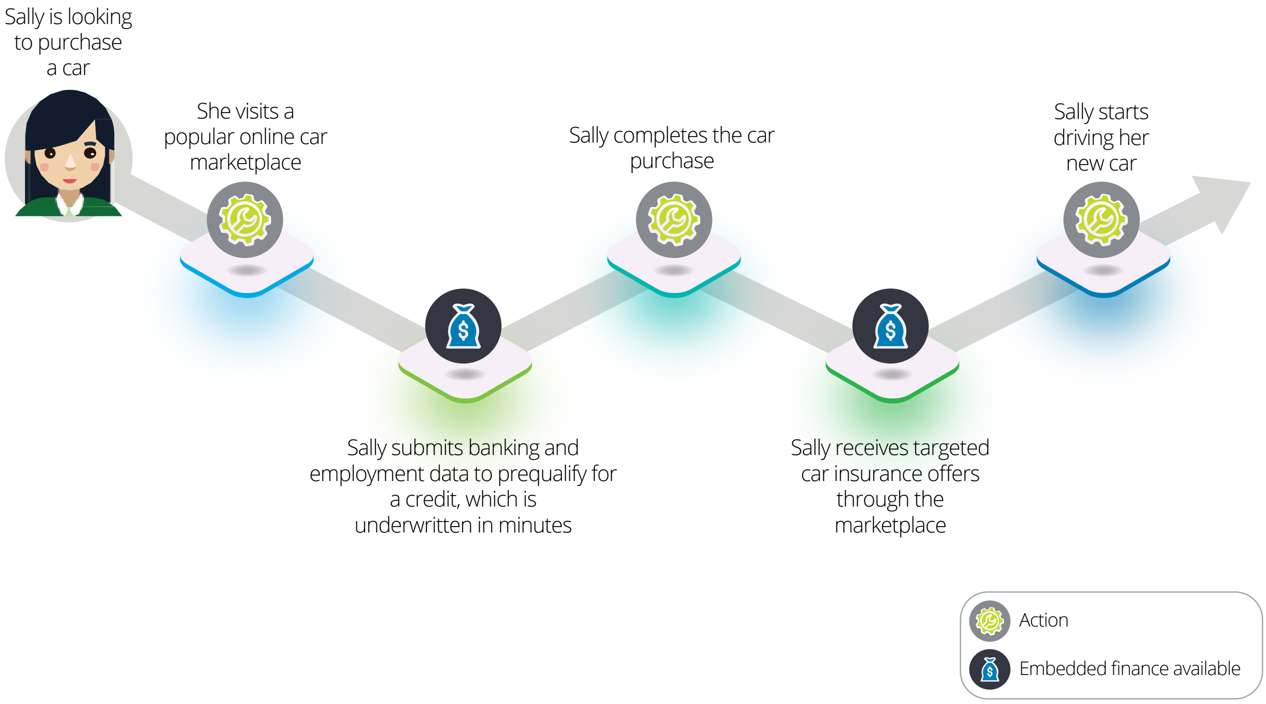


Figure 4: B2C journey example[36]

B2C example: buying a car



Contacts

Neal Baumann
Global Financial Services Industry Leader
Deloitte Global
nealbaumann@deloitte.com

Michael Tang
Partner,
Deloitte Canada
mtang@deloitte.ca

Luca De Blasis
Manager,
Deloitte Canada
ldeblasis@deloitte.ca

Peiching Teo
Senior Consultant
FSI Strategy, Deloitte Canada
pteo@deloitte.ca

Jessica Renier
Managing Director,
Digital Finance, IIF
jrenier@iif.com

Conan French
Director,
Digital Finance, IIF
cfrench@iif.com

Gloria Sánchez Soriano
Sr. Advisor,
Digital Finance, IIF
gsanchezsoriano@iif.com

Daniel Mendez Delgado
Assc. Policy Advisor,
Digital Finance, IIF
dmendezdelgado@iif.com

The Institute of International Finance (IIF) is the global association of the financial industry, with about 400 members from more than 60 countries. The IIF provides its members with innovative research, unparalleled global advocacy, and access to leading industry events that leverage its influential network. Its mission is to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth.

Endnotes

1. "Embedded Finance: What it is and How to Get it Right." Forbes. August 2021.
2. "The rise of embedded finance." Abn Amro Ventures and Deal room. 2022.
3. https://www.sensedia.com/post/what-is-the-platformization-learn-how-to-compete-in-the-age-of-digital-platforms
4. "Fintech and The Future of Finance Glossary." World Bank. 2022. The World Bank defines contextualized finance as "the provision of a financial service in the context, or integrated into the workflow, of another activity (for example, integration of payments into the ride activity on a ride-hailing platform)."
5. "Embedded Finance: What It Takes to Prosper in the New Value Chain." Bain Capital. 2022.
6. For more detail on this, see "Deep Dive" section of this report.
7. Deloitte & IIF research, 2023.
8. "Explore Marketplace." DBS. 2023.
9. For more detail on this, see "Deep Dive" section of this report.
10. "The Changing Face of Banking." Tuum. February 2023.
11. "Tapping Embedded Finance: Let the Revenue Stream." EU Startups. May 2023.
12. "Embedded Wealth Management: A $100B Market Opportunity Hiding in Plan Sight." Additiv. September 2021.
13. "Shop pay." Shopify. 2021.
14. See footnote 1
15. "Cloud adoption and regulation in Asia-Pacific financial services." Institute of International Finance. November 2021.
16. Deloitte and IIF research, 2023
17. "What's in store for embedded finance?" CGAP. November 2022.
18. "The rise of embedded finance." Abn Amro Ventures and Deal room. 2022.
19. "The rise of embedded finance." Abn Amro Ventures and Deal room. 2022.
20. "The rise of embedded finance." Abn Amro Ventures and Deal room. 2022.
21. "Fintech scales vertical SaaS." Andreessen Horowitz. August 2020.
22. "Embedded Finance is Driving Innovation and Differentiation in Banking." Gartner. 2022.
23. Digital Identity plays a crucial role in KYC and KYM measures, for more information, refer to our earlier report in the series: "Ecosystem Imperative: Digital Transformation of Financial Services and Moving from Open Banking to Open Data". Digital Identity is not a feature exclusively applicable to individuals, According to a report by the World Economic Forum: "Many things can have a digital ID, from hardware such as Internet of Things (IoT) devices to organizations, including corporate entities." Reimagining Digital ID. WEF. Insight Report. June 2023.
24. "Embracing Fintech Responsibly through Regulation and Supervision." World Bank. March 2023.
25. "Commercial Banking Customers Want Digital Products, Personalized Services That Resemble Consumer Accounts." PYMNTS. November 2021.
26. "B2B Embedded Finance Payments Expected to Triple to £2.6trillion by 2026." The Fintech Times. September 2022.
27. "The rise of embedded finance." Abn Amro Ventures and Deal room. 2022.
28. "B2B e-commerce." Shopify. 2021.
29. "Fully-frictionless shopping booms, as number of checkout-free stores triples." RBR. June 2022.
30. "Apple introduces Apple Pay Later to allow consumers to pay for purchases over time." Apple. March 2023.
31. "Wakam's embedded parametric solutions for travel insurance." Instech. July 2021.
32. "The Ski Accident Insurance You Can Activate At The Ski Lift." Bsurance. March 2020.
33. "Geniebot: Relevant protection powered by AI." Cover Genius.
34. "Twitter partners with eToro to let users trade stocks, crypto as Musk pushes app into finance." CNBC. April 2023.
35. Deloitte and IIF research, 2023.
36. Deloitte and IIF research, 2023.

ALLOY

2024

State of Embedded Finance

How sponsor banks are managing compliance in fintech partnerships

Introduction

In recent years, embedded finance has grown as a new business model. It addresses customer needs by offering traditional banking products and services through financial technology (fintech) and non-financial platforms.

Research indicates a growing customer appetite for financial products from the non-financial brands they regularly interact with. However, evolving regulations and a surge in consent orders have highlighted a critical oversight in the embedded finance ecosystem: Many banks are failing to ensure their fintech partners are implementing strong risk and compliance measures, particularly in customer onboarding.

To better understand the impact that embedded finance partnerships and regulations are having on sponsor banks, Alloy surveyed 51 professionals at banks that partner with fintechs to deliver embedded finance products in the United States.

This report examines embedded finance opportunities, partnership models, and associated regulatory challenges.

Table of contents

Important terms and definitions

Embedded finance

The integration of a financial product or service into a fintech or non-financial company's offerings.

Sponsor bank

A bank that partners with a fintech or non-financial company so they can provide financial products or services to their customers.

Fintech

Businesses that leverage technological innovation to extend financial products or services. These may be financial or non-financial brands.

Banking-as-a-Service (BaaS)

A business model where banks or bank intermediaries partner with fintechs and non-financial companies to make financial products and services available to consumers and businesses.

→ Learn more

About the survey

About the survey

Methodology

Alloy surveyed 51 professionals at banks that partner with fintechs to deliver embedded finance products or services in the United States.

The data includes responses from small, medium, and large organizations.

Fielded: 5/30/24 - 6/5/24

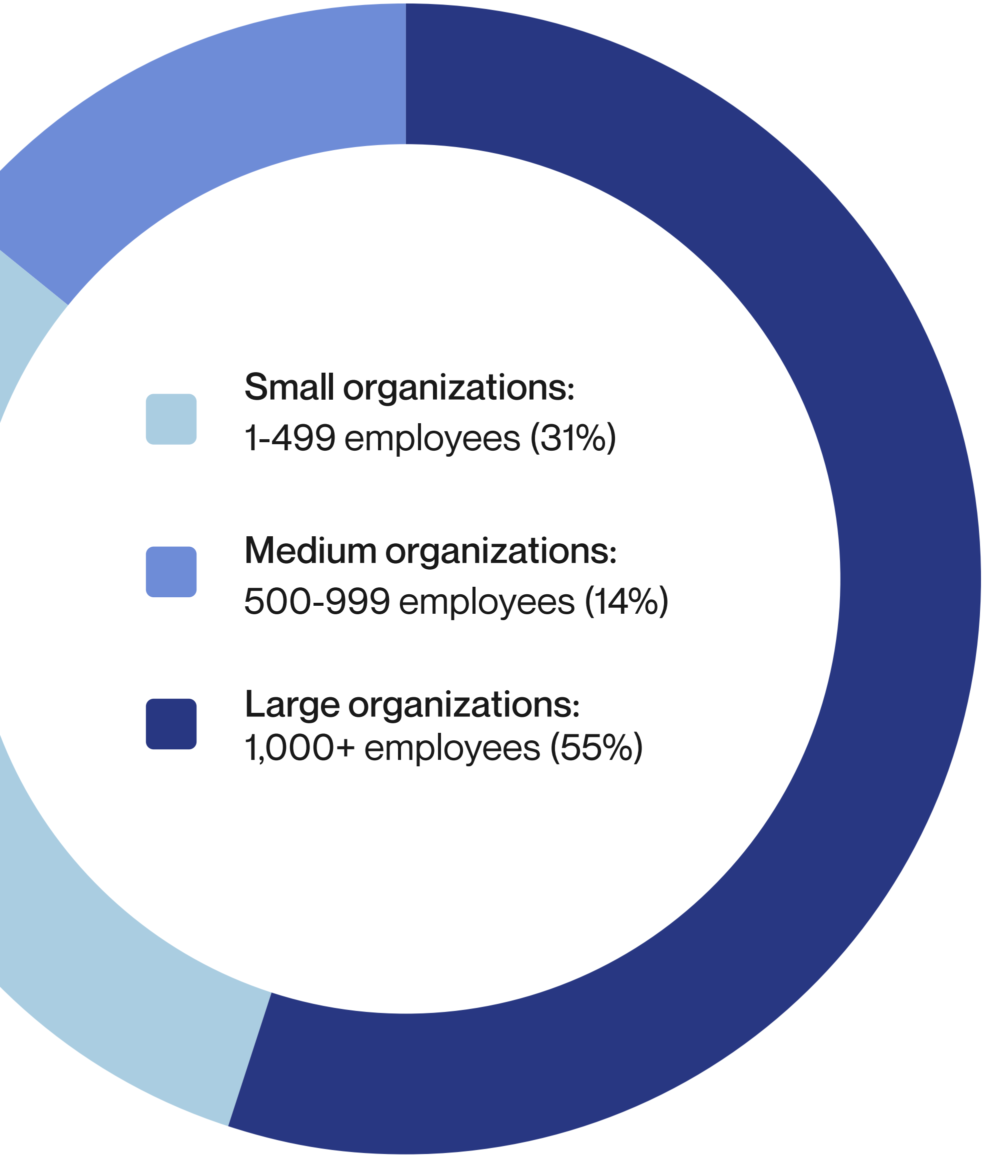
Sample size: N=51

Respondent requirements

- Employed by a bank with a sponsor bank program, at least one fintech in its embedded finance portfolio, and at least $2 billion in assets under management (AUM)
- 18 years or older
- Holds a director role or higher
- Lives in the US

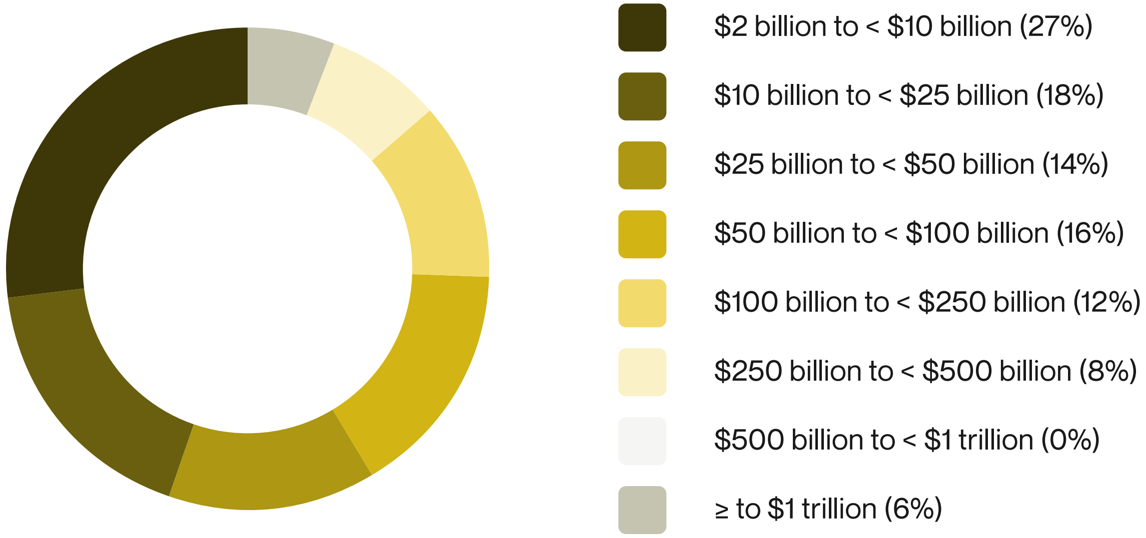
The survey was conducted by The Harris Poll, a US-based research and analytics company in operation since 1963.

Banks surveyed



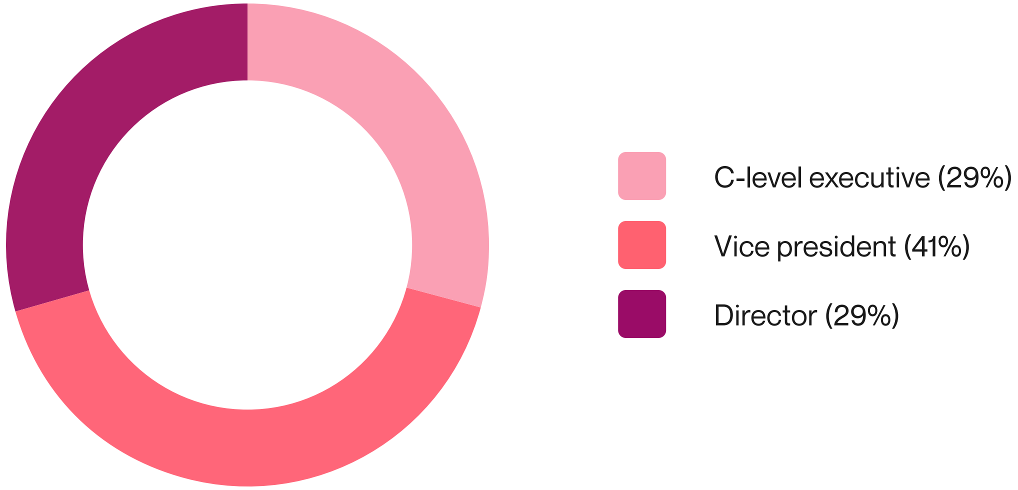
Assets under management (AUM)

While half of survey respondents worked for organizations with over 1K employees, nearly 60% worked for local and regional banks with under $50B in AUM.



Respondent job title

Respondents held a director-level position at minimum and were involved in embedded finance operations at the time of the survey.



Key findings

How are embedded finance programs impacting US sponsor banks in 2024?

94%

say that it is "very or somewhat important" for their organization to invest in new compliance technology and increase compliance training

80%

agree that meeting sponsor bank compliance requirements is challenging

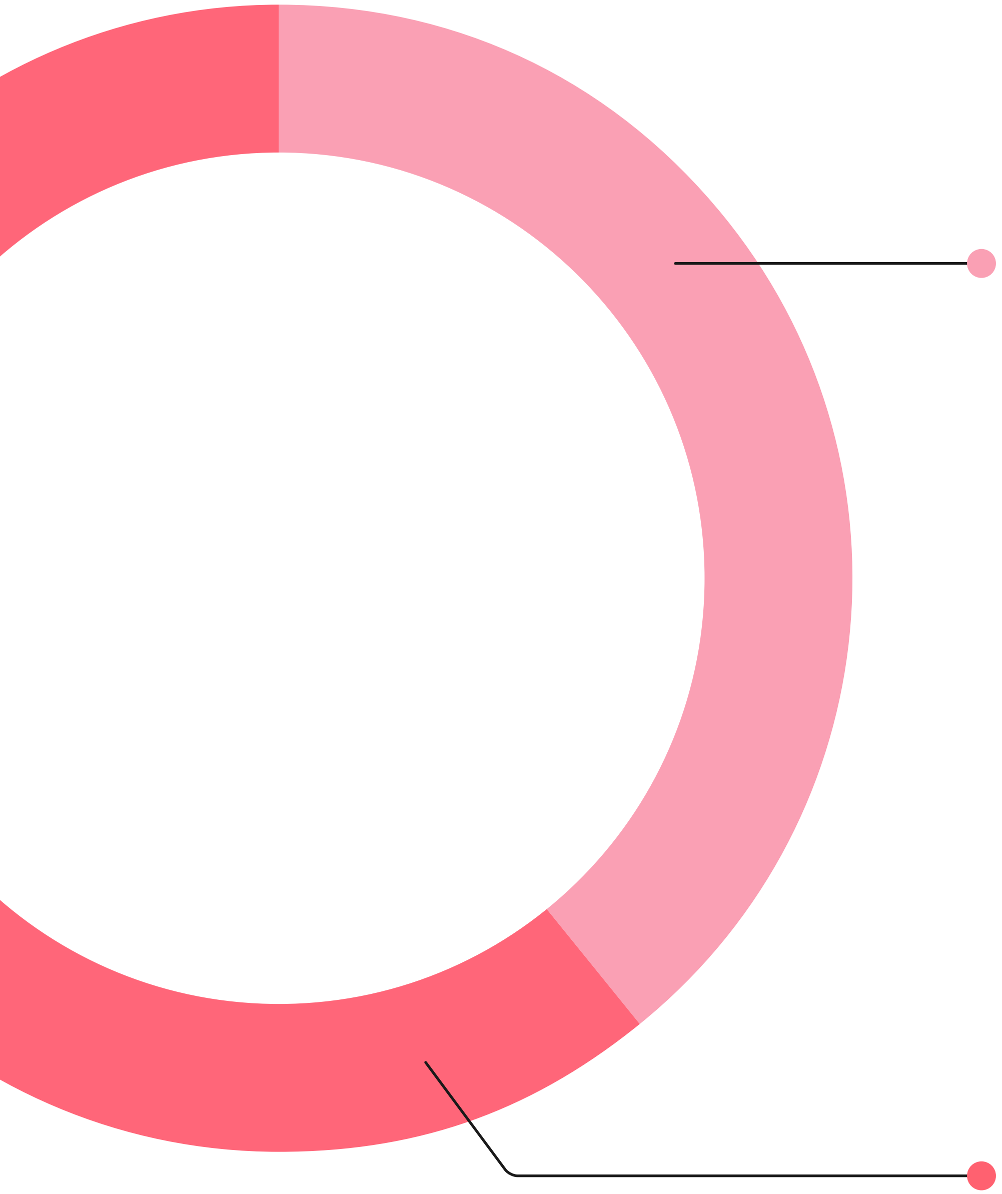
51%

of sponsor banks' revenue and deposits, on average, are driven by embedded finance partnerships

39%

of sponsor banks lost at least $250K to compliance violations in their embedded finance partnerships

Current partnership structures



Banks are increasingly choosing to contract directly with fintech partners

Banks are shifting towards contracting directly with fintechs, moving away from the previously widely used model of contracting via a BaaS platform. While BaaS platforms are becoming less common at the contract layer, they are still prominently used as part of the tech layer.

Alloy insight

As API standardization facilitates integration access, we expect these direct banking relationships to become more common.

Alloy insight

Sponsor banks apply one of three compliance models to their fintech partnerships:

Low — Level of fintech autonomy — High

Compliance-as-a-service

Sponsor banks directly control their fintech partners' risk management processes, handling the frontline work of case management and compliance monitoring.

Middleware program managers

Middleware tech solutions work with fintech partners to implement embedded finance programs, owning their fintech partners' risk management.

Bank-as-regulator

Banks monitor their fintech partners' processes and end-customer volume and may allow fintechs to own design and operation of frontline risk management controls.

Source: Fintech Takes

92%

of sponsor banks believe that there is a need for more adaptable embedded finance partnerships between banks and fintechs

Alloy insight

Different compliance models offer unique advantages to sponsor banks. For instance, the compliance-as-a-service model is particularly beneficial for banks offering higher-risk products, provided they have the capacity to oversee their fintech partners' compliance processes.

The growing trend toward bank-direct relationships reflects an industry-wide desire for more flexible embedded finance partnerships. This shift is causing sponsor banks to increasingly opt for direct contracts with fintech partners. Flexibility allows sponsor banks and their fintech partners to optimize their joint success by managing the risk unique to each partnership instead of taking a one-size-fits-all approach.

As third-party risk management intermediaries continue to become less common, banks face a new challenge: They must develop alternative methods to oversee their fintech partners while still promoting autonomy.

This balance between supervision and independence will be crucial in shaping the future of bank-fintech partnerships.

Sponsor banks' top motivators for seeking embedded finance partnerships:

1
41%
Innovation and acceleration

2
39%
Customer acquisition

3
37%
Cost reduction and efficiency

4
35%
Greater customer experience and retention

5
31%
Competitive pressure

Over half of sponsor banks' deposit income and revenue comes from embedded finance partnerships

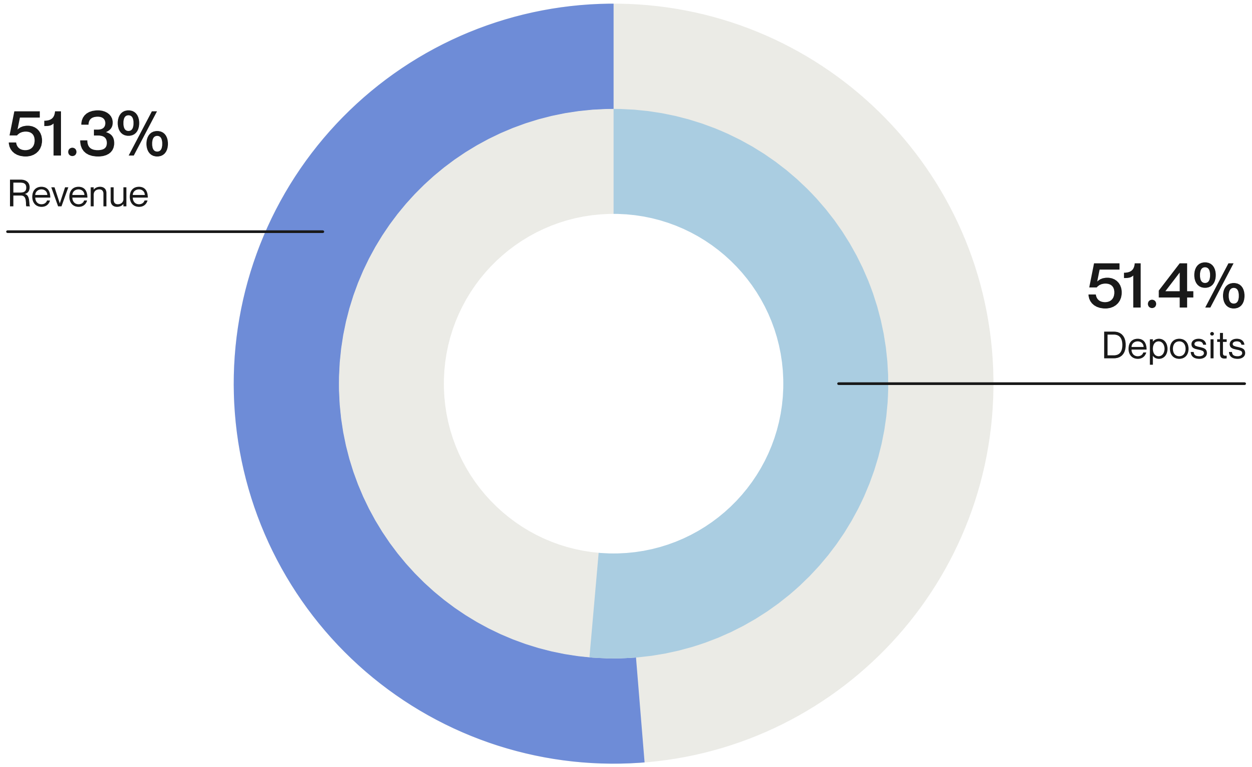
Alloy insight

Embedded finance partnerships offer sponsor banks an efficient way to increase deposits without direct customer acquisition costs. Their fintech partners effectively handle customer acquisition for them.

However, banks have multiple avenues for generating revenue from fintech partnerships — such as through fee-based partnership models — demonstrating their ability to craft multifaceted monetization strategies beyond traditional deposit growth.

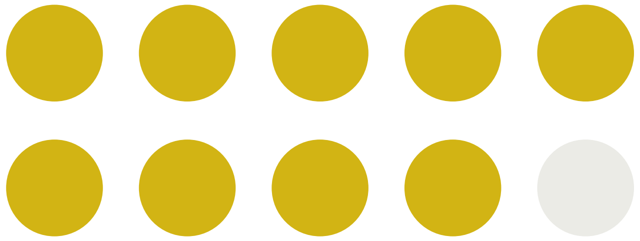
This diversity in partnership strategy explains why deposit growth, despite its importance, isn't always a top priority (as evidenced on page 13).

Average percentage of deposits and revenue acquired by sponsor banks through embedded finance partnerships, compared to other means



9 in 10

sponsor banks say that embedded finance partnerships make up a significant portion of their revenue



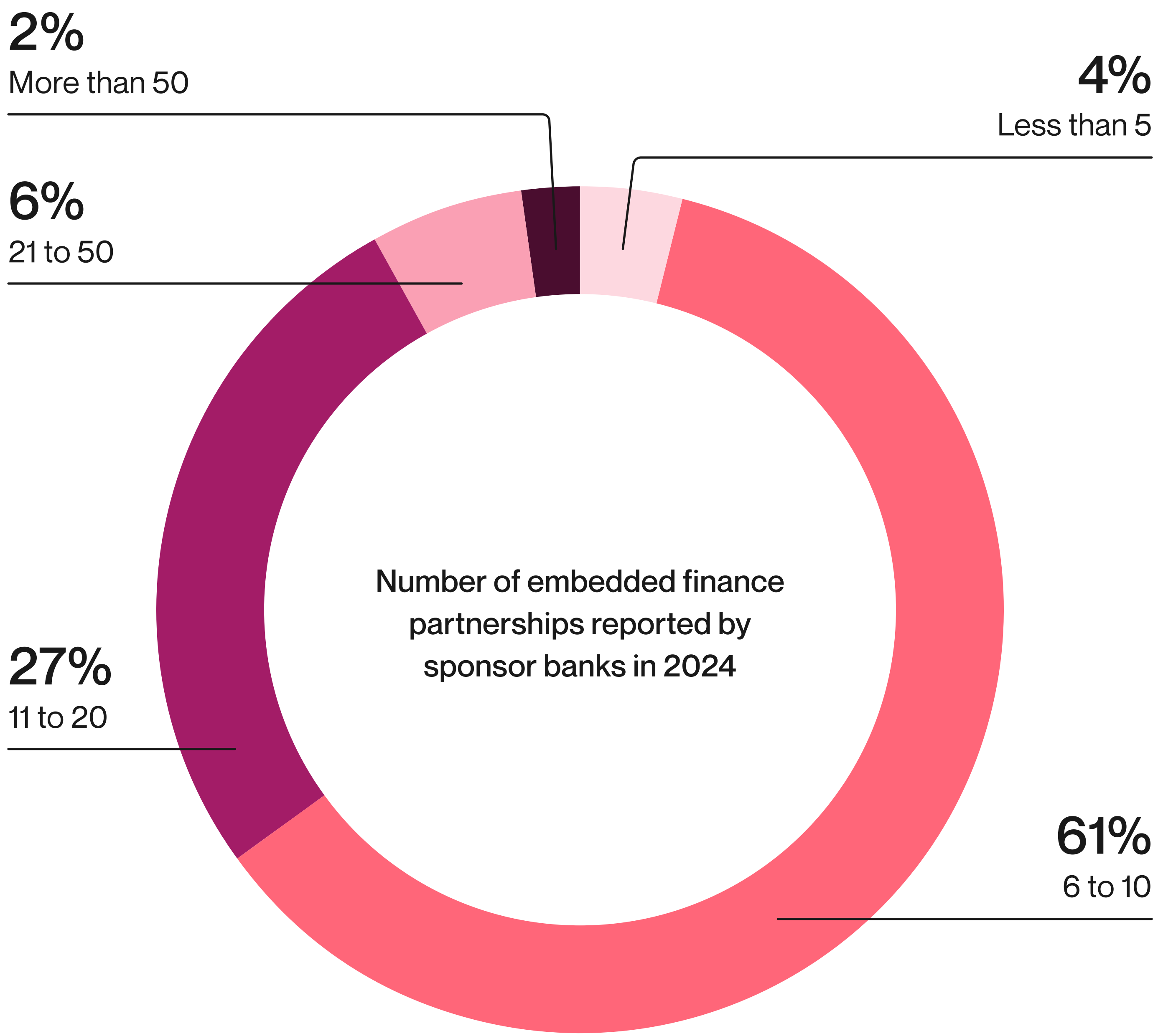
Most sponsor banks report 6 to 10 embedded finance partnerships

Alloy insight

With 96% of sponsor banks operating more than five embedded finance partnerships, banks may be diversifying their partnerships to spread risk and increase opportunities across different fintech sectors or customer segments.

This also suggests that sponsor banks need scalable processes and infrastructure to support their embedded finance initiatives across multiple partners.

The quantity of partnerships doesn't necessarily correlate to the percentage of a sponsor bank's revenue derived from embedded finance; some sponsor banks may only have a few fintech partnerships that generate a significant amount of revenue.



However, compliance is becoming a barrier to the viability of embedded finance relationships

80%

of sponsor banks say that managing and meeting compliance requirements **is challenging**

61%

of sponsor banks say maintaining an embedded finance partnership program **is becoming increasingly difficult**

29%

of sponsor banks report they are **unlikely to maintain** an embedded finance partnership program moving forward

Fintechs' focus on rapid innovation and user-friendly experiences can sometimes clash with the stringent compliance requirements banks must uphold. This divergence in priorities can create tension in embedded finance programs.

To sustain long-lasting partnerships with fintechs, sponsor banks must strike a balance between offering competitive terms and maintaining robust risk management practices that fintechs can keep up with.

Alloy insight

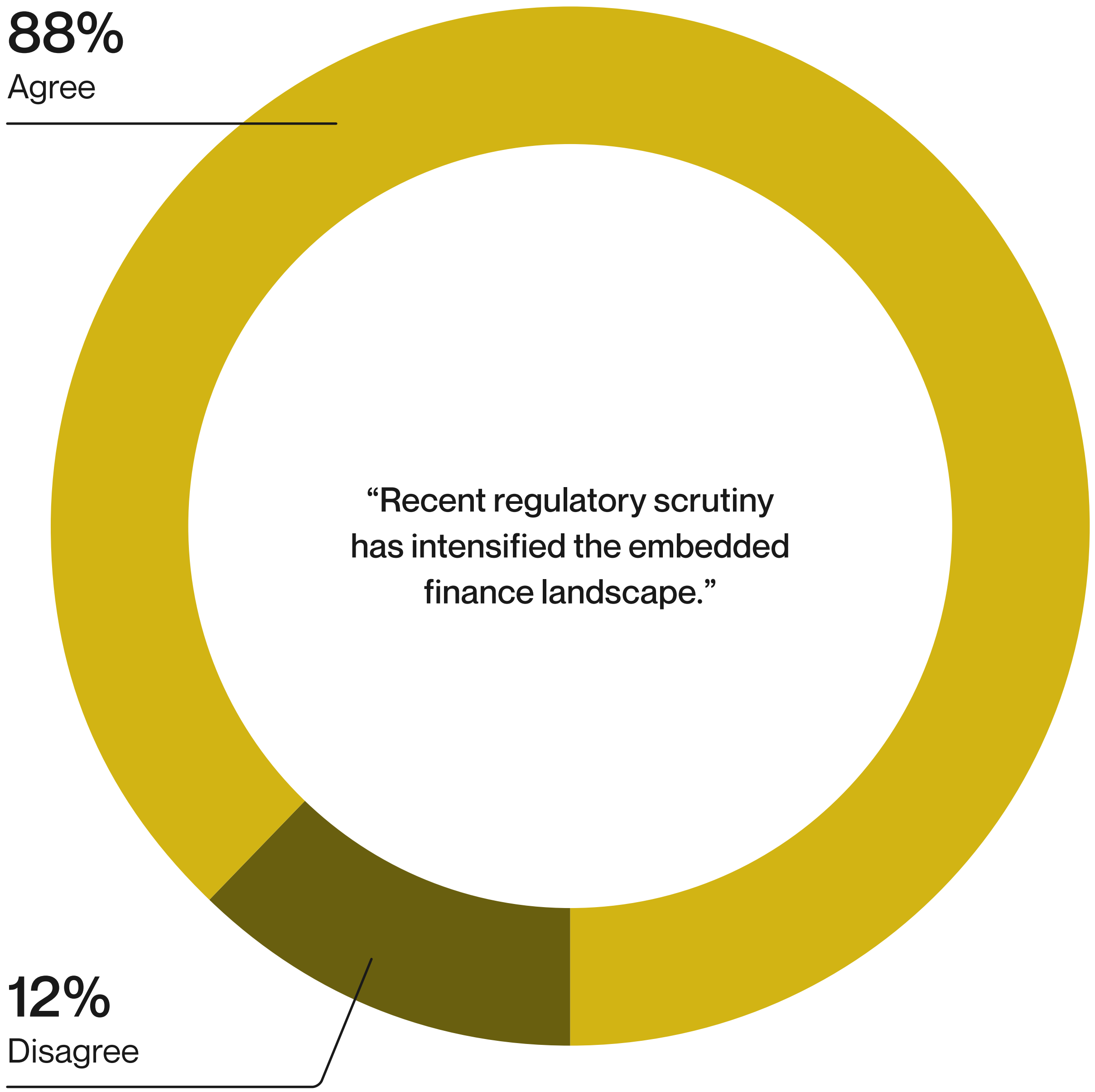
29% of sponsor banks report wanting to slim down their embedded finance program or shut it down entirely. The challenges of maintaining a multi-partner program have discouraged over a quarter of respondents from running an embedded finance partnership program.

Compliance concerns

88%

of sponsor banks agree that recent regulatory scrutiny has turned up the heat on embedded finance partnerships

Participants were asked whether they agreed or disagreed with the following statement:



9 in 10 sponsor banks find it hard to meet compliance requirements when managing embedded finance partnerships

Lack of control and auditability of fintech partners' policy controls were cited as top challenges for sponsor banks.

Ensuring compliance across multiple jurisdictions and accessing training and educational resources on evolving regulations were also top challenges.

Top challenges to meeting compliance requirements as a sponsor bank:

Primary challenges

1. Lack of control over fintech partners' policy controls
2. Not enough auditability of fintech partners' policy controls
3. Challenges in ensuring consistent compliance across multiple jurisdictions
4. Limited access to relevant training & educational resources on evolving regulations

Secondary challenges

5. Difficulty in aligning internal policies with those of fintech partners
6. Regulations and/or regulators' expectations are unclear
7. Lack of visibility into fintech partners' policy controls
8. Not enough risk management personnel

9. N/A - I don't find any challenges meeting compliance requirements

Compliance violations often lead to financial losses for sponsor banks

75%
lost $100K or more

39%
lost $250k or more

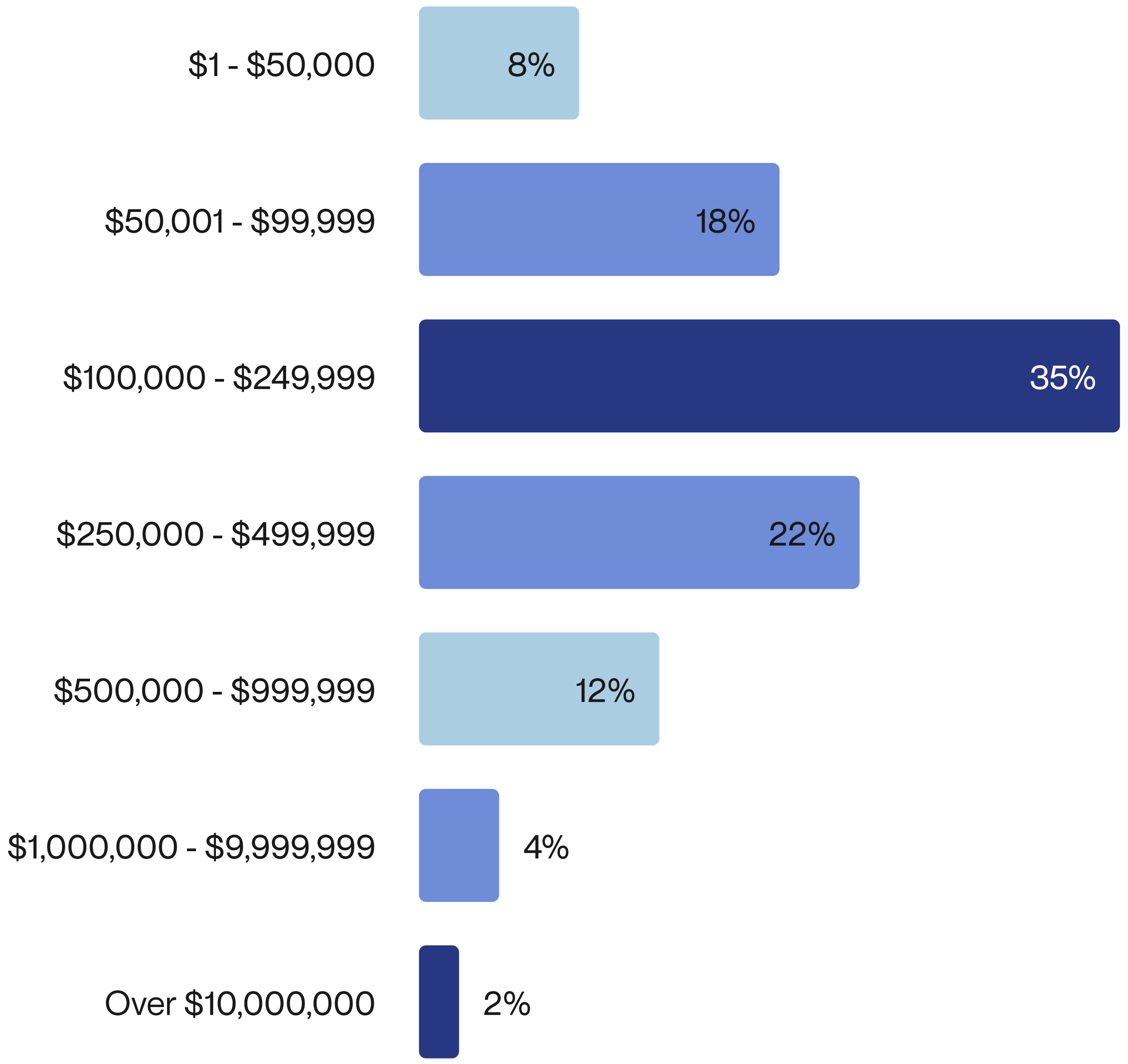
6%
lost $1M or more

Alloy insight

Often, sponsor banks build into their contracts that they can push any regulatory fines off to the fintech, which could be driving down financial impact.

Additionally, regulatory penalties are often delayed, so the true cost of compliance failures in 2024 may not be fully realized for years to come.

Money lost from compliance violations
(Includes documented financial losses and regulatory fines)



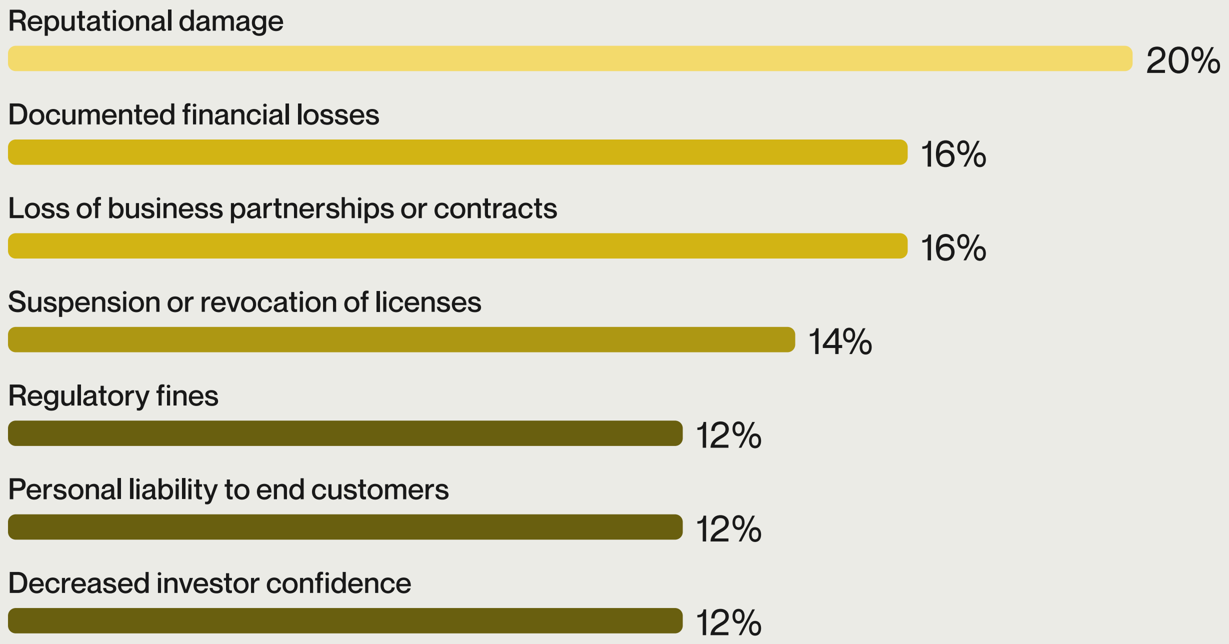
Despite steep monetary losses, banks say reputational damage is the top consequence of compliance violations

01 Reputational damage (20%)

02 Documented financial loss (16%)

03 Loss of business partnerships or contracts (16%)

Sponsor banks reported on the most detrimental consequences of compliance violations:



Alloy insight

Many of the consequences directly impact multiple areas. For example, regulators will often turn up scrutiny if they detect issues when they are examining a bank. This may result in a public enforcement action, which could then result in reputational harm. When there is reputational harm, existing clients may lose faith in the institution and seek out another sponsor bank — leading to a loss of business partnerships or contracts.

In light of these consequences, sponsor banks are increasing oversight of fintech partnerships

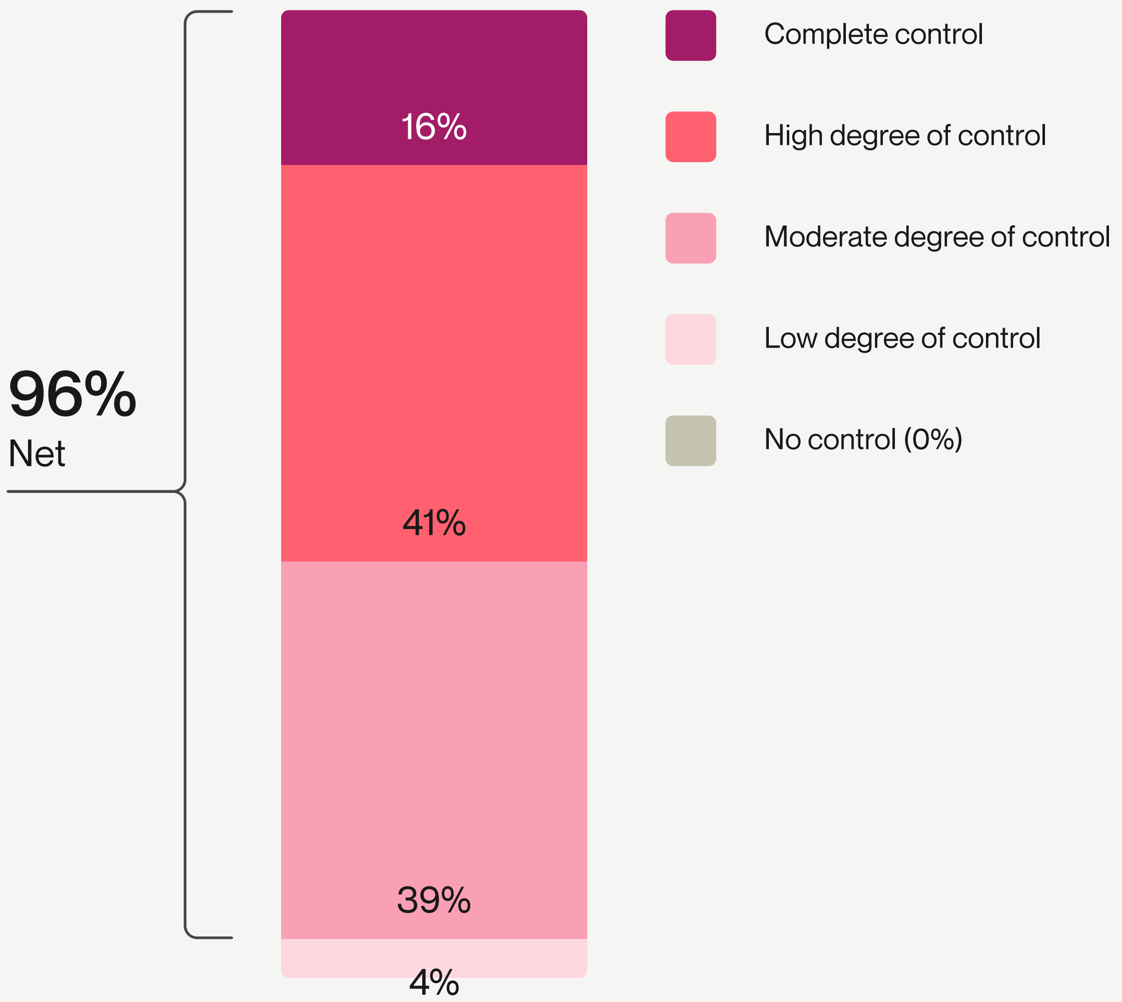
This shift suggests that banks may have lacked the technological infrastructure necessary to maintain adequate oversight in the past.

96% of banks want at least a moderate degree of control over the compliance programs of their fintech partners. While sponsor banks believe they have substantial control over their embedded finance partnerships, the operational challenges they face (page 19) tell a different story.

There is also a potential bias in self-reporting, where banks may overstate their level of control.

Participants were asked:

"How much control have you historically had over the compliance programs (e.g., CIP, AML, KYC/KYB) of your fintech partners?"



Evolving partnership needs

Despite the risks, bank-fintech partnerships remain valuable

Despite regulatory scrutiny, embedded finance collaborations between banks and fintechs continue to offer significant benefits. These partnerships result in more comprehensive coverage of financial services, ultimately benefiting customers through enhanced and diversified offerings, seamless experiences, and improved financial health.

With fintechs excelling at customer acquisition and innovation, sponsor banks can focus on core strengths like banking infrastructure and regulatory compliance. This not only leads to more resilient partnerships, but also drives growth for both parties.

Diversifying bank-fintech partnerships enhances financial resilience and allows banks to adapt to changing market conditions.

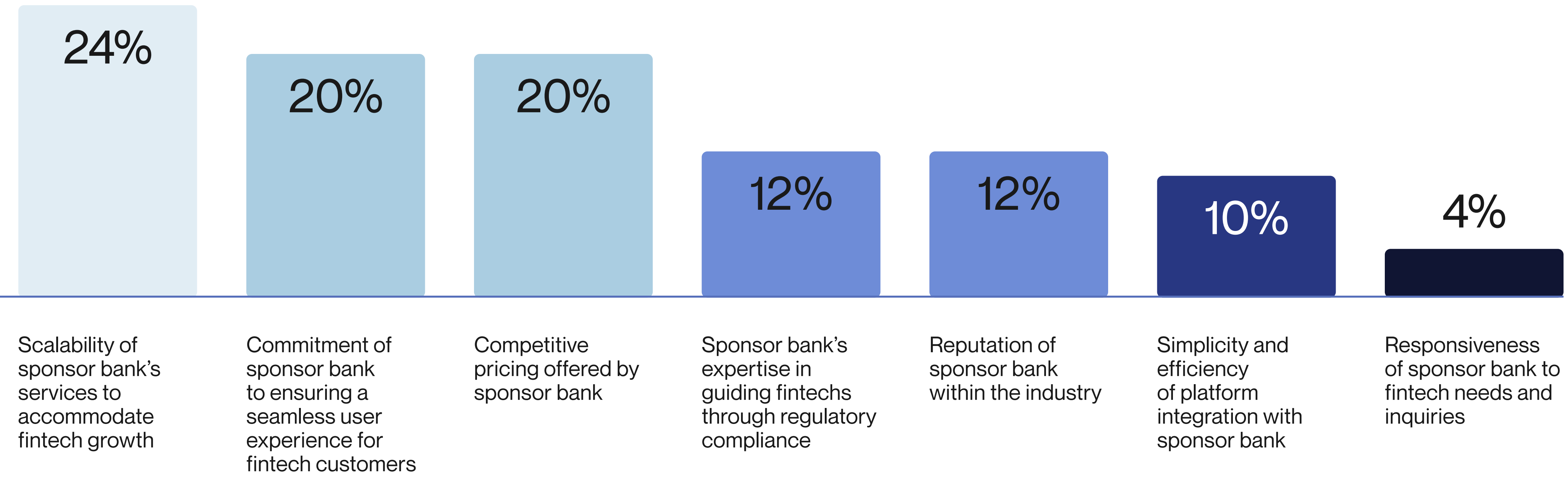
As a result, many banks view these partnerships as crucial for maintaining competitiveness and securing a larger stake in the rapidly evolving embedded finance ecosystem — even though it may be challenging to do so.

To remain competitive, sponsor banks must be aware of their fintech partners' evolving needs.

Sponsor banks report that fintechs want relationships with banks that are committed to a smooth user experience and offer scalable, competitively priced services

Participants were asked:

"What primary factor do your fintech partners emphasize when selecting you as their sponsor bank?"

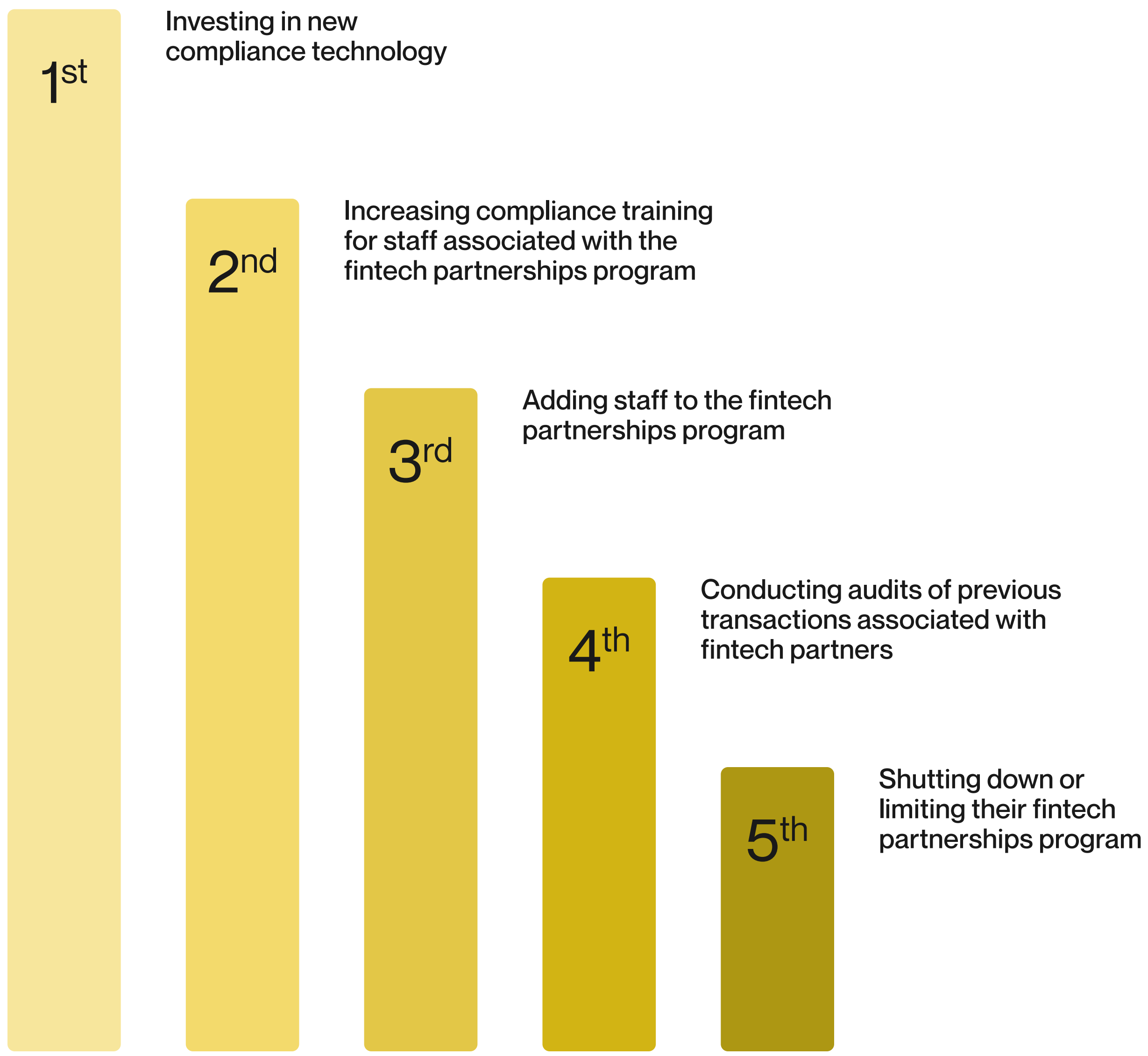


As partnership and regulatory needs evolve,

94%

of sponsor banks are investing in new compliance technology and increasing training

Top 5 actions sponsor banks are taking in response to heightened regulatory scrutiny of fintech partnerships, from most to least important:



Alloy trendspotting

What will change in embedded finance compliance in the next year?

Predictions from **Parilee Wang**, Alloy's Chief Product Officer

The era of treating compliance as a "check-the-box" exercise is ending. Fintechs are expected to take a more proactive stance on compliance policies, driven by evolving contractual relationships with sponsor banks and the potential for increased liability for regulatory violations.

Additionally, the frequency and intensity of regulatory scrutiny are anticipated to rise, with some banks potentially facing more frequent and prolonged audits. This heightened oversight could significantly increase operational costs, even in the absence of specific violations.

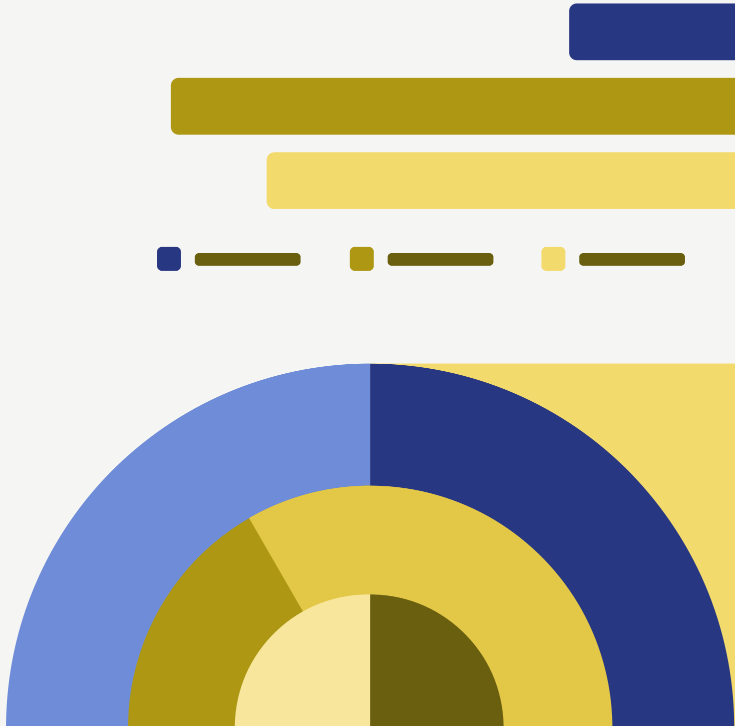
We can expect to see a marked increase in the barriers to entry for this space. This change will likely lead to a consolidation of players, with "dabblers" exiting the market and remaining participants approaching partnerships with greater seriousness and investment.

As a result, both banks and fintechs will need to invest more heavily in robust compliance programs and infrastructure that facilitate real-time collaboration to navigate these changes successfully.

Alloy trendspotting

What will change in embedded finance compliance in the next year?

Predictions from **Tommy Nicholas**, Alloy's Chief Executive Officer



With over a quarter of sponsor banks considering exiting embedded finance altogether — or decreasing their share in this market — banks need to significantly transform their operational approach to embedded finance. This shift presents an opportunity for innovative sponsor banks to distinguish themselves in the market.

Moreover, sponsor banks should anticipate a consolidation in the industry, with committed players emerging stronger and more capable of handling complex fintech partnerships.

As the ecosystem matures, we can expect to see the development of standardized best practices and more sophisticated risk management strategies. Banks that invest in these advanced systems and processes will be well positioned to capitalize on the long-term growth potential of embedded finance while also building trust with regulators and fintech partners alike.

The recent regulatory scrutiny has exposed the inadequacies of traditional oversight methods, necessitating a more proactive and integrated control system. By adopting cutting-edge technology platforms that offer real-time monitoring and shared control capabilities, banks can create a competitive advantage. These solutions not only address regulatory concerns but also enhance operational efficiency, potentially reducing the high costs associated with manual oversight processes.

Conclusion

Increased regulatory scrutiny and market changes are pushing banks to reevaluate their embedded finance programs to ensure they have the tools and oversight necessary to make them successful.

This approach is part of a broader shift away from intermediary BaaS platforms and towards direct relationships between banks and fintechs.

As more sponsor banks consider exiting the embedded finance space, we are likely to see market consolidation, with fewer but more committed players. We can also expect a more mature, stable, and compliant embedded finance ecosystem to emerge.

Despite challenges, the sector offers extensive opportunities for those willing to invest in compliance best practices. While regulations can be complex to navigate, they can also yield stable, profitable, and compliant partnerships that drive innovation and expand access to financial services.

In 2024, banks face a critical decision: invest in robust compliance solutions and fully commit to embedded finance, **or** risk exiting the business.

About Alloy

Alloy solves the identity risk problem for companies that offer financial products. Over 600 banks, credit unions, and fintechs turn to Alloy's end-to-end identity risk management platform to take control of fraud, credit, and compliance risks, and grow with confidence. Founded in 2015, Alloy is powering the delivery of great financial products to more customers around the world. Learn more at alloy.com.

Alloy for Embedded Finance provides flexibility in how embedded finance providers manage identity risk across their programs, enabling greater alignment with partners and ensuring compliance every step of the way. Our best-in-class compliance and risk tooling allows banks to focus on growing their business and open up new revenue streams, without compromising on risk, while enabling fintechs to customize controls and maintain their competitive edge.

Learn more about Alloy for Embedded Finance