WESTERN CREDIT UNION MANAGEMENT SCHOOL
PROJECT II

2025
(For the 2026 session)

Ryan Hirata – RyanH@hsfcu.com

Student's Name and E-Mail Address

Hawaii State Federal Credit Union

Credit Union Name

333 Queen Street, Honolulu, HI 96813

Address

April 15, 2026	**$2,861,467,470**
Date Submitted	End of year asset size (12/2025)

217 Prospect Street B4, Honolulu, HI 96813

Student's Address

VP, Marketing Manager	**(808) 372-2928**
Credit Union Position	Day Time Telephone Number

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I. PROJECT I INSERTION & CURRENT CONDITIONS UPDATE

A. PROJECT I INSERTION

Reproduce your Project I include it here, excluding the Project Reader evaluation and the entire Appendix.

This information is incorporated essentially as a reference point for your Project Reader and therefore requires no additional commentary from you.

Project I insert begins on the following page and continues through pages 3.0 – 3.102.

B. UPDATE CURRENT CONDITIONS

In Project I you completed an extensive overview of your credit union and its existing conditions.

In this section, update any **significant** changes that occurred since you completed Project I, including:

- Professional changes for you (e.g. your position, job responsibilities, credit union committee assignments, professional affiliations, etc.)
- Organizational changes within your credit union (e.g. structural changes, changes in CEO and/or other "C suite" roles, creation/termination of wholly-owned CUSOs, etc.)
- Mergers and Field of Membership expansions
- Operational and Product changes (e.g. new or closed branches, new technology implemented, new or eliminated products)

DO NOT include financial results as that information will be addressed in a different section of this project.

Professional Changes

My role as VP, Marketing Manager, remains unchanged, though my direct reports increased from four in October to six in April. In October 2025, I presented for the first time as a standalone breakout speaker at the MAC Conference in Fort Lauderdale, Florida. My 50-minute session, "Digital Strategies to Elevate the In-Branch Experience," covered scalable design, technology that supports staff, and purposeful content that builds member loyalty. The session was full, with about 50 attendees. I talked to all my slides, no one left, and there were post-session questions. I'd consider that a win.

Organizational Changes

In 2025, Hawaii State Federal Credit Union (HSFCU) underwent its second reorganization in two years, prompted by the impending retirement of a senior executive. The most significant structural change was the formalization of a Chief-level leadership tier. The EVP of Commercial and Retail Banking Strategy became Chief Growth Officer, and the EVP of Retail Experience and Operations became Chief Operations Officer. My direct supervisor was promoted to Chief Marketing Officer and now reports directly to the CEO. For the Marketing Department, this shift brought greater visibility at the executive level and a clearer line of strategic influence in organizational decision-making.

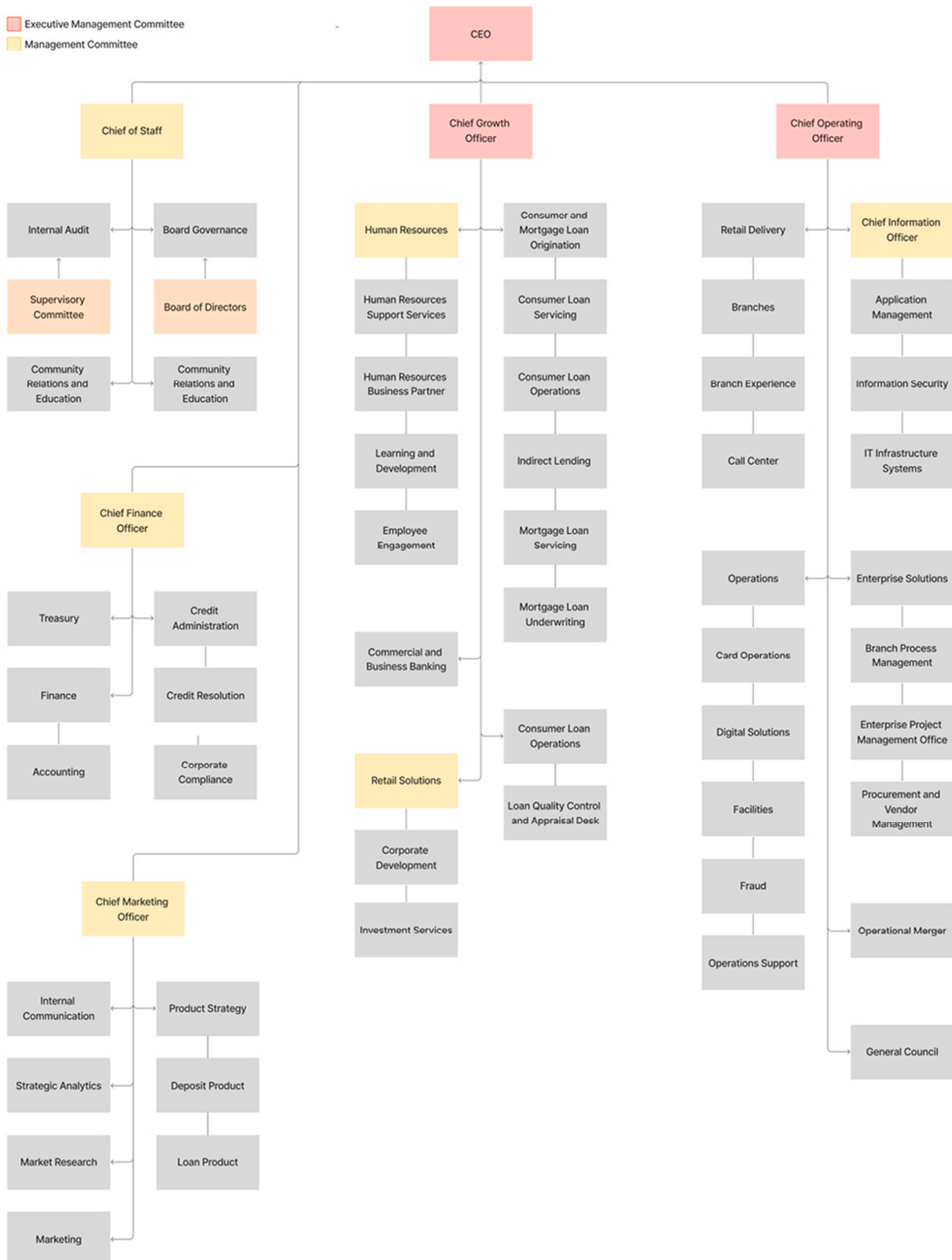


Figure 1: Updated Organization Chart 2026

Mergers and Field of Membership Expansions

A major development this year was the completion of our merger with HMSA Employees Federal Credit Union (HMSA EFCU). Discussions started in July 2024, with a member vote in October, and a public announcement in January 2025. System integration occurred in September 2025.

The merger was a significant step in building a strong alliance and a key cornerstone of HSFCU's de novo strategic plan. It was driven by a joint commitment to member care, combining HMSA EFCU's $50 million in assets and 2,600+ members into the credit union's growing membership base. Beyond the financial scale, the merger advances several strategic objectives simultaneously. Members of both institutions benefit from enhanced value and services, and the combined organization carries greater financial strength and stability. The merger also improves HSFCU's ability to withstand competitive and regulatory challenges while creating economies of scale that improve operational efficiency.

Strategically, the merger adds a meaningful new SEG to HSFCU's charter. HMSA employs approximately 1,500 people statewide in the healthcare sector, a natural complement to HSFCU's mission to promote financial and personal wellness. The addition of HMSA EFCU's Keʻeaumoku branch, now operating within the HMSA Headquarters Building, expands HSFCU's physical reach and improves service access for both memberships without requiring a new branch buildout, a cost-efficient outcome with long-term network implications.

Operational and Product Changes

Following the merger, HSFCU launched several key initiatives in 2025 that required the Marketing Department's involvement across strategy, design, communication, and execution.

In April, we launched a completely redesigned website, replacing the former site that had been in place since 2014. In May, we renovated and modernized our oldest branch, the Kaimuki Branch. In August, to support the merger, we opened the new Ke'eaumoku Branch in the HMSA Headquarters Building. In October, we completed a debit card conversion that included changing Bank Identification Numbers (BIN), redesigning four card designs, and reissuing approximately 90,000 debit cards. Also in

October, during the federal government shutdown, we launched an Emergency Financial Assistance Program that provided over $400,000 in relief to affected members.

Taken together, these initiatives reflect a year in which HSFCU absorbed significant operational complexity while continuing to invest in the member experience. Each project required cross-functional coordination, and the Marketing Department's role in executing them reinforced both the breadth of the department's responsibilities and its position as a strategic contributor to the organization's forward momentum.

C. RESEARCH COMPONENT

Artificial Intelligence (AI) is predicted by some to offer the promise of transformational productivity growth for workers. (Singla et al., 2025). Others argue the promises of AI have been overstated. (Smith, 2024). Some credit unions have rushed to incorporate AI applications to better serve their members, and numerous technology companies have begun offering AI supported applications to credit unions. Other credit unions have been more reserved. But what might this technology mean for your career and role as a strategic leader for your credit union?

This year's research section seeks to support your personal development given this new technology, which will in turn support your strategic leadership at your credit union. This section is meant to be distinct from all other sections of your project. Please do not alter the other sections of your project based on your answers in this section. Further, this section is meant to be based on your own readings and insights, not from discussions with leadership within your credit union. Where do YOU think AI will affect you and your role as a credit union leader?

1) What is your current familiarity and usage of AI technologies to support your leadership at your credit union? Please explain with specific examples, including any tasks in your role that you already augment with AI. Has AI meaningfully changed your decision quality, speed, or strategic insight?

2) How, if at all, have you used AI tools to support completion of your WCMS Project? Were there specific areas where you intentionally chose to utilize, or not utilize, available AI tools to support your development as a strategic leader within your Project? Why?

3) Please describe and justify your personal AI usage policy as a leader within your credit union. What tasks do you (or would you) delegate to AI, what will you never delegate, and how do you remain accountable? If your organization has an AI Policy, you may reference it, but your personal AI usage policy should be personalized to you and your responsibilities.

4) Finally, how do you predict AI technologies will change the skills needed at your credit union in the decade ahead? Please discuss two specific skills credit union leaders should be developing now to be prepared for how AI may change credit union employment in the decade ahead? Are you currently taking steps to develop these skills?

Please present your Research Component in four distinction sections, as outlined above. Support your analysis by (correctly) citing in your answers at least <u>two additional articles</u> that support some of your assertions (Two articles total, not two per section. Do not count the provided articles as one of the two additional cited articles.). The two articles must be from reputable, professional publications, but do not necessarily need to be recent. The articles should be used to support or challenge your arguments and be included as part of your Project Appendix section.

A father went to a Target store near Minneapolis, upset that his high school daughter had received coupons for baby products. The manager apologized, unaware of the reason. A few days later, the father called back to apologize. His daughter was actually pregnant. The store's predictive analytics algorithm had analyzed her purchasing patterns and assigned her a pregnancy prediction score long before she shared the news with her family (Hill, 2012).

This story took place in 2012, over a decade ago. It is a clear example of artificial intelligence (AI), particularly machine learning, applied to large datasets. AI used to be behind the scenes, but it is now common and available to staff, members, vendors, and competitors. For credit union leaders, the question is no longer whether AI will affect their work, but how they will choose to use it.

1) By 2021, predictive analytics and behavioral modeling were integral to our marketing strategies. Before ChatGPT, AI systems already helped us study consumer behavior, identify patterns, and improve our outreach.

With this foundation, we used AI to run retargeting campaigns that delivered relevant messages based on members' online actions. AI also shaped how we handled Generative Engine Optimization (GEO) as search strategies evolved. These tools made it easier to create and test headlines, allowing us to spend more time on strategy and brand voice.

As we used AI more, my decisions became faster and more precise. Still, we see AI as a tool that supports human skills, not as the final answer. Its value depends on people who can question its suggestions.

2) This careful approach guided my use of AI tools in both Project I and Project II. I used them only when it made sense, and I had a clear rationale for each decision. My primary AI tool was Otter.ai because it is accurate, reliable, and easy to use for transcription. I have used Otter.ai since my first year at WCMS. During interviews for both projects, Otter.ai recorded conversations in real time, allowing me to stay focused rather than taking notes. This helped me listen more closely and ask thoughtful follow-up questions. Otter.ai handled the record-keeping, and I focused on building relationships.

For Project II's visual design, I chose an AI tool that could generate and customize graphics based on examples I provided. This made it quick and easy to keep our design style consistent across all diagrams and infographics while maintaining a professional look and efficient workflow.

I chose not to use AI for the organizational chart because it involved sensitive information about our structure and staff. Sharing this data with an outside platform was not right, so I made the chart myself to keep things confidential.

3) This careful way of thinking shaped how I used AI overall. I only used it when it made things faster or better without risking deep thinking or data privacy. All the analysis, reasoning, and conclusions are my own. AI was just a tool to help with production, not a substitute for real thinking.

I have no problem letting AI handle certain tasks. These include grammar and copy editing, building Excel formulas, creating versions of visuals, and testing headlines. These jobs have clear results and low risks. I always review the work to make sure it's good. Letting AI do these tasks is part of being an effective leader.

But I set limits on what I give to AI. There are some tasks I won't delegate. I don't use AI to make my presentation decks. This is a practical choice. Building presentations helps me sharpen my arguments, find gaps, and really learn the material. If I skip this step, it shows when I get unscripted questions. Preparation matters.

I don't allow AI notetakers in meetings I run, and I remove them if they show up. First, it's about respect. If someone can't attend, they should send someone else or talk to me later. Second, transcripts can create big organizational and legal risks. A Fortune investigation found that AI notetakers recorded and shared sensitive comments, which led to serious HR problems (Stoller, 2026). Transcripts taken out of context have also shown up in HR and legal cases. This risk is real.

Industry-wide, credit unions face similar challenges. Leaders at institutions such as CEFCU and BCU have established AI governance frameworks, board-approved policies, and oversight committees. The risks of ungoverned AI adoption, including data exposure and regulatory liability, are significant and rising.

This inflection point recalls the early days of the internet. In the 1990s, organizations debated whether to build websites, a decision that soon became essential. Now, AI is advancing even faster. For credit union leaders today, the key question is not whether to participate, but whether they are prepared to compete.

4) Looking ahead, as AI continues reshaping the landscape, two skills will define credit union leadership in the decade ahead.

Skill 1: AI System Oversight and Output Management

The first skill is managing AI systems, not just using them. This distinction is critical. A Harvard Business Review study found that AI tools do not reduce work but intensify it (Ranganathan & Ye, 2026). Employees worked faster, took on more tasks, and extended their hours. But unmanaged AI adoption can lead to workload creep, cognitive fatigue, and rushed decisions.

For credit union leaders, this is a direct operational warning. AI's value is real but not automatic. Simply providing tools and measuring output may yield short-term gains. However, this can result in burnout, errors, and turnover. Leaders must structure AI-augmented workflows and set clear boundaries for AI use. They must also evaluate outputs with domain expertise. This is fundamentally a management skill involving technology.

I am actively developing this skill. Managing AI-assisted marketing workflows has shown me where automation adds value and where human judgment remains essential. I continue to build on this by staying informed, piloting new tools with governance in place, and approaching each AI implementation as a workflow design challenge.

Skill 2: AI Governance and Responsible Deployment

The second skill is AI governance: building, communicating, and enforcing policies that enable responsible AI use without losing ground to the competition. This is both a compliance and strategic leadership challenge. Fletcher and Sahagian (2026) published a detailed look at how credit union leaders across the country are approaching this in real time. The common thread across institutions of varying size and geography was that governance had to come first. Before deployment, before broad staff access, and often before the board had fully formed an opinion, the leaders who handled AI well were the ones who got ahead of the policy questions. They defined which data could be used in AI tools, which use cases were approved, how vendor AI would be audited, and the escalation path for issues.

For credit unions, the stakes are high. Member data is sensitive, regulatory expectations are increasing, and mishandled AI incidents carry significant reputational risk. Leaders who establish governance frameworks that balance innovation and accountability will earn board confidence. This also enables organizational agility.

I am developing this skill through my work with our credit union's AI committee, which evaluates new tools against business needs and risk parameters. This involvement has provided practical experience in operational AI governance. I plan to deepen this expertise through ongoing engagement with industry resources, regulatory guidance, and peer learning.

Ultimately, organizational success in the AI era will come not from amassing the most AI tools, but from clear, strategic thinking about how to utilize them to generate tangible value while upholding responsibility.

II. PEER GROUP CONSTRUCTION & COMPARISONS

In this section you will assemble a peer group for your credit union based on given criteria. Then you will compare the performance of your credit union with that of the selected peers. Your analysis of your peer groups will require you to recognize the significant variances, their likely causes, provide insights and draw thoughtful conclusions from the data. Your Project Reader can observe these variances as well, so it is up to you to analyze them and explain WHY they exist.

A. CONSTRUCTION AND DESCRIPTION

- Utilizing Peer-to- Peer, you are to build a comparison set of credit union data for a group of credit union peers. That **five** member "Peer Group" will include information for:
- Your credit union
- **Three** national peers that are chosen based on either total assets (+/- 30%) or membership size (+/- 20%) when compared to your credit union. Each of these 3 peers must be from a different state and may include only one credit union that is domiciled in the same state as yours.
- A National Peer Average (NPA) based upon asset size, and determined as follows:

Asset Size of Your Credit Union (as of 6/30/2025)
$1 billion - $10 billion

List all FOUR members of your Peer Group other than your own.
For the NPA, simply list the appropriate asset range from table above. For each of the THREE natural person credit unions, provide:

- An explanation of why you selected the credit union and which selection criteria it met (asset size or membership size)

- A brief synopsis of information that can be obtained via direct contact with the credit union, its website, NCUA and/or other industry recognized sources.
    - ***Remember that you are REQUIRED to use appropriate American Psychological Association (APA) style footnotes and a reference list to cite third party sources.***

Discuss your observations and impressions of how your credit union is similar to the other credit union and how it differs. Some, but not all, of the potential dynamics to consider are charter structure (federal or state), share insurance provider, field of membership composition, geographic footprint served, size of the branch network, member service philosophies and strategic considerations.

In constructing the peer group for HSFCU, the selection criteria began with a quantitative filter on credit unions with total assets within ±30% of HSFCU's and membership within ±20% of its. As of the 2Q 2025 snapshot, HSFCU held approximately $2.85 billion in assets and served over 136,000 members, producing an eligible asset range of $2.03 billion to $3.57 billion and a membership range of 109,898 to 164,027. This produced a national list of 59 qualifying credit unions as a starting point (Callahan & Associates, 2025). Because this analysis relies on publicly available financial data rather than direct institutional access, conclusions about peer institutions are presented as informed inferences rather than confirmed findings.

	Hawaii State FCU *Subject*	HawaiiUSA FCU *In-state peer*	SELCO Community CU *Asset peer*	Fox Communities CU *Membership peer*
Website	hawaiistatefcu.com	hawaiiusafcu.com	selco.org	foxcu.org
Established	1936	1936	1936	1937
Assets (2Q 2025)	$2.85B	$2.61B	$2.84B	$3.15B
Members	136,000+	131,882	151,172	137,073
Branches	15	15	15	22 (23rd opening spring 2026)
Employees	382	362	462	454
Field of Membership	State & City/County employees, 500+ select employee groups, and families	Education employees, students, parents, and select employee groups	Community charter — 27 Oregon + 8 Washington counties	Community charter — 17 Wisconsin counties
Market	Hawaii (Oahu, Maui)	Hawaii (Oahu, Maui, Big Island, Kauai)	Pacific Northwest (Oregon & Washington)	Midwest (Northeast Wisconsin)
Notable Products / Strengths	Always Cash Visa (2.5% cash back); solar financing; public-sector retirement planning	Broadest geographic footprint in Hawaii; education-community focus	Comprehensive suite: auto, mortgage, business banking, insurance, retirement	Loans-to-shares ratio >100%; lowest delinquency and charge-off rates in peer group; strong consumer and business lending
Key Differentiator vs. Hawaii State FCU	*Subject institution*	Same founding year and island market; education vs. government membership base; broader island coverage	Similar asset size and founding year; broad community charter; mainland market with no island exposure	Most aggressive lender; stable low-cost Midwest market; strong business membership component

Figure 2: Peer Institution Comparison

The four peers chosen — HawaiiUSA Federal Credit Union (HawaiiUSA), SELCO Community Credit Union (SELCO), Fox Communities Credit Union (Fox Communities), and the national peer average for credit unions in the $1 billion to $10 billion asset range — each bring a distinct institutional profile, market environment, and strategic-level posture to this comparison.

B. COMPARISONS

Evaluate your credit union's performance results against your identified peers and the NPA. Analyze the data and describe the areas where significant variances exist between your credit union and the four others in your peer group. Offer potential reasons for the variances. In doing so, factor in the dynamics cited in describing the similarities and differences between your credit union and the others.

Include all of the following elements in these peer comparisons:

1. **Balance Sheet ($, millions)**
   - Assets
   - Shares
   - Loans
   - Investments
   - Net Worth
2. **Annual Growth Rates (%)**
   - Assets
   - Shares
   - Loans
   - Membership
   - Net Worth
3. **Financial Ratios (%)**
   - Loans/Shares
   - Investments/Assets
   - Net Worth/Assets
   - Delinquency/Total Loans
   - Charged Off Loans/Total Loans
   - Efficiency, Including and Excluding Provision for Loan Losses
4. **Spread Analysis (%, based on Average Assets)**
   - Interest income
   - Cost of Funds
   - Net Interest Margin
   - Operating Expenses
   - Provision for Loan Losses
   - Fees and Other Income
   - Non-Operating Income/Expense
   - Net Income (ROA)

Present the Peer Comparison data in the following table format *(substitute credit union names as appropriate)*

Peer to Peer Comparison Chart
As of 2Q 2025

Balance Sheet ($, millions)	Hawaii State (HI)	HawaiiUSA (HI)	SELCO (OR)	Fox Communities (WI)	Peer Group Avg. ($1B-$10B)
Assets	$2,852	$2,608	$2,839	$3,151	$2,851
Shares	$2,575	$2,323	$2,506	$2,422	$2,406
Loans	$1,385	$1,449	$1,907	$2,471	$2,057
Investments	$1,267	$1,070	$805	$564	$640
Net Worth	$249	$267	$333	$322	$321

Annual Growth Rate (%)	Hawaii State (HI)	HawaiiUSA (HI)	SELCO (OR)	Fox Communities (WI)	Peer Group Avg. ($1B-$10B)
Assets	18.77%	4.66%	2.67%	4.96%	4.13%
Shares	18.35%	4.74%	1.27%	1.67%	5.54%
Loans	6.98%	3.05%	-1.02%	9.53%	4.73%
Membership	6.28%	-0.76%	-0.85%	4.38%	2.58%
Net Worth	11.08%	2.42%	8.00%	9.79%	5.91%

Financial Ratios (%)	Hawaii State (HI)	HawaiiUSA (HI)	SELCO (OR)	Fox Communities (WI)	Peer Group Avg. ($1B-$10B)
Loans/Shares	53.77%	62.39%	76.08%	102.02%	85.49%
Investments/Assets	44.40%	41.01%	28.35%	17.89%	22.47%
Net Worth/Assets	8.73%	10.24%	11.74%	10.21%	11.27%
Delinquency/Total Loans	1.43%	0.56%	0.63%	0.29%	0.76%
Charged Off Loans/Total Loans	0.32%	0.74%	0.51%	0.19%	0.76%
Efficiency (including P.L.L.)	78.44%	89.96%	84.05%	73.56%	81.01%
Efficiency (excluding P.L.L.)	77.11%	83.33%	75.89%	69.98%	71.56%

Spread Analysis (%, Average Assets)	Hawaii State (HI)	HawaiiUSA (HI)	SELCO (OR)	Fox Communities (WI)	Peer Group Avg. ($1B-$10B)
Interest income	4.37%	3.97%	4.66%	5.15%	5.03%
Cost of Funds	1.39%	1.25%	1.64%	2.33%	1.92%
Net Interest Margin	2.98%	2.72%	3.02%	2.82%	3.11%
Operating Expenses	2.94%	2.88%	3.08%	2.59%	3.00%
Provision for Loan Losses	0.06%	0.25%	0.39%	0.18%	0.49%
Fees and Other Income	0.83%	0.73%	1.03%	0.89%	1.08%
Non-Operating Income/Expense	0.08%	0.20%	0.28%	0.04%	0.05%
Net Income (ROA)	0.89%	0.52%	0.87%	0.97%	0.75%

The following analysis assesses HSFCU's financial condition with that of four peer institutions. All financial indicators referenced throughout this section are drawn from the Callahan & Associates Peer-to-Peer analytics platform as of the 2Q 2025 snapshot. Below are key takeaways:

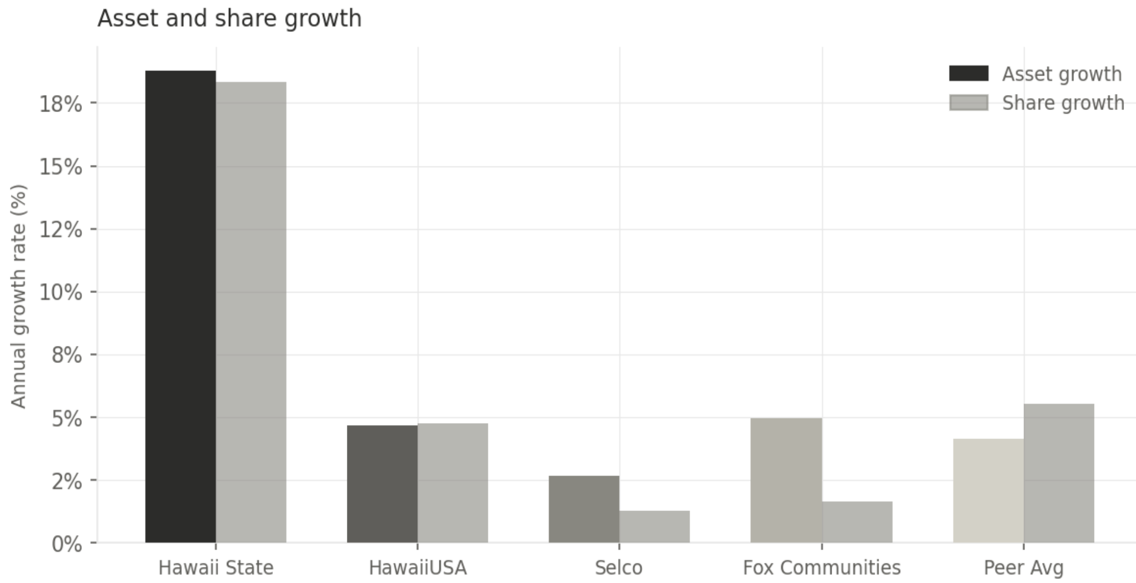


Figure 3: Annual asset and share growth rate by institution (2Q 2025)

Deposit Growth: HSFCU's 2025 strategy focused on deposit growth, outpacing every peer. Asset growth of 18.77% and share growth of 18.35% exceeded the peer ranges of 2.67%-4.96% and 1.27%-5.54%, respectively. This resulted directly from a deposit strategy emphasizing two products: the Right By You (RBY) Savings account and monthly top-of-market Term Share specials.

The RBY Savings account offered to members, business members, and non-member prospects paid 5.00% APY on a fully liquid balance. The name is a direct expression of HSFCU's brand promise, "*Always Right By You*," and the product was designed as a give-back to members rather than a near-term profit driver. From its launch in October 2024 through 2Q 2025, the RBY Savings account grew deposits by $524+ million, with 62.1% in new money, opening 5,300+ accounts and adding approximately 1,000 new members.

Monthly Term Share specials offered for 2 terms, with rates of 5.00% APY for 5 months and 4.00% APY for 9 months, adjusted as market rates changed. These products advanced the long-term approach to expand deposits, reward members, and create lending opportunities.

Hawaii’s market is deposit-rich due to limited national competition, but faces loan demand pressure from online lenders. This leads to a lower loan-to-deposit ratio for local institutions. Rapid deposit growth from RBY Savings further decreased the ratio, increasing investments as loan growth lagged.

The other institutions in this peer group reflect different dynamics. HawaiiUSA, the only other Hawaii-based institution in the group, posted asset growth of 4.66% and share growth of 4.74%. Given that HawaiiUSA's interest expense more than doubled from $16 million to $33.4 million in 2024 as the cost of retaining existing deposits rose with the rate environment (HawaiiUSA FCU, 2024), the credit union may have prioritized managing funding costs over pursuing deposit growth. Fox Communities in Wisconsin led the peer group in loan growth at 9.53%, consistent with the strong consumer and business borrowing demand supported by its broad 17-county community charter in Northeast Wisconsin (Fox Communities CU, 2024). SELCO in Oregon posted modest growth across the board, consistent with its publicly announced internal restructuring aimed at long-term positioning rather than near-term volume (SELCO, 2021).

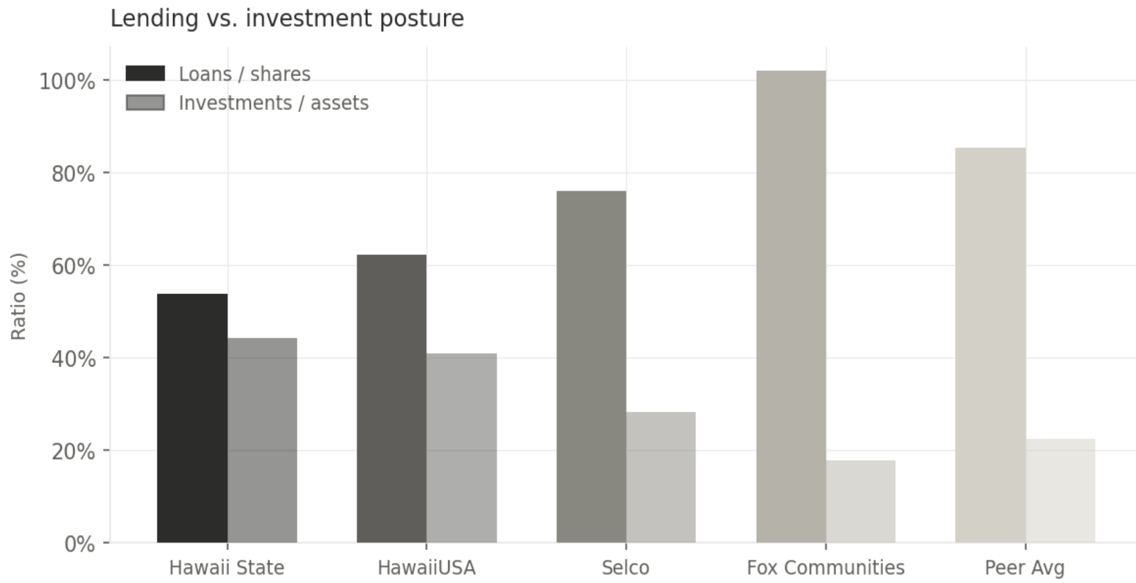


Figure 4: Loans-to-shares vs. investments-to-assets by institution (%)

Lending Posture and Investment Concentration: HSFCU's investments-to-assets ratio of 44.40% is the highest in the peer group, compared with 17.89% to 41.01% among the others, and its loans-to-shares ratio of 53.77% is the lowest. This shows both the Hawaii market structure and the rapid deposit growth from RBY Savings, which brought in funds faster than the loan portfolio could absorb. Incoming deposits were invested in government and agency securities while the loan portfolio caught up. This shows a deliberate philosophy that HSFCU does not take credit risk in its investment portfolio. Credit risk is reserved for member lending, and the investment book is held in low-risk, government-guaranteed securities.

Fox Communities presents the sharpest contrast in the peer group, with a loans-to-shares ratio of 102.02%, suggesting it has lent out more than it holds in member deposits and funded the gap through external borrowings. This posture is only sustainable when underwriting discipline is strong, and credit quality holds, both of which Fox Communities demonstrates with the lowest delinquency rate in the group at 0.29% and the lowest charge-off rate at 0.19%. This may suggest a deeply embedded lending culture supported by stable consumer and business borrowing demand throughout its 22-branch Northeast Wisconsin footprint (The Business News, 2025).

SELCO sits in the middle at 76.08% loans-to-shares and 28.35% investments-to-assets, showing a stable approach consistent with its steady-state operating posture. SELCO's 2024 annual report confirmed ROA met projections, and the credit union received a fully positive regulatory examination (SELCO, 2024), suggesting disciplined management within a broad Oregon and Washington community charter that supports diversified loan demand. HawaiiUSA's loans-to-shares ratio of 62.39% places it closer to HSFCU than to the national peer average of 85.49%, which may reflect the same Hawaii market structural dynamic of deposit abundance relative to local loan demand described.

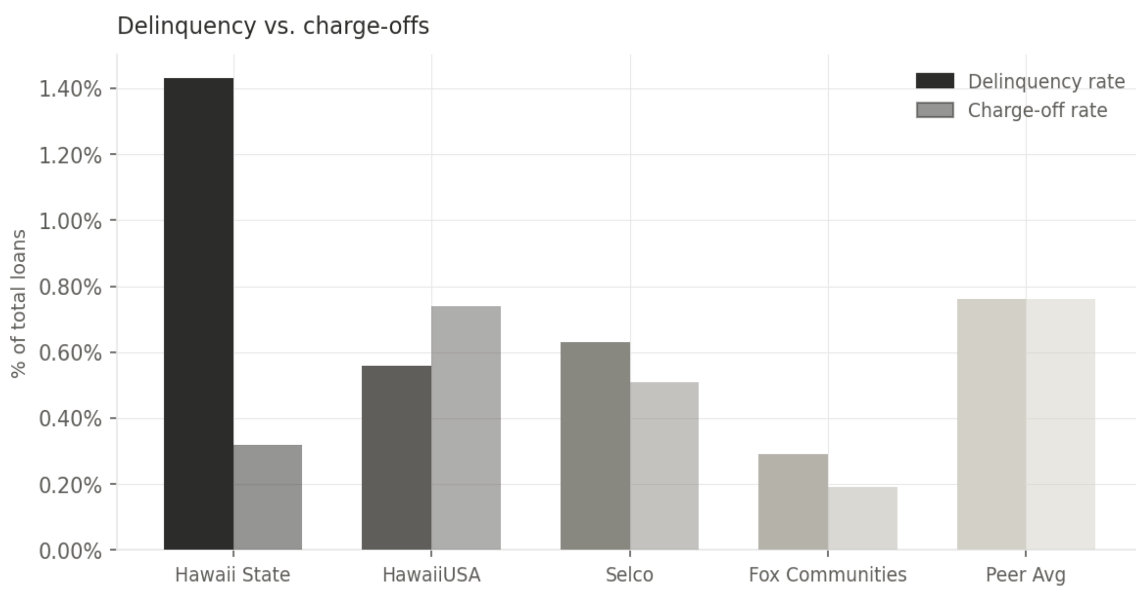


Figure 5: Delinquency rate vs. charge-off rate by institution (% of total loans)

Credit Quality: HSFCU's delinquency rate of 1.43% is the highest in the peer group and is attributable to a single commercial borrower carrying several large loans. Those loans are secured by real estate, losses are not expected, and active restructuring is already underway. When that borrower is removed from the calculation, HSFCU's delinquency rate returns to normal operating levels. The charge-off rate of 0.32%, the second lowest in the peer group, confirms this. High delinquency paired with low charge-offs indicates that the underlying collateral is holding and the exposure is being managed rather than written off.

Fox Communities stands out positively with the lowest delinquency rate at 0.29% and the lowest charge-off rate at 0.19%, despite having the most aggressive loan deployment in the group. This may suggest that a high loans-to-shares ratio does not necessarily signal elevated credit risk when underwriting standards are strong and the membership base is financially stable. Fox Communities' broad community charter, serving working families and businesses across 17 Wisconsin counties, may add to a diversified, resilient loan portfolio (Fox Communities CU, 2024).

HawaiiUSA shows charge-offs of 0.74%, the second-highest in the group. Combined with a loan-loss provision that significantly compressed net income in 2024 (HawaiiUSA FCU, 2024), this may suggest emerging credit pressure in its portfolio. SELCO's charge-off rate of 0.51% and delinquency rate of 0.63% are both near the national peer-average.

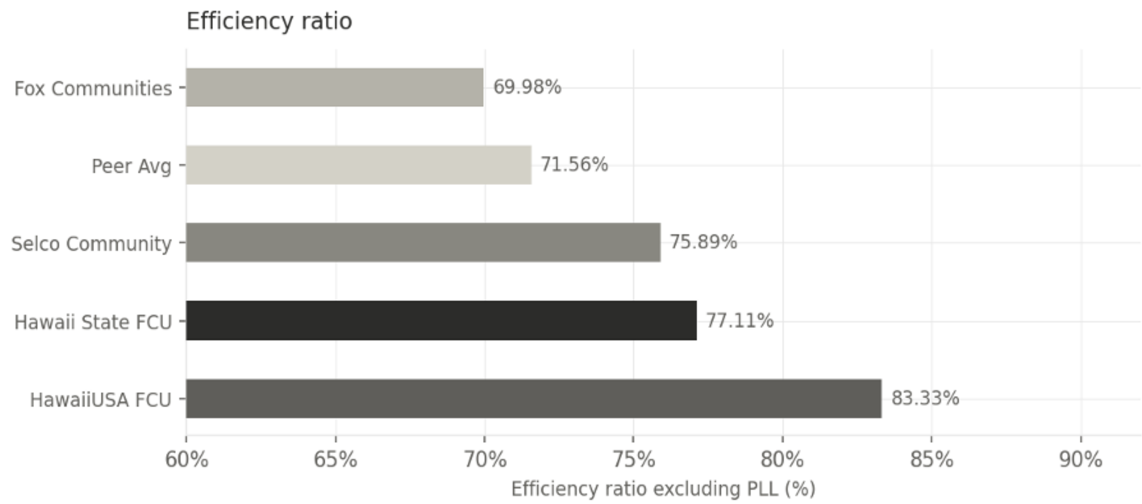


Figure 6: Efficiency ratio by institution, excluding provision for loan losses

Efficiency and Operating Costs: HSFCU's efficiency ratio of 77.11%, excluding the provision for loan losses, reflects the structural cost of operating in Hawaii, one of the highest-cost markets in the country, as well as the recent investment in its new downtown Honolulu headquarters completed in 2023 (Pacific Business News, 2023). Hawaii faces elevated real estate, compensation, and cost-of-living pressures that affect every institution operating across its island geography.

HawaiiUSA presents the most notable efficiency concern in the peer group, at 83.33% excluding the provision and 89.96% including it. HawaiiUSA's 2024 annual report shows total non-interest expense held essentially flat at approximately $71.5 million, while interest expense more than doubled and non-interest income declined (HawaiiUSA FCU, 2024). This may suggest a cost structure that is not contracting in response to income pressure. Both Hawaii institutions face the same market cost environment, making the efficiency gap a meaningful indicator of how differently each manages operations relative to revenue.

Fox Communities leads the peer group at 69.98% excluding the provision, which may reflect the combined effect of lower Midwest operating costs and a high-volume loan portfolio that generates strong interest income relative to the expense base (Fox Communities CU, 2024). SELCO's efficiency ratio of 75.89% is close to HSFCU's and sits near the middle of the peer group. Given that SELCO operates 15 branches across a geographically dispersed two-state service area covering 27 Oregon counties and 8 Washington counties, its higher operating expense ratio of 3.08% of average assets may suggest that the cost of maintaining that broad footprint tempers what would otherwise be a stronger efficiency result (SELCO, 2025).

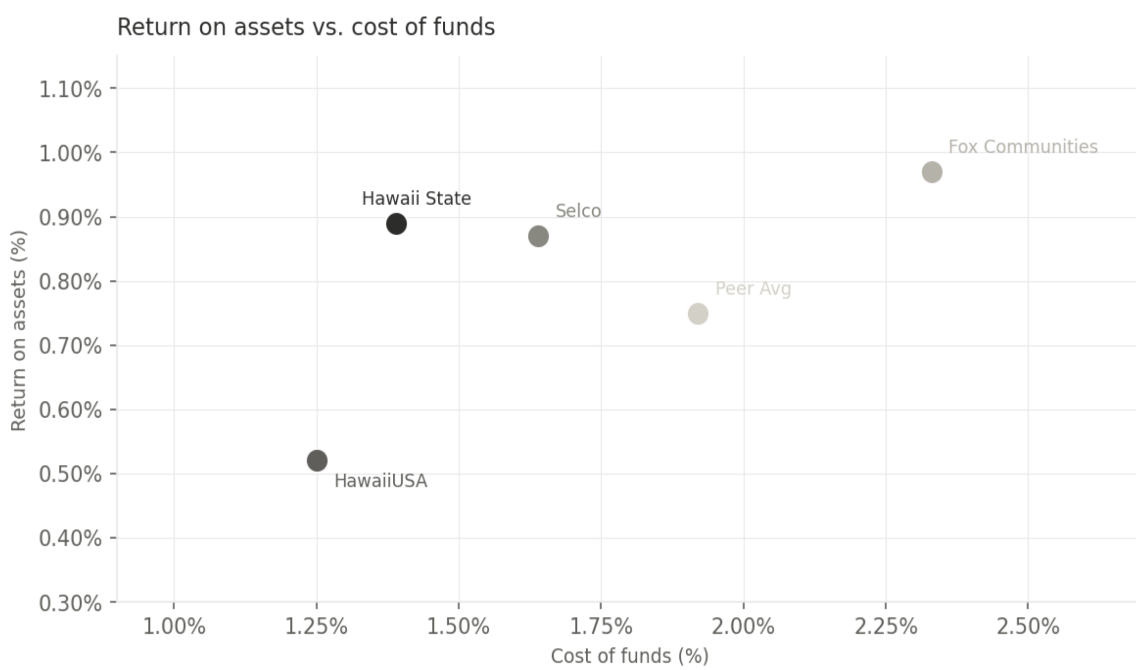


Figure 7: Return on assets vs. cost of funds — each point represents one institution

Profitability and Net Worth: HSFCU's Return On Assets (ROA) of 0.89% is strong in context. The net worth ratio of 8.73%, the lowest in the peer group, is both a direct consequence of the deposit strategy and a reflection of a deliberate directive from the Board of Directors and CEO to avoid carrying net worth in double digits. The philosophy is clear: excess capital belongs to the members, not sitting on the balance sheet. HSFCU remains well above the regulatory well-capitalized threshold of 7%, and net worth in dollar terms grew 11.08%, confirming that the ratio movement indicates strategic intent rather than financial strain.

Fox Communities leads the peer group in ROA at 0.97%, supported by its fully deployed loan portfolio generating interest income of 5.15% of average assets, the highest in the group. This may suggest that a high-utilization lending model in a stable, lower-cost Midwest market produces the strongest near-term profitability. However, it comes with a higher cost of funds at 2.33% and a dependence on wholesale funding to support lending beyond the deposit base (Fox Communities CU, 2024). SELCO's ROA of 0.87% shows a steady, well-capitalized institution operating within its means, consistent with its publicly stated guiding principles of safety and soundness and high return to members (SELCO, 2024).

HawaiiUSA's ROA of 0.52% is the lowest in the peer group and reflects the cumulative pressure of rising funding costs, declining non-interest income, and a fixed operating expense base. Its 2024 net income fell from $10.8 million to $3.96 million year over year, a decline of more than 60% (HawaiiUSA FCU, 2024). Its net worth ratio of 10.24% remains solid, providing a meaningful buffer, but continued earnings pressure without cost adjustment could erode that position over time.

III. STRATEGIC INFLECTION POINTS

An inflection point is a significant external event or trend that changes the course of an entire industry, sector, or economy. These forces are often outside the control of any single organization and can bring both risk and opportunity. Understanding and preparing for such shifts is a vital leadership competency.

Inflection points are:

- Broad in scope
- External to your credit union
- Universal across the credit union system
- They are not issues that are specific to your institution, region, or field of membership.

There are many such outside influences impacting your credit union that should be considered beyond looking at only peer or other industry data. Gaining the perspectives of your credit union's leadership on these inflection points can be a key determinant in its future strategies and success.

This differs from a SWOT analysis, as SWOT analysis evaluates both internal (strengths and weaknesses) and external (opportunities and threats) factors that are specific to your credit union's current position. You will be asked to complete a SWOT in the next section.

In contrast, this assignment is focused only on **broad, external trends** that all credit unions are navigating, regardless of size, charter, or geography.

- Select 3–5 external inflection points currently influencing the credit union industry.
- You may choose from the list below or identify your own, provided they meet the criteria above
    - Changing competitive landscape including non-financial companies
    - Rapid adoption/expectation on the use of technology for services
    - Baby boomers retiring
    - Millennials entering their peak earning years
    - Changes in the employment base – job skills, automation, etc.
    - Shift to subscription-based economy (e.g. automobiles)
    - Evolving consumer expectations relative to products, services and delivery channels
- Schedule a strategic conversation with your CEO and/or members of the Senior Management Team and ask for their perspectives on how these trends are impacting the credit union and how the leadership of your credit union is thinking about the risk and opportunity.
- Using the information gleaned from these discussions and your own insights, write an assessment that discusses the impacts of the items you selected. Also include discussion on how your credit union plans to mitigate the risks and/or capitalize on the potential opportunities presented by these inflection points.

When meeting with our CEO, the following three strategic inflection points emerged as top priorities due to their specific impact on HSFCU. These inflection points are reflected in the organization's own three-year strategic framework, which centers on People, Technology and AI, and Digital and Member Experience as its foundational priorities. While identified through our organization's lens, these forces are broad in scope and universal across the credit union system, regardless of size, charter, or geography. These included:

1. The shifting labor market and the competition for talent
2. The rise of artificial intelligence in financial services
3. Evolving consumer expectations and nontraditional competition

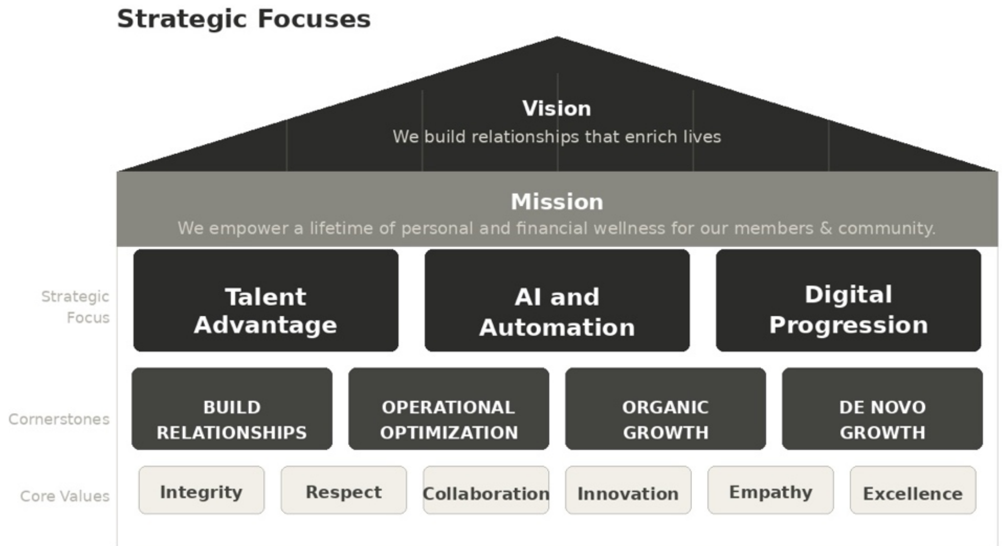


Figure 8: HSFCU's Three-Year Strategic Framework

Inflection Point 1: The Shifting Labor Market and the Competition for Talent

The labor market in which credit unions operate today looks fundamentally different from the one that existed just five years ago. The period following the COVID-19 pandemic triggered a mass reshuffling of the workforce, as employees across industries left their roles in search of greater flexibility and stronger alignment in line with their personal values. The competition for skilled, mission-aligned employees in financial services has not returned to pre-COVID-19 norms, and credit unions face clear challenges in this new environment.

According to the Wipfli State of Credit Unions Report, the talent gap and labor shortage ranked as a top concern for 73% of credit union leaders surveyed in 2025, up from 59% the prior year (Wipfli, 2025). This consistent pattern across multiple years signals that the issue is not a temporary disruption but a structural shift within the landscape.

The compensation pressures that emerged during the pandemic have also reset baseline expectations. Wage growth in the financial activities sector ran at 4% to 5% annually in the early post-pandemic years, with employees who changed jobs often obtaining significant increases (BalancedComp, 2025). For credit unions operating with member-focused, community-rooted missions, the challenge is not simply matching salaries but differentiating themselves as employers in a market in which candidates have more choices and higher expectations than ever before.

Those that succeed in building a strong employer brand, creating meaningful development pathways, and cultivating internal talent pipelines will have a decisive advantage over those that continue to rely on traditional recruiting approaches.

Inflection Point 2: The Rise of Artificial Intelligence in Financial Services

Artificial intelligence represents the most disruptive technological shift the financial services industry has faced in decades. It is not a remote or theoretical force. It is reforming operations, credit decisions, member service, fraud detection, and industry competition right now, and the pace of change is accelerating. For credit unions, the question is no longer whether AI will affect the industry but how quickly institutions can move from observation to important action.

Within the credit union movement specifically, approximately 66% of credit unions now intend to leverage AI for credit decisioning, and a January 2025 survey by the Filene Research Institute of 110 credit union leaders found that generative AI adoption is creating meaningful potential to improve outcomes for members, employees, and leadership alike (Filene Research Institute, 2025).

This gap between awareness and meaningful implementation is where the inflection point becomes most critical. Institutions that move decisively now will establish capabilities, institutional knowledge, and member trust that will be difficult for slower movers to replicate.

For credit unions, the imperative is not to adopt AI for its own sake but to develop a clear, deliberate strategy for how AI serves members, supports staff, and strengthens the institution. That requires defining what AI means in the specific context of a member-owned cooperative, integrating it thoughtfully across business units, and building the internal culture and governance.

Inflection Point 3: Evolving Consumer Expectations and Nontraditional Competition

The third inflection point is closely related to the first two but is driven primarily by changes in consumer behavior rather than internal workforce or technology dynamics. Members and prospective members increasingly expect financial services to be fast, seamless, personalized, and available on their terms, at any time and through any device. These expectations have not been set by other credit unions or even traditional banks. They have been set by technology companies, digital-first fintechs, and nonbank platforms that have spent years optimizing for frictionless user experiences.

Companies like Apple, Amazon, and Google have already moved into adjacent financial services. These companies do not compete with credit unions in every area, but they have fundamentally redefined what consumers consider a good experience.

Research from The Financial Brand found that 74% of consumers say a reliable website or app is key to building trust with a financial institution, ranking above any other digital touchpoint (OMNICOMMANDER, 2025). For credit unions, the member relationship has historically been built on trust, community, and personal service. The challenge is extending those values into digital channels where members now spend the majority of their time.

Credit unions have structural advantages that fintechs and big tech competitors cannot easily replicate: a member-owned model, a mission of financial wellness, deep community relationships, and a long history of trust. Institutions that project those advantages through modern digital experiences, rather than relying solely on in-branch interactions, are positioned to grow.

IV. SWOT ANALYSIS

SWOT analysis is a strategic tool used to assess an organization's position by examining both internal and external factors. The acronym SWOT stands for:

- Strengths: internal attributes or resources that support success
- Weaknesses: internal limitations or areas in need of improvement
- Opportunities: external conditions the credit union could use to its advantage
- Threats: external conditions that could challenge or undermine success

When applied effectively, SWOT analysis helps an organization align its capabilities with its environment in order to define a clear, sustainable strategy.

Earlier in this project, you completed a peer financial comparison and explored strategic inflection points—broad, industry-wide trends likely to impact all credit unions. This next step asks you to build on that work by identifying specific internal and external factors unique to your own credit union.

It's important to distinguish between the external factors used in a SWOT analysis (Opportunities and Threats) and the inflection points previously discussed. While both sets of factors are external in nature, inflection points refer to macro-level industry forces that apply broadly across the credit union system. In contrast, the opportunities and threats in a SWOT analysis are typically more localized and specifictied to your field of membership, regional dynamics, or competitive context. For this reason, please avoid reusing inflection points as SWOT items, and instead select a distinct set of external factors for this portion of the project.

To complete your SWOT analysis, identify 3-5 items in each SWOT category—strengths, weaknesses, opportunities, and threats—resulting in a total of 12 to 20 items. At least two items in each category must address areas of the credit union outside your direct area of responsibility. (If you are the President or CEO, this requirement does not apply.)

You are expected to write a comprehensive and fully developed analysis. For each item in your SWOT, provide a detailed and thoughtful discussion that explains why the item was selected and how it relates to your credit union's strategic position. Support each entry with specific context, observations, or data when possible. Your analysis should demonstrate critical thinking and reflect your understanding of both the internal dynamics and external environment of your organization. This section will directly inform the development of your strategic goals, business plan, and financial projections later in the project, so it should be approached with the same level of depth and care.

HSFCU's SWOT review indicates that it is financially strong, culturally grounded, and strategically aware, but it faces real pressures that require deliberate action and strategies.

STRENGTHS	WEAKNESSES
1. Internal Culture and Employee Engagement 2. Branch Network Strategy 3. Capital Position and Financial Scale	4. Fragmented Information and Data Systems 5. Outdated Member Referral Strategy 6. Gen Z Investment Strategy
OPPORTUNITIES	**THREATS**
7. Talent Acquisition 8. Gen Z and Alpha Acquisition 9. Saturated Local Landscape	10. Hawaii's High Cost of Living 11. Digital-Only and Fintech Competitors 12. Generational Wealth Transfer

Figure 9: SWOT Quadrant Diagram

STRENGTHS

1. Internal Culture and Employee Engagement

HSFCU's organizational culture is among its most distinctive assets. The "Always Right By You" (RBY) core value, formally introduced in 2014, is not a marketing tagline but an operating philosophy that guides how employees interact with one another and with members. The RBY framework is built on three principles, namely doing right by members, co-workers, and the community.

In 2025, HSFCU achieved a Member Service Score of 94.16%, a Net Promoter Score of 76.71, and a Customer Effort Score of 6.68 out of 7.00. Sustaining scores at this level across every branch and channel, month over month, is the direct output of a culture that takes the member experience personally. 70% of employees volunteered for nonprofit activities, collectively contributing over 1,400 hours, and the organization donated more than $379,000 in charitable giving, showing a workforce that sees its work as connected to a broader mission.

In March 2026, HSFCU was named one of Hawaii Business Magazine's Best Places to Work for the 14th consecutive year, earning Platinum status, reserved for organizations recognized for 10 or more years (Hawaii Business Magazine, 2026).

As HSFCU continues to grow through mergers and operational complexity, sustaining this culture intentionally, rather than assuming it will carry forward on its own, will be the defining challenge of the next decade.

2. Branch Network Strategy

At a time when many financial institutions are consolidating branches and retreating from physical footprints, HSFCU has taken the opposite approach. Between 2019 and 2024, the Safeway in-store model placed HSFCU in four high-traffic, convenient locations where members already shop, reducing the friction of accessing financial services. It extends the branch footprint without the capital cost of standalone construction. Each in-store location provides a full-service member experience and features a self-service Interactive Teller Machine, allowing members to access services 24/7.

This branch strategy is a particular strength in the Hawaii market. The "ohana" cultural preference for in-person relationships remains strong, particularly among older and neighbor island populations. HSFCU's growing network, paired with its investment in ITM technology that blends human interaction with digital efficiency, creates a physical infrastructure that is difficult for competitors to replicate.

As digital adoption accelerates across all age groups, the branch network's long-term value will rely on its ability to evolve from a transaction channel into a relationship and advisory channel.

3. Capital Position and Financial Scale

Over the past several years, HSFCU has grown deliberately and managed its balance sheet with discipline. In 2025, the credit union grew deposits by over $159 million, returned $36.5 million in dividends to members, and approved 6,860 applications, resulting in $113.9 million in loans. Total assets reached $2.86 billion as of December 31, 2025, up from $2.70 billion at year-end 2024, representing continued asset growth.

This financial position is strategically important for two reasons. First, it provides HSFCU with the resources to fund investments in its three strategic focus areas over the next three years, spanning technology, talent, and digital capabilities. Second, the successful completion of the January 1, 2025, merger with HMSA EFCU, the largest credit union merger in Hawaii history, demonstrates the organization's capacity to carry out complex transactions and integrate new membership groups at scale (HSFCU, 2024).

With the balance sheet positioned to support continued lending growth, the question is not whether HSFCU has the resources to invest, but whether it can deploy them quickly enough to stay ahead of competitors with fewer constraints.

WEAKNESSES

4. Fragmented Information and Data Systems

HSFCU currently operates across several disconnected information systems that serve different functions but do not communicate with each other. Each platform was created to solve a specific problem, but together they create an environment where finding accurate, up-to-date information necessitates navigating multiple systems, and where institutional knowledge about where things are located is often held by individual employees rather than documented in an accessible way.

This weakness is especially significant given the AI/FinTech inflection point. Organizations planning to deploy AI successfully need clean, connected, and accessible data. HSFCU cannot fully utilize AI platforms until the underlying information architecture becomes more unified. This weakness becomes more consequential over time, not less, while AI-driven competitors build increasingly sophisticated member personalization on clean, unified data.

5. Outdated Member Referral Strategy

HSFCU’s current referral program has not evolved to meet members' expectations or leverage its digital platform's capabilities. The existing program rewards referrals through a quarterly drawing and requires branch staff to manually enter paper forms, creating friction on both the member and operational sides. This manual process makes it impossible to accurately track how many new members are joining through referrals, limiting the ability to measure or optimize the program’s impact.

Members who engage digitally with global brands are accustomed to embedded, personalized experiences. The lack of a digital referral capability is a gap that fintechs and digital-first competitors have already closed. As digital member acquisition becomes the standard rather than the exception, an analog referral process will widen this gap each year it goes unaddressed.

6. Gen Z Investment Strategy

Generation Z (Gen Z) is beginning to establish its first financial relationships. These younger members have different expectations than the generations who built HSFCU over the past nine decades. They are digital-first, expect personalized experiences, and are drawn to institutions that reflect their values and demonstrate community investment.

Engaging younger members in Hawaii involves connecting with them digitally, appreciating their financial realities, and showing how the credit union continues to be relevant to their current life stage. HSFCU currently offers entry-level products but lacks a defined strategy for investment entry points that speak to where Gen Z members are financially. Without a clear pathway from basic membership to deeper financial engagement, the credit union risks becoming a transactional institution for this cohort rather than a trusted, long-term financial partner.

Gen Z is not a future concern; it is a present one. The members forming their first financial relationships today are making decisions that will determine HSFCU's membership composition a decade from now.

OPPORTUNITIES

7. Talent Acquisition

Every employer can offer higher compensation and additional benefits, but the more durable competitive advantage in recruiting talent is culture. HSFCU's 14 consecutive years on Hawaii Business Magazine's Best Places to Work list and its documented RBY operating philosophy represent a foundation that most competitors in the Hawaii financial services market cannot credibly claim. The question is how to translate that internal strength into an external recruiting advantage that is visible, specific, and differentiated.

The post-COVID-19 labor market has fundamentally shifted what employees expect from their employers. Schedule flexibility, meaningful work, career development, and a sense of institutional purpose now rank alongside compensation in employee decision-making. Research from the Work Institute indicates that 79% of workers say their schedule directly influences whether they stay with their current employer (Select Software Reviews, 2026). Hawaii's tight labor market is unlikely to ease, making employer brand differentiation a durable competitive advantage rather than a short-term recruiting tactic.

8. Gen Z and Alpha Acquisition

Beginning with the 2026-27 school year, the Hawaii State Department of Education (DOE) will require all public high school students to complete a financial literacy course to graduate. Starting with incoming freshmen in the Class of 2030, every student in Hawaii's public school system must successfully complete a financial literacy educational opportunity and document it in their Personal Transition Plan before earning a high school diploma (Hawaii Department of Education, 2026). The curriculum addresses six core areas, including earning income, spending, saving, investing, managing credit, and managing risk, based on national standards from the Council for Economic Education and the Jump$tart Coalition for Personal Financial Literacy.

For HSFCU, this policy change amounts to a significant and time-sensitive opportunity. The credit union already has an established financial literacy program that reached more than 1,600 students in 2024, giving it both the credibility and the infrastructure to position itself as a preferred community partner in delivering or supplementing this new statewide requirement. Schools may fulfill the mandate through standalone courses, incorporation into existing classes, or self-paced learning options, all of which create entry points for HSFCU to provide resources, classroom support, and brand presence at the exact moment young people in Hawaii are beginning to form their financial identities. An institution that engages Gen Z and Gen Alpha before they open their first account, when financial education is mandated as part of their schooling, is positioned to become their first and lasting financial home.

The financial literacy graduation requirement creates a narrow window where HSFCU can establish itself as the institution of record for young Hawaiians. That window opens in 2026 and will not be equally available once competitors recognize the same opportunity.

9. Saturated Local Landscape

Hawaii offers a dense collection of financial institutions that look, sound, and communicate in remarkably similar ways, all within a compact geographic area. HawaiiUSA Federal Credit Union, Aloha Pacific Federal Credit Union, Hawaii Central Federal Credit Union, and others all present variations of the same broad themes: local, friendly, relationship-focused, and community-focused. None has established a truly distinct brand identity that separates it meaningfully from the others in the minds of prospective members.

The opportunity is to translate HSFCU's genuine institutional strengths into a more proactive, consistent, and differentiated market visibility. This does not require outspending the banks, whose advertising budgets are substantially larger. It demands clarity of message, consistency of execution, and the discipline to guide with what makes HSFCU genuinely different rather than defaulting to category conventions.

In a market where differentiation is low, the first institution to establish a genuinely strong identity will benefit disproportionately, and that position, once established, is difficult for others to displace.

THREATS

10. Hawaii's High Cost of Living

Hawaii consistently ranks as the most expensive state in the nation to live in, a distinction that carries immediate implications for the economic well-being of HSFCU's membership. In the first quarter of 2025, Hawaii's overall cost of living index stood at 182, compared to the national average of 100, making it the most expensive state (MERIC, 2025). The median home price for a single-family home in Hawaii reached approximately $950,000 in 2024, and a household would need to earn roughly $187,000, or 190% of the state's median income, to afford a mortgage on a home at that price while spending no more than 30% of gross income on housing (UHERO, 2025).

Members who are financially strained are less likely to save or invest and more likely to carry revolving balances that harm their long-term financial health. In Hawaii's high-cost environment, the margin for financial error is thin. A single unexpected event, whether a job disruption, a medical expense, or a major vehicle repair, can cause a cascade that affects a member's ability to service debt, maintain savings, and sustain their credit standing. This spiral effect, from one financial setback to rising delinquency ratios, damaged credit scores, and reduced access to affordable credit, is a real and recurring pattern that HSFCU's member services teams encounter. The credit union's mission of empowering a lifetime of personal and financial wellness is most meaningful and most tested precisely at these times.

Hawaii's affordability crisis is structural, not cyclical, and the institutions that build the deepest member-support infrastructure now will be better positioned to retain members through the monetary disruptions that will follow.

11. Digital-Only and Fintech Competitors

The competitive threat to HSFCU is no longer limited to traditional banks and other credit unions. A growing number of digital-only financial platforms and fintech companies are actively targeting Hawaii consumers with products and experiences specifically designed to appeal to members who are comfortable banking without a physical branch relationship. These competitors, which include neobanks like Chime and SoFi as well as embedded financial offerings from large technology companies, operate with lower overhead costs, greater technological agility, and a singular focus on user experience, allowing them to move faster than any institution encumbered by legacy systems along with regulatory compliance requirements.

The appeal of these platforms is particularly strong among the younger demographic that HSFCU needs to attract and retain. Research from BAI indicates that 85% of Millennials would consider banking with a nontraditional financial institution, and 79% have already opened an account online (Latinia, 2024). These consumers have grown up with apps that make financial transactions as simple as ordering food or hailing a ride, and they bring those expectations to their financial relationships. When they encounter friction, they are more likely to disengage and seek an alternative that removes it.

The competitive threat from digital-first platforms will only intensify as their product sets expand and their user experience advantages compound. The window to close the digital gap is shorter than it may appear.

12. Generational Wealth Transfer

The Baby Boomer generation is moving through retirement at an accelerating pace, and with it comes one of the largest intergenerational wealth transfers in history. For HSFCU, whose field of membership includes state and county employees and their families across multiple generations, this transfer represents both a risk and an opportunity. The risk is that, without a deliberate strategy to deepen investment services and estate-planning relationships with aging members, the wealth they have accumulated over a lifetime of membership may leave the credit union when they transfer it to the next generation.

At the same time, Millennials are entering their peak earning years, and Gen Z is beginning to establish its first financial relationships. Currently, only 35% of credit union members nationally are in the 25-to-44 age bracket, down from 51% in 1989, showing a demographic challenge that is not unique to HSFCU but is acute across the industry (L.E.K. Consulting, 2025).

Without a deliberate investment services strategy for both aging Baby Boomers and their Millennial heirs, HSFCU risks being the institution that holds the relationship on paper but loses the wealth in practice.

V. STRATEGIC GOALS & IMPLEMENTATION PLAN

You will now define five measurable goals that your credit union should pursue over the next three years. These goals must be strategically significant, forward-looking, and based on your earlier analysis of inflection points and your SWOT assessment.

At least three of your goals must address enterprise-level issues, challenges or opportunities that impact the organization as a whole. You may include up to two goals that draw on your own area of expertise or departmental insight.

Important: Goals must represent new strategic initiatives not already in progress or listed in your credit union's current strategic plan. This is your opportunity to propose meaningful, original strategies based on your learning through this project.

Each goal should be written using the SMART format (Specific, Measurable, Achievable, Relevant, Time-bound). You will use the template below to explain the goal, outline the required steps, and describe its anticipated impact. The template only provides three steps, but your implementation plan should be comprehensive and include all steps necessary to accomplish the goal.

Where applicable, estimate not only the cost of each action step but also any revenue-generating or cost-saving impact it may have. This demonstrates your understanding of the financial return and strategic value of each initiative." This is a common oversight—your implementation plan must reflect realistic resource considerations.

The peer comparison in Section II offers more than a snapshot of HSFCU's market position. It provides strategic lessons that informed the goals that follow. Fox Communities' ability to maintain exceptional credit quality while maintaining a loans-to-shares ratio above 100% shows that aggressive loan growth and disciplined underwriting are not mutually exclusive and that HSFCU's conservative lending posture leaves meaningful room to grow. HawaiiUSA's efficiency challenge, driven by a fixed-cost structure that did not contract when income came under pressure, underscores the importance of building scalable, technology-enabled operations before growth demands require them. Those observations are reflected in Goals 2 and 3, which prioritize operational efficiency and member acquisition through digital channels rather than headcount.

Strategic Goal 1: Flex Friday Program

Goal Statement: Reduce voluntary turnover from 18% to 12% by year-end 2028.

Goal Explanation and Strategic Rationale: For HSFCU, voluntary turnover carries both direct and indirect costs, including recruiting, onboarding, and retraining expenses that industry estimates suggest can be significant relative to a departing employee's annual salary, as well as the harder-to-measure impact on team morale and institutional knowledge.

The Flex Friday Program proposes a 9/80 compressed work schedule for all eligible full-time, non-exempt, non-member-facing back-office employees. Under this model, employees work 80 hours over nine days in a two-week pay period, consisting of eight nine-hour days and one eight-hour day, resulting in every other Friday off without a reduction in pay or hours. The program would not apply to branch staff or any role requiring direct, in-person member interaction, always preserving full member service coverage.

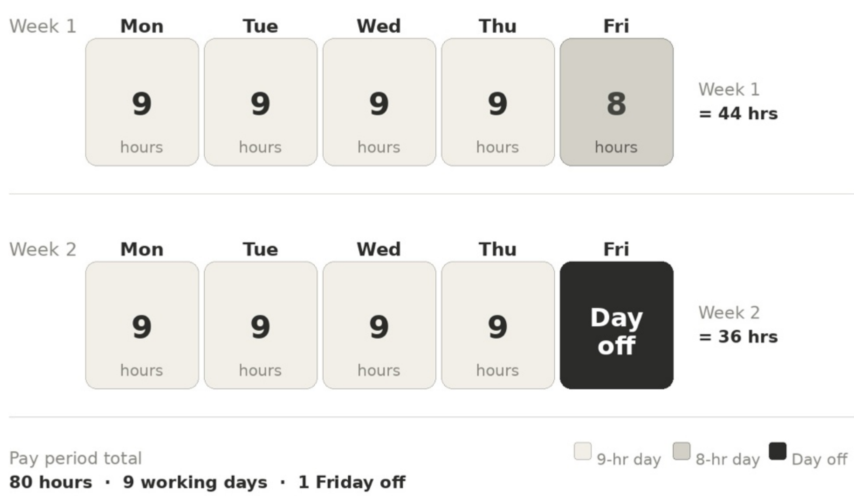


Figure 10: Flex Friday – Two-week Work Schedule

This goal directly addresses Strength 1 (Internal Culture and Employee Engagement) and Opportunity 7 (Talent Acquisition) from the SWOT analysis, and responds to Inflection Point 1 (The Shifting Labor Market and the Competition for Talent). No other financial institution in Hawaii currently delivers a structured compressed work schedule as a defined, organization-wide benefit, giving HSFCU a meaningful advantage in recruiting and retention. This builds on the organization's existing hybrid work philosophy, established in January 2023, which already allows back-office employees to work remotely one day per week. The Flex Friday Program is the natural next step in that dedication to flexibility, extending it further without adding cost to the base payroll. It is worth noting that because eligibility is limited to full-time, non-exempt, non-member-facing back-office employees, representing approximately 40% of the workforce, the program will require thoughtful internal communication to ensure that the benefit strengthens the organization's culture rather than creating a perceived divide between those who qualify and those who do not.

Action Steps:

1. Conduct a feasibility assessment and define program eligibility

   Map all back-office roles against the eligibility criteria: full-time, non-exempt, and non-member-facing. Document team coverage requirements by department to identify any timetable constraints. Review Hawaii labor law and payroll consequences for a 9/80 schedule to guarantee compliance.

   - Cost/Revenue: No external cost.
   - Completed by: March 31, 2027

2. Develop program policies, payroll configuration, and HR documentation

   Draft the Flex Friday Program policy, including eligibility requirements, team coverage expectations, the alternating Friday off rotation structure, and a process for managing exceptions. Update the employee handbook and coordinate with payroll to configure the biweekly schedule in the HRIS system. Define clear guidelines distinguishing eligible non-exempt roles from exempt employees who will not participate in this phase.

- Cost/Revenue: $5,000 (one-time operating expense)
    - Payroll System Configuration fee.
- Completed by: May 31, 2027

3. Launch a 90-day pilot with a defined back-office department

Select two back-office departments with clear coverage structures to serve as the pilot group. Launch the 9/80 schedule for pilot participants and administer structured pulse surveys at the 30-day and 60-day marks to assess morale, coverage, and any operational obstacles. Conduct a formal 90-day review with department managers and HR to evaluate results and determine any modifications required before full rollout.

- Cost/Revenue: No external cost.
- Completed by: September 30, 2027

4. Communicate the program organization-wide and train managers

Develop an internal communications campaign announcing the Flex Friday Program to all eligible employees and their managers. Conduct manager training sessions covering coverage planning, schedule tracking, and how to handle requests for exceptions or accommodations. Update job postings and recruiting materials to feature the Flex Friday Program as a benefit.

- Cost/Revenue: No external cost.
- Completed by: October 31, 2027

5. Execute full rollout to all eligible back-office employees

Roll out the Flex Friday Program to all eligible full-time, non-exempt, non-member-facing back-office employees. Implement staggered team rotations to ensure full coverage on all Fridays. Confirm payroll configurations are working correctly and that all managers have completed training.

- Cost/Revenue: No external cost.
- Completed by: December 31, 2027

6. Measure outcomes and report results

At year-end 2028, compare voluntary back-office turnover rates against the pre-program baseline and assess changes in Gallup engagement scores for the eligible employee group. Document the cost avoidance realized through reduced turnover and calculate the net financial impact relative to program implementation costs.

- Cost/Revenue: No external cost.
- Completed by: December 31, 2028

Expected Impact and Results: If the Flex Friday Program is successfully implemented, HSFCU expects measurable improvement in back-office employee retention, engagement, and employer brand strength. The primary financial benefit is cost avoidance through reduced voluntary turnover.

Using a conservative industry estimate that replacing one back-office employee can cost approximately 50% of their annual salary, and assuming average back-office compensation of approximately $55,000, each avoided departure could save the organization roughly $27,500 in recruiting, onboarding, and retraining costs. Even a modest reduction of 3 to 5 voluntary departures per year within the eligible group translates into meaningful savings that far exceed the one-time implementation cost of approximately $12,500 to $15,000.

Beyond the financial return, the program is expected to strengthen HSFCU's position as the employer of choice for back-office talent in Hawaii. As the only financial institution in the state delivering a structured compressed work schedule as a defined benefit, HSFCU can reference the Flex Friday Program in job postings, recruiting events, and employer brand materials.

Goal 2: RBY-ai (Internal AI Knowledge Assistant)

Goal Statement: Reduce policy and process-related IT help desk tickets from 500 to 250 annually by year-end 2028.

Goal Explanation and Strategic Rationale: HSFCU currently operates across multiple disconnected information platforms. Each platform serves its own purpose, but there is no centralized tool to help an employee quickly find the answer to a simple process question. The result is a recurring, organization-wide inefficiency: employees spend time searching across platforms, asking colleagues, or submitting IT help desk tickets for questions that should be self-serviceable.

RBY-ai is a proposed internal AI-powered knowledge assistant built on Microsoft Copilot Studio that provides every employee with a single conversational interface to find answers across all of HSFCU's existing information sources. Rather than replacing any existing platform, RBY-ai acts as an intelligent layer on top of them, connecting to PolicyTech, Jostle, Brandfolder, Box, and human resources document repositories through secure integrations and returning answers in plain language. An employee could type "What form do I need for a do-not-solicit request?" and receive an immediate, accurate answer with a direct link to the appropriate document, without opening four different systems or waiting for a colleague to respond.

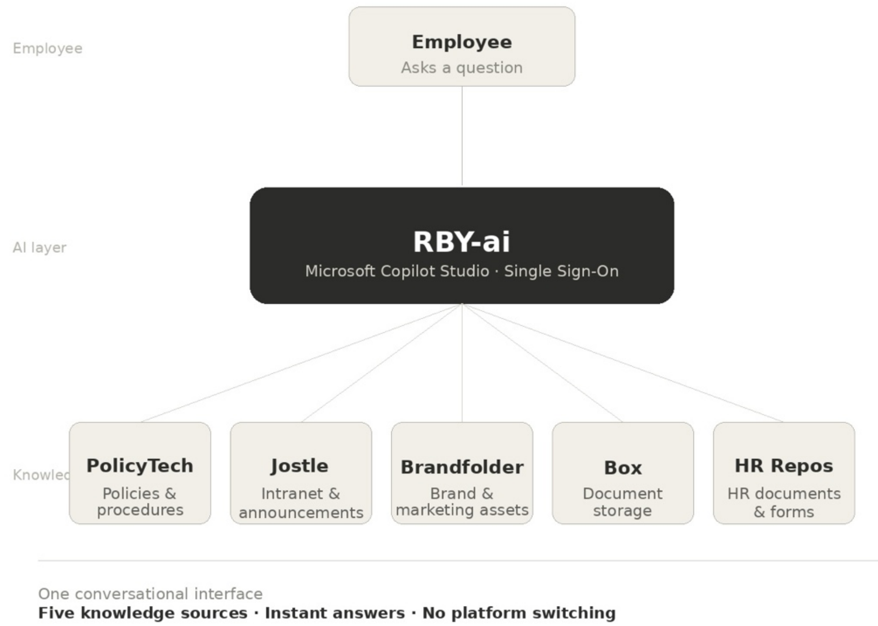


Figure 11: RBY-ai –Platform Architecture

This goal directly addresses Weakness 4 (Fragmented Information and Data Systems) from the SWOT analysis and responds to Inflection Point 2 (The Rise of Artificial Intelligence in Financial Services). The populations that stand to benefit most are new hires, frontline branch staff, and call center employees. Reducing the time spent searching for answers while a member is waiting directly improves service quality and reduces handle time. Microsoft Copilot Studio was selected as the recommended platform because HSFCU already operates within the Microsoft 365 ecosystem. RBY-ai's success depends on first resolving the underlying information-architecture fragmentation described in Weakness 4. Building an AI layer on top of disconnected, inconsistently maintained content sources will not deliver the experience the tool promises. The content audit in Action Step 1 is not a preliminary formality; it is the foundation on which the entire initiative rests, and its completion must be treated as a prerequisite before any platform configuration begins.

Action Steps:

1. Conduct a content and platform audit

   Map all existing information sources across the organization, including PolicyTech, Jostle, Brandfolder, Box, human resources document repositories, and any department-specific storage locations. Document where each type of content lives, who owns it, and how current it is. Identify outdated, duplicate, or orphaned documents that need to be resolved before they can function as a reliable knowledge source. This audit is the foundation of the entire project and must be completed before any platform configuration begins.

   - Cost/Revenue: No external cost.
   - Completed by: March 31, 2027

2. Hire and onboard the AI Knowledge Manager (RBY-ai Librarian)

   Define the job description, compensation range, and reporting structure for the AI Knowledge Manager role. This position needs a blend of organizational knowledge, information management skills, and comfort with technology platforms.

   - Cost/Revenue: $75,000 (ongoing annual operating expense)
     - Estimated annual compensation.
   - Completed by: April 30, 2027

3. Configure and build RBY-ai in Microsoft Copilot Studio

   The AI Knowledge Manager will work with business units to configure the RBY-ai agent in Microsoft Copilot Studio. Connect the platform to verified, current content sources identified in the audit. Microsoft Copilot Studio integrates with SharePoint, OneDrive, and Box, and supports Single Sign-On. The tenant-wide license costs $200 per month for up to 25,000 interactions.

   - Cost/Revenue: $200 per month (ongoing operating expense)

    - Additional Microsoft Copilot Studio tenant license (HSFCU already holds the Microsoft 365 license).
- Cost/Revenue: $8,000 (one-time expense)
    - IT configuration fee.
- Completed by: July 31, 2027

4. Pilot RBY-ai with new hires and the call center

Launch a controlled pilot of RBY-ai with two priority groups: employees within their first 90 days and call center staff. Administer feedback surveys at 30 and 60 days to assess accuracy, ease of use, and time savings. Track IT help desk ticket volume from pilot participants during this period to establish a measurable baseline for reduction.

- Cost/Revenue: No external cost.
- Completed by: September 30, 2027

5. Roll out RBY-ai organization-wide and communicate the launch

Following the pilot review, expand RBY-ai access to all HSFCU employees. Develop an internal communications campaign to introduce the tool, demonstrate its capabilities, and regard it as a resource rather than a replacement for individual expertise. Update new hire onboarding resources to include RBY-ai as a primary self-service resource from day one.

- Cost/Revenue: No external cost.
- Completed by: December 31, 2027

6. Measure outcomes and refine

At year-end 2028, compare IT help desk ticket volume in the policy, process, and document categories against the pre-launch baseline. Assess new hire feedback on onboarding efficiency. Report the findings to senior leadership, with a recommendation to expand RBY-ai's capabilities.

- Cost/Revenue: No external cost.
- Completed by: December 31, 2028

Expected Impact and Results: If RBY-ai is successfully implemented, HSFCU expects to deliver meaningful efficiency gains across the organization. Using IT's reported average resolution time of 22 minutes per ticket in this category, a reduction of 240 tickets per year translates to approximately 88 hours of IT staff time recovered annually. At an estimated hourly rate of $35, this results in approximately $3,080 in cost avoidance per year, partially offsetting the ongoing cost of the AI Knowledge Manager role. Additionally, positioning HSFCU as actively integrating AI into its daily operations strengthens its industry standing among peer institutions.

Goal 3: Refer a Friend Program (Revamp)

Goal Statement: Increase the number of referred new member accounts from 320 to 800 by year-end 2028 (representing a stretch goal of 10% of HSFCU's approximately 8,000 gross new members per year).

Goal Explanation and Strategic Rationale: HSFCU currently has a Refer a Friend program, established in 2013 and unchanged since, that offers members quarterly drawing entries for a chance to win one of four $1,500 prizes each year. The program has limitations. First, a quarterly sweepstakes model does not provide the immediate, guaranteed reward that research shows drives the highest referral participation rates. Second, the program relies on manual recording, which makes it difficult to accurately measure how many of HSFCU's approximately 8,000 gross new members per year came through referrals, limiting the ability to evaluate the program's true impact or optimize it over time.

The revamped Refer a Friend program would transform this existing asset into a frictionless, digital-first referral experience embedded directly within the Lumin online banking platform and mobile app. Members would generate a unique referral link or code from within their account and share it through any channel they choose. The existing $6,000 annual prize budget would be reallocated and modestly increased to $8,000 to fund guaranteed cash incentives of $10 per qualifying referral, rewarding the referring member upon completion of a new member's qualifying account opening.

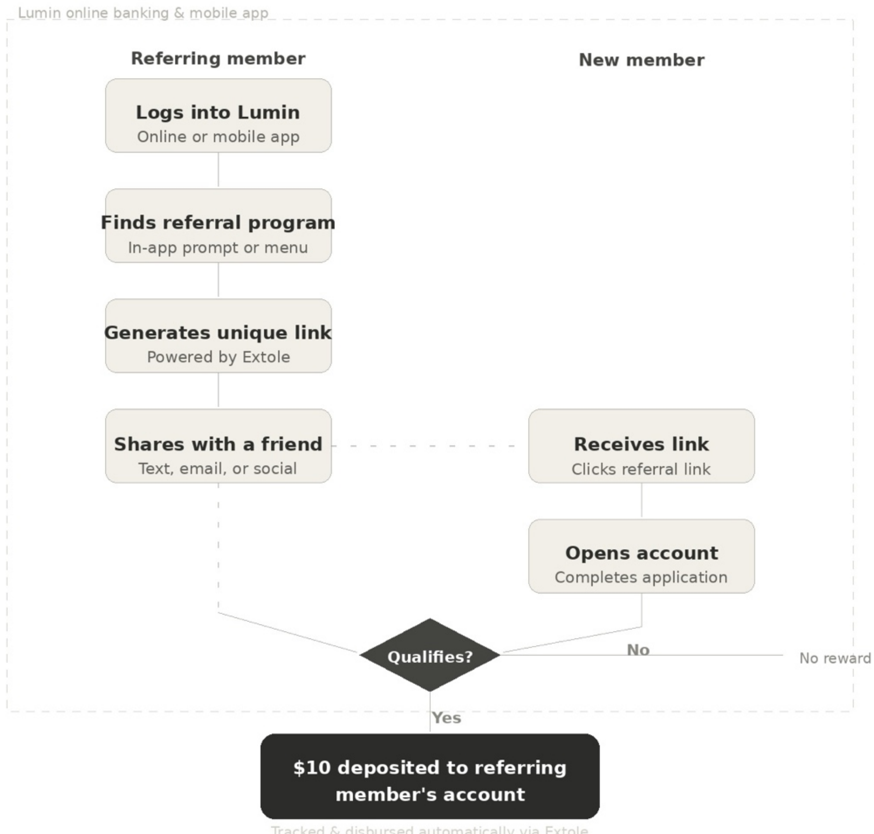


Figure 12: Refer a Friend Program – Member Experience Flow

This objective directly addresses Weakness 5 (Outdated Member Referral Strategy) identified in the SWOT analysis and responds to Inflection Point 3 (Evolving Consumer Expectations and Nontraditional Competition). The peer comparison discussed in Section II also informs this objective: HawaiiUSA's efficiency challenges and the broader competitive landscape of a saturated local market, as outlined in Opportunity 9, emphasize the necessity of developing low-cost, high-yield acquisition channels prior to the emergence of competitors with larger advertising budgets that could potentially displace them. Fintech and big technology firms have redefined members' expectations regarding financial relationships, including how they discover and recommend financial services to others. A digitally integrated referral program aligns with members' current behaviors and transforms their satisfaction into a scalable, measurable growth mechanism. This approach leverages one of HSFCU's most authentic strengths—its member loyalty and culture of care—transforming it into a quantifiable driver of new membership growth.

Action Steps:

1. Conduct a program audit and define the new incentive structure

   Review the current Refer a Friend program's performance data, including total referrals submitted, new accounts opened, and redemption rates for prizes. Identify the gaps in tracking and measurement that the digital platform will resolve. Coordinate with Digital Services, Finance, Compliance, and Legal to update the official program rules to reflect the new incentive model and digital delivery method.

   - Cost/Revenue: No external cost.
   - Completed by: June 30, 2026

2. Engage Extole as the selected referral platform vendor

   Extole specializes in credit union referral programs, pre-built member referral flows designed for the credit union member lifecycle, a mobile SDK for integration with digital banking applications like Lumin, and a documented track record of reducing cost per acquired member at peer institutions. Work with Digital Solutions, Information Technology, Procurement, and the Enterprise Project Management Office to initiate the vendor engagement, confirm integration requirements with Lumin, and execute a contract.

   - Cost/Revenue: $30,000 (ongoing annual operating expense)
     - Extole platform fee.
   - Completed by: July 31, 2026

3. Design and build the digital referral experience within Lumin

Work with Extole and the Digital Solutions and IT departments to integrate the referral program into the Lumin online banking platform and mobile app. Design the member-facing experience, including how members generate and share their unique referral link or code, how they track the status of their referrals, and how cash rewards are delivered directly to their account upon a qualifying account opening. Build in automated tracking so that every referral, conversion, and reward is recorded without manual intervention.

- Cost/Revenue: $20,000 (one-time operating expense)
    - Implementation fee.
- Completed by: September 30, 2026

4. Finalize program rules, approvals, and launch readiness

Finalize the program structure, incentive budget, official program rules, and disclosures. Obtain Finance and EPIC approvals. Confirm that the new incentive model complies with all applicable federal and state regulations, including 1099 reporting requirements for cash incentives. Develop all launch creative and communications in-house across Lumin platforms, email, social media, branch signage, and the HSFCU website. Train frontline staff and call center employees on the mechanics of the new program prior to launch.

- Cost/Revenue: $8,000 annually (ongoing marketing expense)
    - Incentive budget (increase of the existing $6,000 prize budget).
- Completed by: January 1, 2027

5. Monitor performance and optimize

Track referral program metrics monthly throughout 2027 and 2028, including the number of referral links generated, referral conversion rate, new accounts opened through referrals, average initial deposit of referred members, and total incentive payout versus new member revenue generated. Use this data to optimize the incentive structure, promotional timing, and in-app placement. Report outcomes to senior leadership quarterly.

- Cost/Revenue: No external cost.
  - Reporting supported by Extole analytics dashboard and existing HSFCU member data systems.
- Completed by: December 31, 2028

Expected Impact and Results: If the Refer a Friend Program (Revamp) is successfully launched, HSFCU expects to increase the number of referred new member accounts from 320 to 800 annually by year-end 2028, representing 10% of gross new member growth. At a $10 incentive per qualifying referral, the total annual incentive cost of $8,000 represents a $2,000 increase over the existing $6,000 prize budget, while shifting from a model that rewarded only four members per year to one that rewards 800. This reallocation delivers significantly greater member value per dollar spent.

Referral-acquired members consistently cost less to acquire than members obtained through paid advertising or other traditional channels, and research from Extole indicates that referred members tend to carry higher average balances and engage with more products over time. Because all member communications are produced and distributed in-house, the program carries no external marketing cost beyond the Extole platform and the per-referral incentive budget.

Goal 4: InvestHI Program

Goal Statement: Enroll 960 Gen Z members (ages 18 to 27) in the InvestHI Program by December 31, 2028.

Goal Explanation and Strategic Rationale: HSFCU serves more than 138,000 members, yet a significant and growing segment of that membership, Gen Z, is establishing investing habits through third-party platforms rather than through their primary financial institution. Apps like Robinhood, Acorns, and Cash App have captured the attention of younger investors by making the on-ramp to investing frictionless, visual, and accessible from a smartphone. When members move their investment dollars to external platforms, those assets leave the credit union's ecosystem entirely, reducing deposits, reducing engagement, and weakening the long-term financial relationship that HSFCU is built on.

Through a partnership with InvestiFi, HSFCU members can invest in stocks and exchange-traded funds directly from their checking accounts for as little as $1.00, without transferring funds to an external app or creating a separate brokerage account. InvestiFi's guided investing option also provides a robo-advisory pathway for members who want a diversified portfolio without managing individual securities. InvestiFi is purpose-built for credit unions and community banks, integrates natively with Lumin, and generates non-interest income through transaction fees, creating a revenue stream that offsets program costs over time.

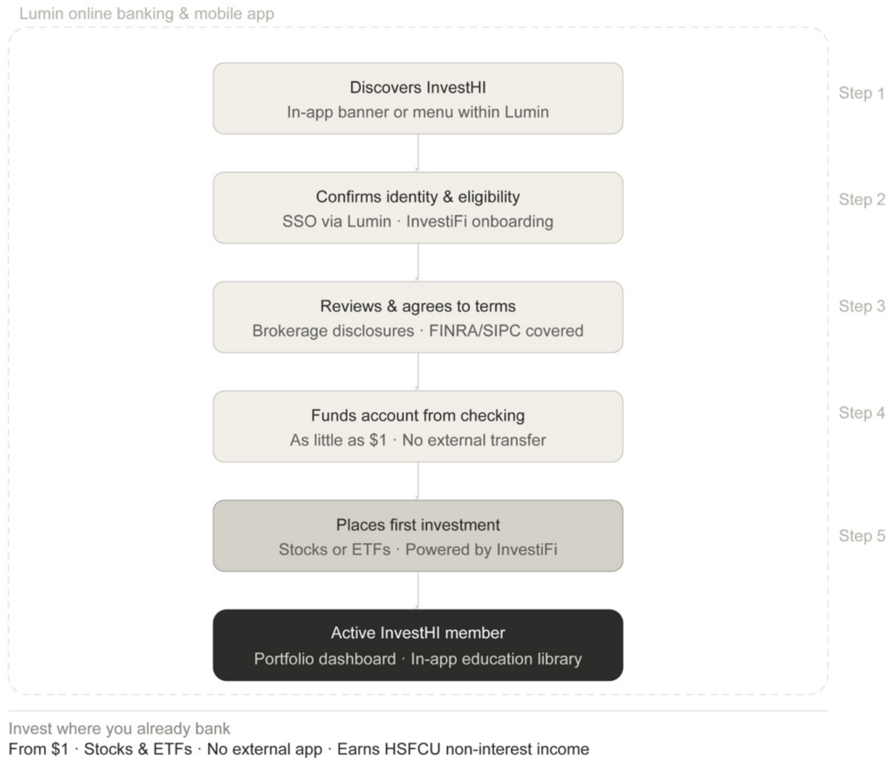


Figure 13: InvestHI – Member Experience Flow

The InvestHI Program is designed to serve as the initial step in HSFCU's broader investment services trajectory. It establishes a seamless pathway for Gen Z members to transition into comprehensive wealth management relationships through Hawaii State Investment Services (broker Cetera Financial Group). This initiative explicitly addresses Weakness 6 (Gen Z Investment Strategy) highlighted in the SWOT analysis and responds to Inflection Point 3 (Evolving Consumer Expectations and Nontraditional Competition) and Threat 11 (Digital-Only and Fintech Competitors). It aims to retain investment activities within HSFCU's ecosystem, thereby preventing migration to third-party platforms such as Robinhood, Acorns, and Cash App. The peer comparison presented in Section II further underscores the urgency of this objective: as entities with lower operational costs and greater technological agility broaden their product offerings, the opportunity to engage Gen Z investment clients at the earliest stages of their financial journey diminishes. It is also noteworthy that the introduction of InvestHI as an embedded investing platform may overlap with existing relationships with Cetera

Financial Group (Cetera). Such overlaps and tensions should be carefully mapped and resolved prior to engaging any vendors. When managed appropriately, however, the two platforms can be complementary rather than competitive, with InvestHI serving as the introductory gateway and Cetera providing the comprehensive destination.

Action Steps:

1. Conduct internal discovery and define program scope

   Engage Digital Solutions, Information Technology, Finance, Compliance, and Investment Services to assess current digital banking capabilities and confirm InvestiFi's compatibility with the Lumin platform. Define the scope of the initial launch, including which InvestiFi products to offer at launch, specifically stocks and ETFs without cryptocurrency, to align with Cetera’s existing investment services approach.

   - Cost/Revenue: No external cost.
   - Completed by: March 31, 2027

2. Engage InvestiFi and execute the vendor agreement

   InvestiFi is the only credit union-specific embedded investing platform that supports trading directly from a checking account. The platform integrates natively with Lumin, is SEC-registered through its subsidiary AdvisiFi LLC, and provides brokerage services through FINRA/SIPC-member broker-dealers. Work with Procurement, IT, Legal, and the Enterprise Project Management Office to execute a contract.

   - Cost: $20,000 (one-time operating expense)
     - Implementation fee.
   - Revenue: $57,600 (estimated annual non-interest income)

  - InvestiFi operates on a revenue-sharing model. Based on published benchmarks of $5.00 per active member per month, 960 enrolled members are projected to generate approximately $57,600 in annual non-interest income at full enrollment.
- Completed by: June 30, 2027

3. Build and test the InvestHI experience within Lumin

Work with InvestiFi and the Digital Solutions and IT departments to integrate the investing platform into the Lumin online banking platform and mobile app. Design the member-facing experience, including the onboarding flow for first-time investors, the account funding mechanism from checking, the portfolio dashboard, and InvestiFi's embedded financial education library.

- Cost/Revenue: No external cost.
  - Included in the implementation cost above.
- Completed by: September 30, 2027

4. Launch pilot program and train member-facing staff

Launch InvestHI as a soft pilot available to all eligible members through the Lumin platform. Develop in-branch and digital marketing materials in-house, including explainer content for the HSFCU website, email campaigns targeting Gen Z members, and social media content. Train all frontline staff and call center employees on the mechanics of the InvestHI program.

- Cost/Revenue: No external cost.
  - All creative and communications are produced in-house at no external cost.
- Completed by: January 1, 2028

5. Monitor enrollment, optimize, and measure against the goal

Track InvestHI enrollment and activity monthly throughout 2028, including the number of members enrolled, the average initial investment amount, the most popular investment products, the monthly active users, and the non-interest income generated. Report outcomes to senior leadership quarterly. At year-end 2028, present a full program review with a recommendation on program continuation and future enhancements.

- Cost/Revenue: No external cost.
    - Reporting supported by InvestiFi analytics dashboard and HSFCU member data systems.
- Completed by: December 31, 2028

Expected Impact and Results: The program is expected to generate meaningful non-interest income through InvestiFi's transaction fee structure, estimated at $5.00 or more per active member per month, creating a revenue stream that grows in proportion to program adoption.

HSFCU currently lacks embedded investing capabilities for Gen Z members who want to invest and are doing so through third-party platforms unrelated to the credit union. InvestHI reverses that dynamic by giving those members a reason to invest where they already bank, keeping deposits in-house, and deepening the primary financial institution relationship at a life stage when it is most likely to become permanent. A Gen Z member who begins their investing journey with HSFCU by purchasing $1 of stock is positioned to become the member who opens their first mortgage, funds their first retirement account, and receives an inheritance through the credit union decades later. When managed appropriately, InvestHI and Cetera are complementary rather than competing, with InvestHI serving as the entry point and Cetera serving as the destination.

Goal 5: First $50, presented by Hawaii State FCU

Goal Statement: Enroll 872 Hawaii public high school students as new members through the First $50 program by July 31, 2030 (representing an 8% conversion rate of the approximately 10,900 students in the Class of 2030).

Goal Explanation and Strategic Rationale: Beginning with the 2026-27 school year, the Hawaii State DOE will require all public high school students to complete a financial literacy educational opportunity as a condition of graduation. Starting with incoming freshmen in the Class of 2030, every student enrolled in Hawaii's public schools must successfully complete the requirement and document it through their Personal Transition Plan before earning a high school diploma. The curriculum covers six core areas: earning income, spending, saving, investing, managing credit, and managing risk, grounded in national standards from the Council for Economic Education and the Jump$tart Coalition for Personal Financial Literacy.

This policy change offers a rare and urgent opportunity to connect with Gen Z and Alpha as they develop their first financial identities. The First $50 program aims to position HSFCU as the institution that meets students at this crucial moment, supports their financial education, and rewards them for completing it. The program name highlights both the $50 account reward and Hawaii's status as the 50th state, creating a connection that is intentionally local, memorable, and meaningful to the students it serves.

The program is based on three principles. First, HSFCU provides advice on the financial literacy curriculum used in Hawaii public high schools, positioning the credit union as a trusted educational resource and community partner. Second, participating students open a HiFlex checking account and an

Always Saving account with HSFCU, building a real financial relationship with products suited to their stage of life. Third, after graduation is verified, a $50 reward is deposited directly into the student's Always Saving account every July 31.

At an estimated incentive cost of $43,600 for 872 new members, the per-member acquisition cost through First $50 is approximately $50, compared to the industry average of $400 to $700 per new member acquired through traditional channels. This represents one of the most cost-efficient acquisition strategies available to the credit union and delivers members at a life stage when long-term loyalty is most likely to form.

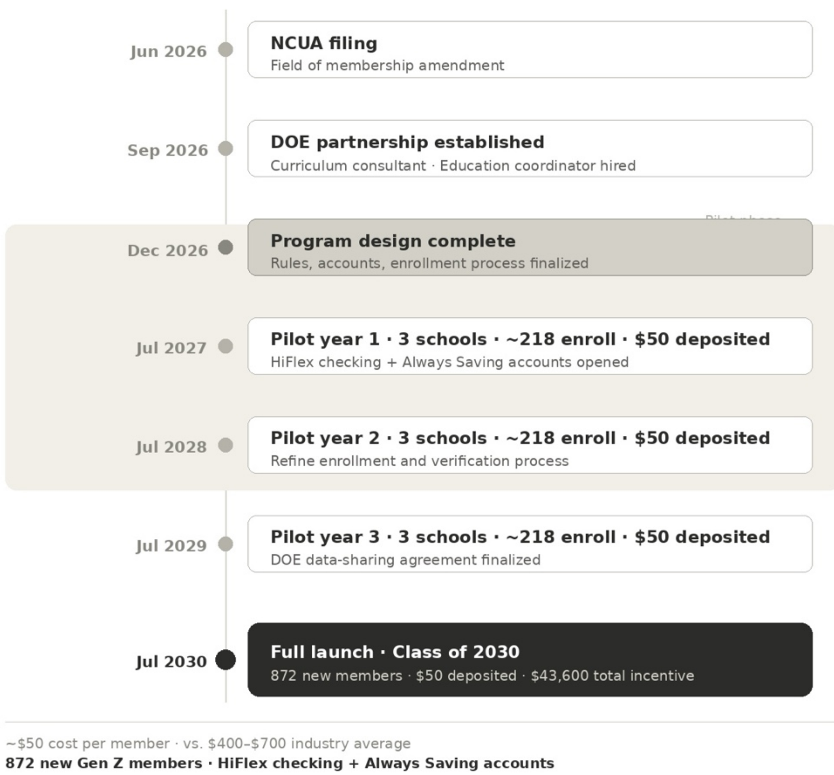


Figure 14: First $50 – Program Timeline

Action Steps:

1. Confirm field of membership eligibility and file the NCUA amendment

Work with Compliance and Legal to determine whether Hawaii public high school students are currently eligible for HSFCU membership as dependents of existing SEG members or through an existing associational common bond. If full eligibility for all Hawaii public school students is not already established, file a field of membership amendment with the National Credit Union Administration to add Hawaii public school students as a Select Employee Group. The precedent for this amendment already exists, as HawaiiUSA has received NCUA approval for a similar field-of-membership designation.

- Cost/Revenue: No external cost.
- Completed by: June 30, 2026

2. Establish a curriculum consultation partnership with the Hawaii DOE

Engage the Hawaii State DOE to formalize HSFCU's role as a curriculum consultant for the new financial literacy graduation requirement. HSFCU's existing financial literacy program, which reached more than 1,600 students in 2024, provides a strong foundation for this partnership. Appoint a dedicated Community Financial Education Coordinator to serve as the primary liaison between HSFCU and the DOE, manage school relationships, coordinate on-site program events, and administer First $50 program logistics.

- Cost/Revenue: $75,000 (ongoing annual operating cost) - Prorated to $18,750 in Q4 2026
    - Estimated annual compensation.
- Completed by: September 30, 2026

3. Design the First $50 program structure and account opening experience

Collaborate with Retail, Digital Solutions, Compliance, and Finance to finalize the structure of the First $50 program. Establish official program rules, eligibility and account-opening requirements, and the process for disbursing the $50 reward. Ensure that HSFCU's existing streamlined joint account opening process for members under 18 is adequate for on-site enrollment at school events. The HiFlex checking account and Always Saving account are the designated products for program participants.

- Cost/Revenue: No external cost.
- Completed by: December 31, 2026

4. Pilot program with select school complexes

Launch First $50 as a pilot program with three public high schools per year during the 2026-27, 2027-28, and 2028-29 school years. Use the pilot to refine the curriculum consultation model, the on-site enrollment process, and the graduation verification workflow. The pilot is projected to reach approximately 2,727 students across three years. At an 8% conversion rate, an estimated 218 students are expected to qualify for the $50 incentive per year.

- Cost/Revenue: $12,500 per year (annual operating expense)
    - Estimated pilot incentive budget, rounded up to account for higher early-adopter conversion and administrative costs.
- Completed by: July 31, 2027, July 31, 2028, and July 31, 2029 (incentive fulfillment)

5. Establish a graduation verification and data-sharing agreement with the DOE

Collaborate with the Hawaii DOE and schools to establish a formal data-sharing agreement that enables HSFCU to receive the official Class of 2030 graduate roster after commencement ceremonies. The Community Financial Education Coordinator cross-checks it against enrolled First $50 program participants and deposits $50 into each verified member's Always Saving account.

- Cost/Revenue: No external cost.
- Completed by: December 31, 2027 (data-sharing agreement), July 31, 2030 (verification and incentive fulfillment).

6. Full program launch for Class of 2030 and ongoing measurement

Execute the full First $50 program for the Class of 2030, beginning with the 2026-27 school year freshman class and continuing through their graduation in spring 2030. Promote the program through in-school curriculum partnerships, school events, HSFCU branch signage, social media, and the HSFCU website. Disburse $50 rewards to all verified graduates by July 31, 2030.

- Cost/Revenue: $43,600 in 2030 (annual operating expense)
    - Incentive budget for the Class of 2030 (872 members x $50), based on an 8% conversion rate of approximately 10,900 graduates. This disbursement falls in July 2030 (outside the 2026-2028 forecast window).
- Completed by: July 31, 2030

Expected Impact and Results: If the First $50 program is successfully executed, HSFCU expects to enroll 872 new members from the Class of 2030 by July 31, 2030. The total incentive investment of $43,600 is one of the most cost-effective acquisition strategies available to the credit union and targets members at the life stage when financial habits are forming, and institutional loyalty is most likely to develop.

A student who opens their first checking and savings account with HSFCU at 18, supported by a credit union that helped educate them, starts their financial life with a relationship rather than a transaction. As they enter the workforce, take on their first loan, and begin saving for the future, that relationship creates natural opportunities for HSFCU to deepen their engagement across the full product range.

Beyond enrollment numbers, the program establishes HSFCU as Hawaii's financial education partner of record for the state's public school system, a distinction no competitor currently holds. In a market marked by sameness among financial institutions, the First $50 program gives HSFCU a specific, credible, and community-rooted reason for the youngest generation of Hawaii residents to choose it. Will need to monitor and adjust for account attrition.

VI. FINANCIAL UPDATE AND THREE-YEAR FORECAST

Incorporating Balance Sheet, Income Statement, Key Data & Ratio Information
In Project I, you analyzed specific elements of your credit union's financial performance using mid-year data, which was used for consistency and expediency across all participants. In this section, you will now work with full year-end financial data to develop a more complete and forward-looking analysis.

You will begin by compiling your credit union's actual year-end results for 2022–2025, and then use those historical figures as the foundation to develop your own three-year financial forecast for 2026–2028. All historical data should be sourced from Callahan's Peer-to-Peer tool.

Important: The 2025 year-end data will not be available until late February 2026. Since your final project is due approximately six weeks later, it is critical that you complete the collection and analysis of your 2022–2024 year-end data before the end of 2025. Delaying this step may place you at risk of falling behind during the most time-sensitive phase of the project.

A. A. Three-Year Financial Forecast (2026–2028)

This forecast represents your strategic financial projection of what is likely to occur over the next three years. It should reflect your understanding of industry trends, historical performance, and your credit union's strategic direction. While precise accuracy is not expected, your forecast should demonstrate alignment with your earlier analyses and thoughtful assumptions based on the work you have already completed. You will be expected to detail your rationale for your forecasts later on in this section.

Your financial forecast must be informed by:

- The external trends and inflection points identified earlier
- The internal factors and gaps revealed in your SWOT analysis
- The financial impact of the five strategic goals you developed in the previous section

Key Factors to Consider
When developing your forecast, consider how your credit union's growth strategy will affect both income and expenses:

Income Considerations:

- Loan growth and product mix
- Investment income projections
- Fee income and other non-interest sources

Expense Considerations:

- Changes in deposit strategy or funding mix
- Staffing levels and compensation planning
- Branch or facility expansion
- Marketing initiatives
- Technology and infrastructure investments

You may also incorporate macroeconomic factors if you believe they are likely to influence your forecast. This could include expected changes in interest rates, inflation, recessionary trends, or other external shocks.
Reminder: You must incorporate the financial impact of each of your five strategic goals into this forecast. These should include both revenue-generating and cost-incurring aspects, as appropriate. Your ability to connect strategic priorities to financial outcomes is a key part of this section.

An Excel-based projection tool has been provided to support students who may be less familiar with forecasting. Use of this tool is optional, and it will not be submitted as part of your project. It is offered as a resource to guide your thinking and help organize your assumptions.

Please complete your financial forecast using the formatted tables provided on the following pages. These tables are structured to capture both historical data (2022–2025) and forecasted results (2026–2028).

Balance Sheet

Loans	Dec-2022	Dec-2023	Dec-2024	Dec-2025	Dec-2026	Dec-2027	Dec-2028
Consumer Loans	$ 40,504,853	$ 43,167,207	$ 43,035,140	$ 38,677,591	$ 38,290,815	$ 42,119,897	$ 50,543,876
Real Estate Loans	833,385,504	923,057,285	1,029,033,194	1,158,275,580	1,308,851,405	1,479,002,088	1,671,272,360
Credit Card & Unsecured Loans	211,593,195	232,860,496	244,842,518	228,148,120	232,711,082	237,365,304	242,112,610
Other Loans	24,991,641	25,622,980	35,814,303	41,484,366	47,707,021	54,863,074	63,092,535
Total Loans **(A)**	1,110,475,193	1,224,707,968	1,352,725,155	1,466,585,657	1,627,560,324	1,813,350,363	2,027,021,381
Allowance for Loan Loss **(B)**	5,842,170	8,525,413	10,516,859	12,563,836	16,280,219	21,095,907	27,336,077
Investments & Cash **(C)**	1,040,568,909	963,437,711	1,158,678,157	1,205,073,873	1,174,721,239	1,031,646,429	893,457,922
Fixed & Other Assets **(D)**	161,469,446	179,147,958	182,498,589	177,654,928	177,654,928	177,654,928	177,654,928
NCUA or ASI Deposit **(E)**	20,353,470	20,935,379	20,936,742	24,716,848	30,401,723	37,394,119	45,994,767
Total Assets (A-B+C+D+E)	**$ 2,327,024,848**	**$ 2,379,703,603**	**$ 2,704,321,784**	**$ 2,861,467,470**	**$ 2,994,057,995**	**$ 3,081,141,746**	**$ 3,171,465,074**

Deposits	Dec-2022	Dec-2023	Dec-2024	Dec-2025	Dec-2026	Dec-2027	Dec-2028
Checking	$ 401,147,717	$ 410,098,320	$ 417,411,140	$ 452,324,892	$ 470,417,888	$ 489,234,603	$ 508,803,987
Savings	735,215,405	663,005,169	637,267,394	681,673,247	681,673,247	695,306,712	709,212,846
Money Markets	713,320,430	631,974,346	693,633,887	1,024,076,625	1,106,002,755	1,128,122,810	1,150,685,266
Certificates	193,005,268	415,391,244	611,983,348	363,084,816	366,715,664	370,382,821	374,086,649
Other Deposits	51,530,517	45,875,036	41,050,103	39,138,410	39,138,410	39,138,410	39,138,410
Total Deposits **(A)**	2,094,219,337	2,166,344,115	2,401,345,872	2,560,297,990	2,663,947,964	2,722,185,356	2,781,927,159
Other Liabilities **(B)**	102,583,732	49,160,444	105,716,471	45,235,784	45,235,784	45,235,784	45,235,784
Net Worth **(C)**	208,345,977	210,302,051	228,677,624	262,521,838	291,462,389	320,308,748	350,890,273
Other Equity **(D)**	(1,922,199)	-	-	-	-	-	-
Unrealized Gain/(Loss) **(E)**	(76,201,999)	(46,103,007)	(31,418,183)	(6,588,142)	(6,588,142)	(6,588,142)	(6,588,142)
Total Liabilities & Equity (A+B+C+D+E)	**$ 2,327,024,848**	**$ 2,379,703,603**	**$ 2,704,321,784**	**$ 2,861,467,470**	**$ 2,994,057,995**	**$ 3,081,141,746**	**$ 3,171,465,074**

Notable 2025 Balance Sheet Changes

Total assets grew 5.81% to $2.86 billion, supported by strong loan growth and a stable investment and cash portfolio.

- **Real Estate Loans:** The primary growth engine, increasing 12.6% to $1.158 billion. This reflects the credit union's strategic focus on home products, including strong Home Equity application volume in Q4 with a yearly high of 180 applications in October. Total loan balances grew $114.4 million year over year, led by Commercial, Home Equity, and Mortgage.

- **Consumer and Auto Loans:** HSFCU shifted its strategy, driven by the pandemic-induced car inventory shortage, to deprioritize indirect auto lending. Auto loan balances fell 10.1% to $38.7 million. Credit Card and Unsecured balances also declined 6.8% to $228.1 million.

- **Money Market Deposits:** Grew sharply to $1.024 billion, up 47.6% from $693.6 million in 2024, reflecting member demand driven by the top-of-market rate environment and the RBY account strategy. At the same time, Certificate balances declined 40.7% to $363.1 million as members moved funds into the more liquid RBY structure.

- **Allowance for Loan Loss (CECL):** Increased to $12.6 million from $10.5 million in 2024, a direct reflection of growth in home product loans. The allowance as a percentage of total loans now stands at approximately 0.86%, which is below the credit union industry average of 1.13% to 1.26% following CECL adoption. This is a reasonable result given HSFCU's concentration in residential real estate, which historically carries lower expected loss rates than consumer or auto portfolios. The increase is consistent with the CECL model's forward-looking methodology and correlates with the expansion of the real estate and commercial loan portfolios.

- **Net Worth:** Grew to $262.5 million, up from $228.7 million in 2024, supported by the strong net income performance.

Income Statement

	Dec-2022	Dec-2023	Dec-2024	Dec-2025	Dec-2026	Dec-2027	Dec-2028
Net Loan Interest Income	$ 47,247,708	$ 60,374,321	$ 72,641,018	$ 82,895,478	$ 91,185,026	$ 100,503,528	$ 115,579,058
Investment Income	12,109,382	17,016,671	24,571,528	43,446,944	54,308,680	67,885,850	84,857,313
Fee & Other Income	19,605,830	21,163,751	22,817,146	23,911,776	24,928,026	26,037,468	27,253,885
Total Gross Income (A)	**$ 78,962,920**	**$ 98,554,743**	**$ 120,029,692**	**$ 150,254,198**	**$ 170,421,732**	**$ 194,426,846**	**$ 227,690,255**
Compensation & Benefits	$ 35,188,075	$ 40,688,306	$ 42,089,480	$ 43,540,053	$ 44,647,304	$ 46,367,714	$ 48,154,416
Travel and Conference	457,880	559,389	548,177	749,557	779,539	810,721	843,150
Office Occupancy	5,294,193	6,467,618	6,717,660	6,756,120	6,794,800	7,333,702	7,915,344
Office Operations	9,695,155	9,752,723	10,290,417	12,831,948	14,756,740	17,326,251	20,345,577
Marketing	2,588,656	2,642,250	2,344,324	3,276,576	3,276,576	3,047,076	3,047,076
Loan Servicing	3,808,315	3,580,848	4,454,966	5,075,339	5,782,102	6,587,284	7,504,591
Professional & Outside Services	6,926,652	6,955,125	7,437,700	8,286,838	8,943,351	9,709,875	10,542,097
Member Insurance and Other Operating Expense	1,874,534	2,670,100	3,281,200	4,101,666	5,127,290	6,409,372	8,012,039
Total Operating Expense (B)	**$ 65,833,460**	**$ 73,316,359**	**$ 77,163,924**	**$ 84,618,097**	**$ 90,107,702**	**$ 97,591,994**	**$ 106,364,291**
Non-Operating Gains/(Losses) **(C)**	$ (6,702,703)	$ 1,794,028	$ 8,654,049	$ 1,587,654	$ 1,587,654	$ 1,587,654	$ 1,587,654
Dividends	$ 2,620,794	$ 18,909,407	$ 27,963,712	$ 36,458,992	$ 49,219,639	$ 66,446,513	$ 89,702,792
Interest on Borrowed Money	143,969	593,491	160,481	384,733	384,733	384,733	384,733
Total Cost of Funds (D)	**$ 2,764,763**	**$ 19,502,898**	**$ 28,124,193**	**$ 36,843,725**	**$ 49,604,372**	**$ 66,831,246**	**$ 90,087,525**
Provision for Loan Loss **(E)**	$ (1,517,580)	$ 3,895,640	$ 5,020,050	$ 4,105,010	$ 3,356,761	$ 2,744,900	$ 2,244,568
Net Income (A-B+C-D-E)	**$ 5,179,574**	**$ 3,633,874**	**$ 18,375,574**	**$ 26,275,020**	**$ 28,940,551**	**$ 28,846,359**	**$ 30,581,525**

Notable 2025 Income Statement Changes

Total gross income increased to $150.3 million in 2025, up from $120.0 million in 2024, a 25.2% increase. This growth was driven by all three income categories, with net loan interest income, investment income, and fee income all posting gains.

- **Net Loan Interest Income:** Increased to $82.9 million, up 14.1% from $72.6 million in 2024, consistent with strong real estate loan growth throughout the year. The weighted average coupon rate on the loan portfolio rose from 5.74% in December 2024 to 6.05% by year-end 2025, driven primarily by growth in Commercial, Home Equity, and Mortgage balances.

- **Investment Income:** Increased to $43.4 million, up 76.8% from $24.6 million in 2024. The primary driver was the conversion from CUSO to Cetera in late 2024, which generated income that carried into 2025. Additionally, the decision to sunset the RBY account resulted in a one-time transfer of $1.1 million to Cetera. The eventual decision to retain RBY as a standalone product (with no new accounts) will moderate this income line in future periods.

- **Fee and Other Income:** Increased modestly to $23.9 million from $22.8 million in 2024. Debit interchange came in slightly ahead of 2024 despite the challenges of the debit card conversion, a meaningful result given the operational disruption. Overdraft income declined year over year due to changes to the OD program and reduced debit card activity immediately following the conversion, though activity began to normalize by December.

Total operating expense increased to $84.6 million, up 9.7% from $77.2 million in 2024. Key drivers included:

- **Office Operations:** Increased 24.7% to $12.8 million, reflecting the cumulative cost of the merger, branch renovations, debit card conversion, and data center migration.
- **Marketing:** Increased 39.8% to $3.3 million as the department supported all major 2025 initiatives and launched a brand-new website.
- **Travel and Conference:** Increased 36.7% to $749K, reflecting an expanded travel policy that now includes Department Managers and staff in addition to Board, Executives, and Division Managers.
- **Compensation and Benefits:** Increased at a more modest 3.5% to $43.5 million, reflecting the organization's focus on managing headcount costs even as operational complexity increased.

Non-Operating Gains decreased to $1.6 million from $8.7 million in 2024, which had included the one-time gain from the sale of the former headquarters building on Halekauwila Street ($6.8 million net). This line is expected to remain flat going forward.

Total Cost of Funds increased to $36.8 million, up 31.0% from $28.1 million in 2024, driven almost entirely by dividend expense, which grew from $28.0 million to $36.5 million. This reflects the credit union's deliberate deposit strategy of giving back to members through the RBY Savings account and top-of-market Certificate specials in the high-rate environment. Interest on Borrowed Money also increased to $384K, reflecting a short-term arbitrage opportunity that management does not plan to repeat.

Key Data & Ratios

Key Data & Ratios	Dec-2022	Dec-2023	Dec-2024	Dec-2025	Dec-2026	Dec-2027	Dec-2028
Net Worth Ratio (%)	8.95%	8.88%	8.48%	9.17%	9.73%	10.40%	11.06%
Return on Assets (%)	0.22%	0.15%	0.72%	0.94%	0.99%	0.95%	0.98%
Asset Growth (%)	1.27%	2.26%	13.64%	5.81%	4.63%	2.91%	2.93%
Deposit Growth (%)	1.06%	3.44%	10.85%	6.62%	4.05%	2.19%	2.19%
Cost of Fund (%)	0.13%	0.90%	1.22%	1.47%	1.69%	2.20%	2.88%
Loan Growth (%)	13.32%	10.29%	10.45%	8.42%	10.98%	11.42%	11.78%
Loan Yield (%)	4.52%	5.17%	5.63%	5.88%	5.89%	5.84%	6.02%
Loan Delinquency (%)	0.25%	1.43%	1.47%	1.24%	0.50%	0.50%	0.50%
Loan Charge Offs (%)	0.20%	0.24%	0.24%	0.14%	0.45%	0.45%	0.45%
Member Growth (%)	3.97%	3.50%	2.69%	4.56%	4.00%	4.00%	4.00%
Loans to Shares (%)	53.03%	56.53%	56.33%	57.28%	61.10%	66.61%	72.86%

Notable 2025 Key Data and Ratios

- **Net Worth Ratio:** Recovered to 9.17% after dipping to 8.48% in 2024. The 2024 dip was driven by rapid asset growth outpacing equity accumulation. The 2025 recovery reflects both strong earnings and more moderate asset growth.

- **Return on Assets:** Improved to 0.94% from 0.72% in 2024, a meaningful step toward the 1.00% benchmark that most credit union boards and management teams target. This improvement is consistent with the growth in net income.

- **Loan Yield:** Increased to 5.88% from 5.63% in 2024, reflecting both the higher-rate environment and the portfolio mix shift toward higher-yielding real estate products.

- **Loan Delinquency:** Declined to 1.24% from 1.47% in 2024, a positive signal given the volume of loan growth. This suggests the credit union's underwriting discipline remained intact through a period of significant expansion.

- **Loan to Shares:** Increased to 57.28% from 56.33% in 2024, a modest uptick that remains well below peer averages for credit unions of this asset size, indicating substantial room to grow the loan portfolio relative to the deposit base.

- **Cost of Funds:** Increased to 1.47% from 1.22% in 2024, reflecting the elevated dividend expense discussed above. This is the clearest financial footprint of the member giveback strategy executed in 2025.

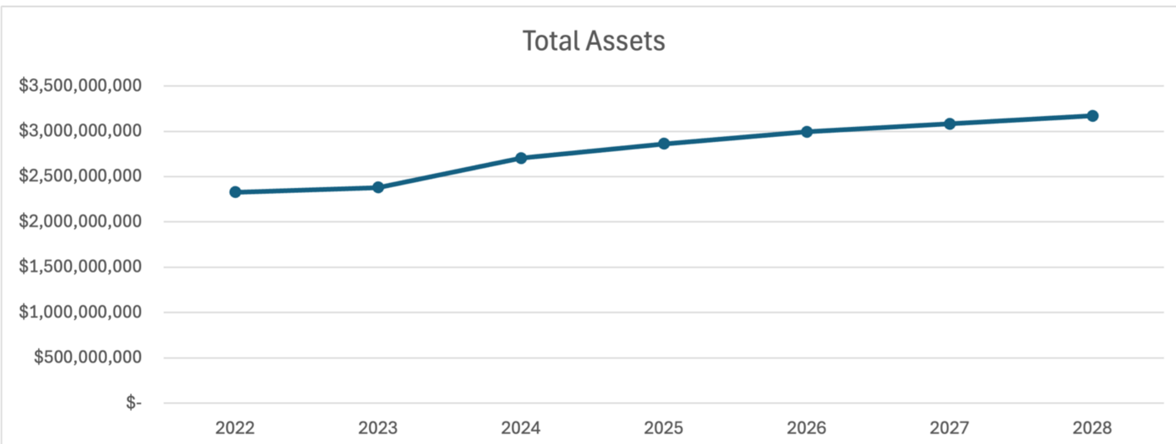
B. 7-YEAR GRAPHS

Create bar or line charts that graphically represent trends across all 7 years (2022-2028) of data from the Balance Sheet, Income Statement and Key Ratios tables.

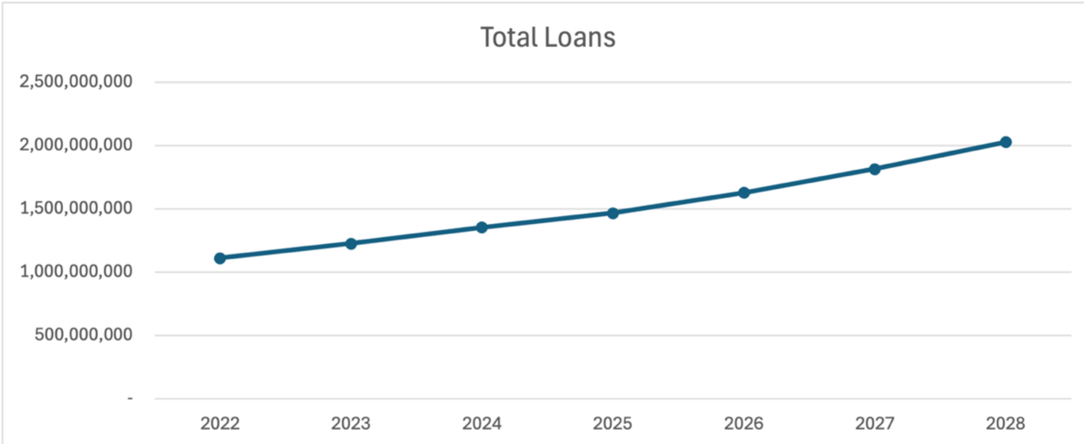
Since Peer-to-Peer is solely used to analyze historical information, that tool cannot be effectively utilized to produce these graphs. You will need to find an alternative means to produce them.

Specifically graph the following items and include them in your project:

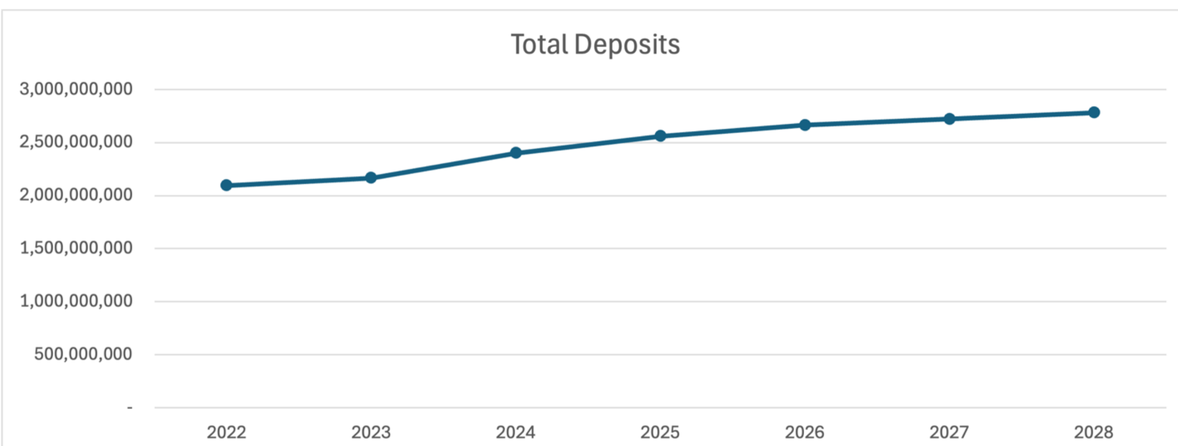
- Total Assets
- Total Loans
- Total Deposits
- Equity
- Net Income
- Operating Expense
- Net Worth Ratio
- Return on Assets
- Loan to Deposits



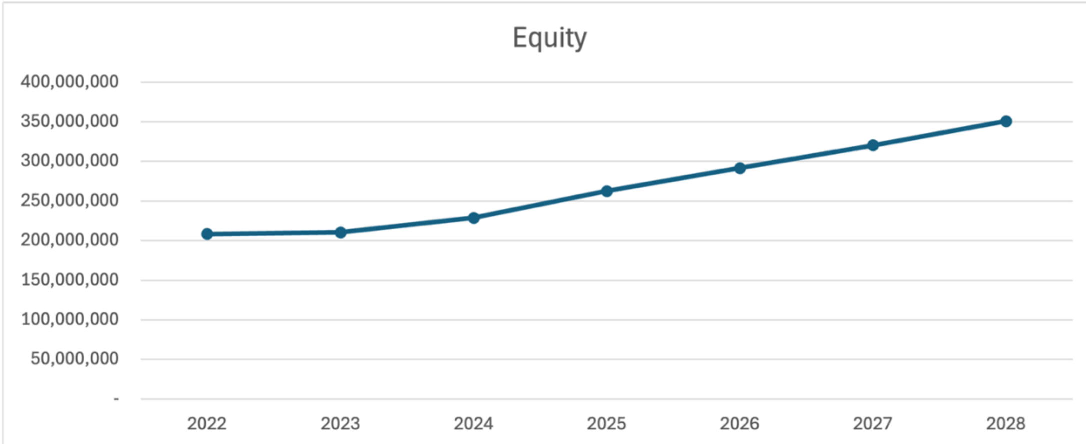
Total Assets increased from $2.86 billion in 2025 and are projected to reach $3.17 billion by 2028, representing a compound annual growth rate of approximately 3.5%. The trajectory is steady and intentional, reflecting a strategy built on loan growth rather than deposit surges. The 2025 base already incorporates the one-time lift from the RBY Savings account launch and the HMSA merger, both of which pulled forward growth that is not expected to repeat at the same scale. The forecast moderates accordingly, producing a more sustainable and defensible growth curve. The upward slope across all seven years confirms a consistent asset expansion even through rate cycles and operational transitions.



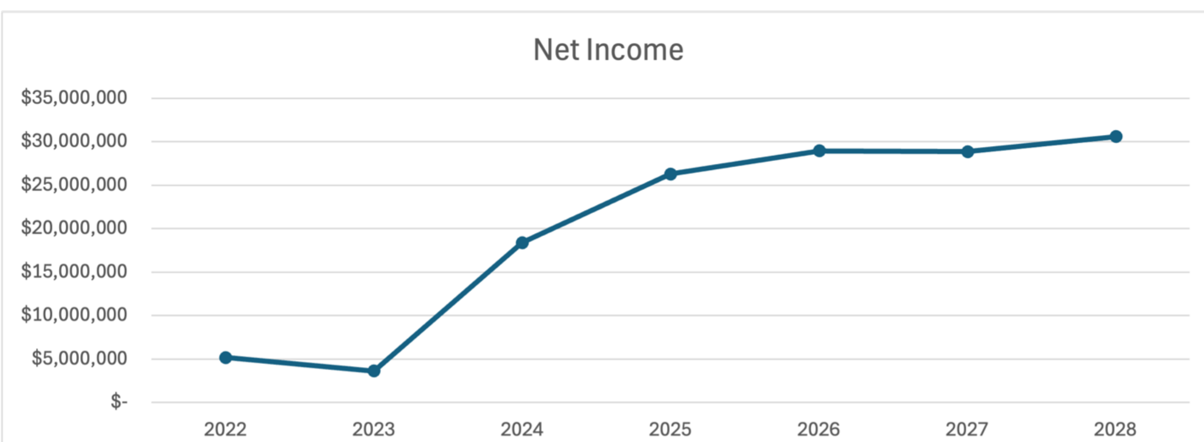
Total Loans are projected to increase at an accelerating rate (11.0% in 2026, 11.4% in 2027, 11.8% in 2028), reflecting the credit union's strategic emphasis on home products and the conversion of the still-low Loan-to-Share ratio into earning assets. This is the most important growth driver in the forecast and the one that most directly supports improving ROA.



Total Deposits are projected to increase to 4.05% in 2026 and stabilize near 2.19% in 2027 and 2028. This deceleration makes sense given the one-time nature of the 2025 Money Market surge and the expected normalization of the rate environment.

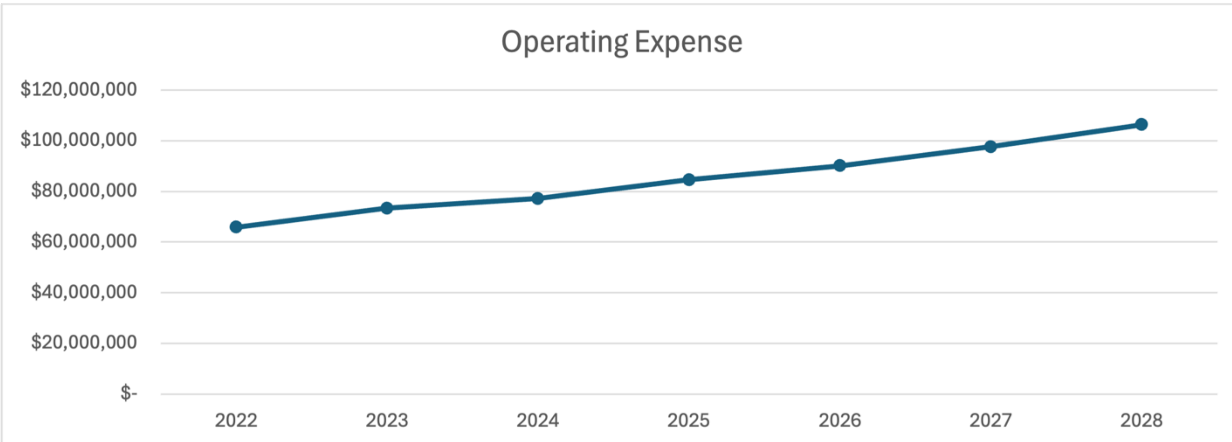


Equity increased from $228.7 million in 2022 to a projected $349.4 million by 2028, driven entirely by retained earnings. No external capital injections are assumed. The steeper rise in the 2025 to 2028 segment of the graph reflects improving net income as the loan portfolio expands and higher-yielding assets displace lower-yielding investments. The consistent upward slope across all seven years reflects a credit union that has not drawn down its capital base through losses, special dividends, or strategic writedowns, and whose board philosophy of maintaining net worth above the well-capitalized threshold while deploying excess capital back to members has produced a healthy and growing equity foundation.

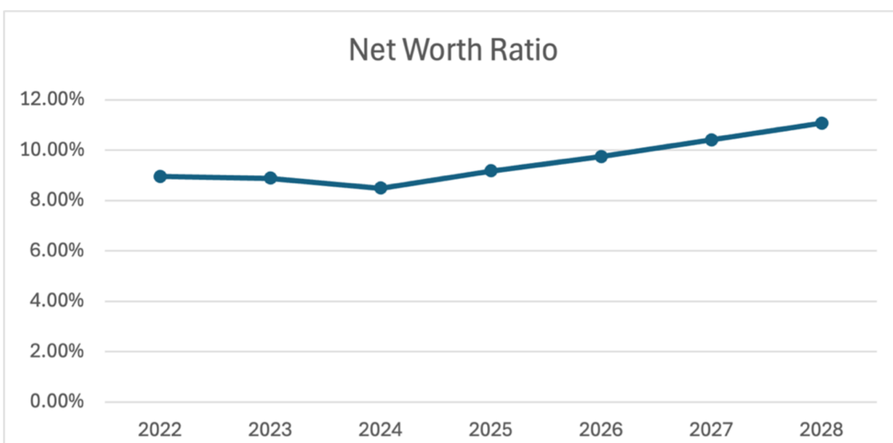


Net Income increased from $26.3 million in 2025 to a projected $28.9 million in 2026 and is expected to range from $28.8 to $30.6 million through 2028. The slight dip between 2026 and 2027 warrants attention: it reflects the full-year impact of new personnel and program costs from RBY-ai (Goal 2) and

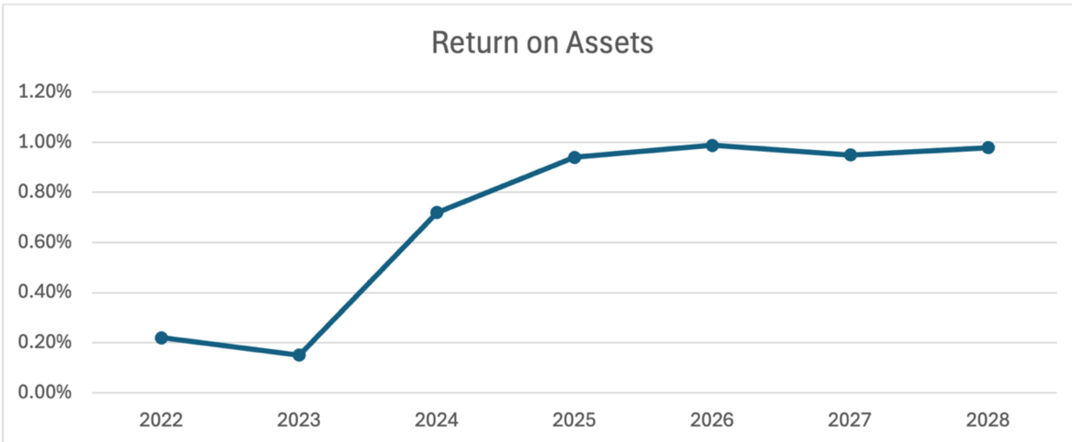
First $50 (Goal 5), without yet receiving the revenue offset from InvestHI (Goal 4), which ramps in 2028. This is internally consistent with the goal timelines.



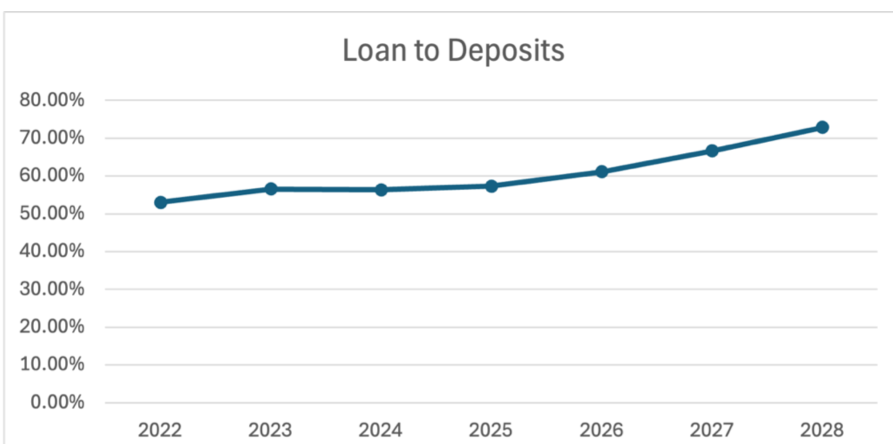
Operating Expense rises steadily throughout the forecast, driven by compensation, loan servicing, and incremental costs associated with the strategic goals. The consistent upward slope in the Operating Expense graph is expected and appropriate. The critical check is whether gross income grows faster than operating expense, which it does in every year of the forecast.



Net Worth Ratio is projected to increase to 9.17% in 2025 to 11.06% by 2028. While this trajectory is positive and reflects healthy earnings retention, a ratio approaching 11% may exceed the comfort levels of the board and management if the organization's philosophy is to actively deploy capital back to members or into growth initiatives.



Return on Assets is projected to increase from 0.94% in 2025 to 0.99% in 2026, dip marginally to 0.95% in 2027 due to the goal-related expense ramp, then recover to 0.98% in 2028. This pattern is consistent and keeps the credit union near the widely cited 1.00% benchmark throughout the forecast. It confirms that the strategic investments being made are not undermining financial health.



Loan to Deposits is projected to increase from 57.28% in 2025 to 72.86% by 2028, the steepest upward-trending graph in the set. The credit union has historically been deposit-rich and loan-light relative to peers, and this ratio's increase reflects a deliberate and healthy rebalancing toward higher-yielding earning assets. The trajectory is appropriate and does not approach levels that would raise liquidity concerns.

C. FINANCIAL DATA ANALYSIS

i. **Current Year Analysis**
As measured by the above reports, provide a detailed narrative on observed changes in your 2025 performance compared to the previous three years, including reasons for those movements.

ii. **Forecast Assumptions & Analysis**
Provide a detailed explanation of the rationale for your forecasted assumptions.
The process of developing and implementing goals, and then forecasting their results is certainly an inexact science. Therefore, it is important to step back and take a look at the outcome of those forecasts from a broader perspective once they have been assembled.

Consider the following in your analysis: Does the resulting forecast make sense? Are the results consistent with your narratives? Are the key data and ratios in line with board and management expectations or risk tolerance levels? Do the graphs show the trends you expected? Is each one increasing/decreasing in the manner that you anticipated? Why or why not? What other actions might need to be considered to better align the forecasted results with your initial expectations?

Current Year Analysis (2025)

2025 was a year of deliberate transition for HSFCU. The organization absorbed the operational and financial weight of several large initiatives simultaneously, including a credit union merger, two branch renovations, a data center conversion, and the redistribution of 90,000 debit cards through a full card platform conversion. Despite this elevated cost environment, the credit union finished 2025 with its highest net income in at least three years, growing from $18.4 million in 2024 to $26.3 million, while total assets crossed $2.86 billion, up 5.81% year over year.

Forecast Assumptions and Analysis (2026–2028)

The three-year forecast for HSFCU projects continued asset growth from $2.86 billion in 2025 to $3.17 billion by 2028, driven by sustained loan production, a maturing deposit strategy, and the incremental financial impact of five strategic goals. The forecast was built by anchoring to the 2024 to 2025 growth trends where appropriate, moderating lines that reflected one-time or transitional factors, and layering in the specific cost and revenue impacts of each goal.

Overall, the forecast produces a picture that is optimistic but grounded. Net income grows from \$26.3 million in 2025 to \$30.6 million by 2028, ROA approaches 0.99% and holds near the 1.00% target, and the Net Worth Ratio climbs from 9.17% to 11.06%. The Loan to Share ratio rises from 57.28% to 72.86% by 2028, reflecting the credit union's most significant growth lever: converting its still-low loan utilization of deposits into higher-earning assets.

Macro Trends

Several broader economic conditions shape the environment in which this forecast is set. Hawaii's economy remains structurally reliant on tourism, which accounts for a significant portion of state output and employment. Visitor arrivals have recovered from pandemic lows but remain sensitive to fuel costs, global travel patterns, and the competitive appeal of other destinations. The state's unemployment rate has held near historic lows, but the labor market is tight, particularly for skilled workers, which continues to put upward pressure on wages and benefits costs across all industries, including financial services. The cost of living, already the highest in the nation, continues to challenge household financial stability. Home prices in Hawaii have remained elevated, with the median single-family home price exceeding \$950,000, making homeownership out of reach for most first-time buyers and sustaining demand for rental housing and home equity products. These conditions collectively reinforce the strategic direction embedded in this forecast: grow loans, manage deposit costs actively, and deepen member relationships before competitors with lower overhead and national scale do so first.

The primary assumption underpinning the forecast is loan growth. The baseline scenario estimates total loans expanding by 11.0% in 2026, 11.4% in 2027, and 11.8% in 2028, driven by ongoing real estate loan production and a strategic initiative to augment the Loan to Share ratio. In an alternative scenario where loan growth occurs at 8% annually, which is plausible in a protracted high-interest rate environment that diminishes mortgage refinancing and purchase activity, total loans would approximate $1.89 billion by 2028 instead of $2.03 billion. The consequent decrease in interest income would likely result in a ROA closer to 0.90% rather than 0.98%, with a more modest expansion of the Net Interest Margin. The trajectory of the cost of funds constitutes the second pivotal variable. Should the interest rate environment shift more rapidly than anticipated and HSFCU reduce dividend rates on the RBY Savings account earlier than forecast, the cost of funds could normalize at a faster pace, partially mitigating the effects of slower loan income. These scenarios underscore that loan growth remains the most influential factor affecting financial outcomes through 2028, and this assumption warrants the closest scrutiny.

VII. SPREAD ANALYSIS

Using your Balance Sheet and Income Statement for 2025 as well as your forecast for 2028, you will now complete the Spread Analysis table below. This exercise will provide insights into your credit union's performance in the five different areas or "levers" that determine profitability. You will display the completed table below in your project. Once the table is complete, you are expected to write an analysis of the results.

The dollar amounts can be taken directly from your Income Statements as follows:

- Interest Income: Loan Interest Income + Investment Interest Income
- Cost of Funds: Total Cost of Funds
- Net Interest Margin: Interest Income – Cost of Funds
- Operating Expense: Total Operating Expense
- Provision for Loan Loss: Provision for Loan Loss
- Fee & Other Income: Fee & Other Income + Non-Operating Gains/(Losses)
  - [Note: Add the non-operating amount if it is a gain; subtract it if it is a loss]
- Net Income (ROA): Net Interest Margin – Operating Expense – Provision for Loan Loss + Fee & Other Income

The percentages are calculated by dividing the dollar amount for each line item by Average Assets. "Average Assets" is calculated as follows:

- 2025 Average Assets: (2024 Total Assets + 2025 Total Assets) / 2
- 2028 Average Assets: (2027 Total Assets + 2028 Total Assets) / 2

*You can check your work by ensuring that the Net Income (ROA) on your spread analysis matches the corresponding Net Income line on your Income Statement

Analyze Your Results
Consider the following questions: What changes in profitability (ROA) does your forecast project? Which of the 5 components of Net Income are driving these changes and why? Are these components increasing/decreasing the way you anticipated? What business factors are impacting these changes?

Spread Analysis

		2025 ($)	2025 (%)	2028 ($)	2028 (%)
	Interest Income	$ 126,342,422	4.54%	$ 200,436,371	6.41%
-	Cost of Funds	36,843,725	1.32%	90,087,525	2.88%
=	***Net Interest Margin***	**89,498,697**	**3.22%**	**110,348,846**	**3.53%**
-	Operating Expense	84,618,097	3.04%	106,364,291	3.40%
-	Provision for Loan Loss	4,105,010	0.15%	2,244,568	0.07%
+	Fee & Other Income	25,499,430	0.92%	28,841,539	0.92%
=	***Net Income (ROA)****	26,275,020	0.94%	30,581,526	0.98%

Analysis of Results

The spread analysis comparing 2025 actual results to the 2028 forecast makes it clear that HSFCU is on a trajectory of improving profitability, driven primarily by loan growth that is converting a historically deposit-heavy balance sheet into higher-earning assets, while managing the elevated cost of funds introduced by the credit union's member giveback strategy.

Interest income as a percentage of average assets increases from 4.54% in 2025 to 6.41% in 2028, a 187-basis-point improvement. This is the largest positive driver in the forecast and reflects both loan portfolio growth and a rising loan yield. Total loans are projected to grow from $1.47 billion in 2025 to $2.03 billion in 2028, with real estate loans remaining the primary driver of growth. As the Loan to Deposits ratio climbs from 57.28% to 72.86%, more of the credit union's assets are generating loan interest income rather than sitting in lower-yielding investments. This rebalancing is the central financial theme of the three-year forecast and the most direct expression of the long-term deposit-to-lending strategy.

The cost of funds rises from 1.32% in 2025 to 2.88% in 2028, a 156-basis-point increase, making it the most significant headwind in the forecast. This increase is the direct and intentional financial footprint of the credit union's deposit strategy. The decision to grow deposits aggressively through the RBY Savings account and competitive certificate specials, and to launch the Always Saving account in

April 2026, reflects a deliberate choice to prioritize member value over short-term margin. Members receive higher rates; the credit union builds a larger, more loyal deposit base from which to fund future lending.

The 156-basis-point increase in the cost of funds over the forecast period is intentional and manageable within the current strategy, yet it possesses certain limitations. The sustainability of this trajectory is contingent upon the simultaneous fulfillment of two conditions: firstly, loan yields must continue to outpace rising funding costs; secondly, the deposit base accumulated through the RBY Savings account must transition into loan balances rather than remain in lower-yielding investments. Should either condition fail, there exists a tangible risk of margin compression. The most plausible scenario that could expedite an increase in the cost of funds beyond the forecast involves a sustained high-interest-rate environment, whereby members persist in demanding top-tier market rates on deposits whilst loan demand diminishes, thus exerting pressure from both ends. Consequently, HSFCU's management team should diligently monitor the spread between loan yields and funding costs and be prepared to make necessary adjustments to the deposit product pricing strategy if this spread begins to narrow below the levels envisaged in the forecast.

It is important to note that while the cost of funds ratio more than doubles over the period, it does so in proportion to the growth in interest income. The Net Interest Margin continues to expand, confirming that the deposit strategy is working as intended. The credit union is paying more for deposits but deploying them into even higher-yielding loans, preserving and growing the spread.

Net Interest Margin expands from 3.22% to 3.53%, a 31-basis-point improvement despite the rising cost of funds. It confirms that loan growth is outpacing the cost of building the deposit base, and that the credit union’s strategy of accepting higher funding costs in exchange for a larger, higher-quality loan portfolio is producing the intended financial result. The margin expansion is modest, which is appropriate given the rate environment and the deliberate member giveback built into the deposit product suite.

Operating expense as a percentage of average assets rises from 3.04% to 3.40%, a 36-basis-point increase. This reflects ongoing investments in staffing, technology, branch operations, and the incremental costs associated with the five strategic goals. The credit union added branch staff for the new location, hired the AI Knowledge Manager and Community Financial Education Coordinator, and absorbed the program costs of the Refer a Friend revamp and the RBY-ai platform. While the upward trend in operating expense is expected and consistent with a growth strategy, it is the component of the spread that most requires active management. The efficiency ratio will need to be monitored to ensure that income growth continues to outpace expense growth in the years beyond 2028.

The provision for loan loss declines from 0.15% to 0.07%, a meaningful improvement that reflects both the normalization of the CECL model following its initial adoption and the credit quality profile of HSFCU's real estate-concentrated loan portfolio. As discussed in the current year analysis, the elevated 2025 delinquency figure is attributable to a single secured commercial borrower and is not indicative of broader portfolio deterioration. As that relationship normalizes, the provision moderates. This is a tailwind in the forecast and contributes positively to the ROA improvement.

Fee and other income hold flat at 0.92% of average assets across both periods. In dollar terms, the category grows from $25.5 million to $28.8 million, primarily driven by fee income growth and the addition of InvestHI revenue beginning in 2028. The stability of this ratio as a percentage of assets reflects the nature of fee income at HSFCU: it grows in proportion to membership and the asset base, but is not projected to become a disproportionately large share of income. The $57,600 contribution from the InvestHI program in 2028 is the one new revenue stream introduced by the strategic goals and represents a foundation for future growth if the program scales beyond the initial 960 Gen Z enrollees.

ROA improves from 0.94% in 2025 to 0.98% in 2028, approaching but not yet reaching the widely cited 1.00% benchmark. The improvement is driven primarily by the expansion of Net Interest Margin and the decline in the provision, partially offset by rising operating expenses and cost of funds. ROA holds near 0.95% to 0.99% throughout the forecast, even as the credit union absorbs the cost of five strategic goals and a new branch opening, confirming that the investment in growth is not coming at the expense of financial health. The spread analysis validates the overall forecast.

VIII. FEASIBILITY ASSESSMENT ON IMPLEMENTATION

Now that you have completed your analysis, proposed five strategic goals, and developed a financial forecast, this final step asks you to assess the realistic potential for implementation. This is your opportunity to evaluate how well your plan aligns with your credit union's current direction, capacity, and culture—and to reflect on what it would take to move your ideas from concept to execution.

Your response should offer both practical insight and personal perspective. Consider the operational, political, and cultural realities within your organization, and how they may influence whether your proposed strategies are embraced.

Use the questions below to guide your assessment:

- What will it take for your credit union to actually adopt all or part of your 5-goal plan?
- In your opinion, which components would have the greatest chance of being adopted by your credit union?
- In your opinion, which components would have the least chance of being adopted by your credit union?
- What factors lead you to have that opinion?
- How do your goals differ from your credit union's current goals? How are they similar?

This section should reflect thoughtful analysis and authentic reflection. There are no right or wrong answers, only your reasoned, experience-based assessment of feasibility and fit.

HSFCU operates through a disciplined project governance structure centered on the Enterprise Projects and Initiatives Committee (EPIC). All significant initiatives, regardless of originating department, must move through EPIC for approval, prioritization, and resource allocation. EPIC is delegated authority by the Strategic Leadership Team to set governance policy, prioritize projects across the enterprise, and approve investments. Voting members include the Strategic Leadership Team, the

CIO, and the Operations Division Manager, ensuring that decisions reflect organizational priorities rather than individual department interests.

The pathway from idea to implementation typically begins at the annual strategic retreat, where the Executive Team identifies the organization's priority focus areas for the coming years. Division managers are then selected to lead initiative committees, develop solutions, and present recommendations to EPIC. Projects that receive approval move into the Enterprise Project Management Office pipeline for formal execution.

EPIC evaluates and prioritizes all submitted initiatives using a three-tier classification: Non-negotiable initiatives are those required by audit findings or regulatory obligation; Must Have initiatives address significant threats or weaknesses that carry material risk if left unaddressed; and Nice to Have initiatives have strategic merit but can be deferred if higher-priority items compete for resources or funding.

Against that framework, the Refer a Friend Revamp (Goal 3) and First $50 Program (Goal 5) are the most likely to be classified as Must Have, given their direct connection to member acquisition and the external forcing function of the DOE financial literacy mandate. Both also carry favorable funding profiles. Goal 3 reallocates an existing budget rather than requesting new dollars, removing one of the most common barriers to EPIC approval. RBY-ai (Goal 2) would likely be evaluated as a Must Have, contingent on the organization first committing to resolving the information architecture fragmentation it depends on. The Flex Friday Program (Goal 1) and InvestHI Program (Goal 4) are the most likely to enter the pipeline as Nice to Have, given the internal complexity each carries, though either could be elevated if the organization's annual strategic retreat identifies talent retention or Gen Z acquisition as a priority focus area for the coming cycle.

Goals Most Likely to Be Adopted

- **Goal 3: Refer a Friend Program Revamp** has the highest likelihood of adoption. The program already exists, the incremental cost is modest, the technology vendor (Extole) specializes in credit union referral programs, and the outcome is directly measurable. It also aligns with the digital progression priority by moving a manual, paper-based process to the Lumin platform. This goal could realistically be submitted to EPIC within the current planning cycle and approved without significant resistance.

- **Goal 5: The First $50 Program** also has a strong chance of adoption, for different reasons. HSFCU already has an active financial literacy program that reached more than 1,600 students in 2024, which means the organizational muscle and community relationships required for this goal are partially in place. The Hawaii DOE’s new financial literacy graduation requirement creates an external forcing function, making the timing urgent and the community partnership angle compelling. The cost per new member acquired is approximately $50, compared to an industry average of $400 to $700, making the financial case straightforward. The one complexity is the field-of-membership amendment that may be required.

- **Goal 2: RBY-ai** is a 50/50 proposition. The organization has a stated AI priority and a demonstrated appetite for technology investment. However, the core challenge is not technology adoption; it is information infrastructure. RBY-ai depends on centralized, clean, and up-to-date content sources. HSFCU does not currently have a unified source of truth or a CRM that consolidates organizational knowledge. Building an AI layer on top of fragmented, inconsistently maintained content sources will not deliver the experience the tool promises. If the organization commits to resolving the underlying information architecture problem first, RBY-ai becomes a strong candidate. If it is treated as a standalone technology deployment without that foundation, the risk of underperformance is high. The goal is worth pursuing, but the sequencing matters.

Goals Facing the Greatest Challenges

- **Goal 1: The Flex Friday Program** faces the most significant internal resistance of the five goals. The compressed work schedule would only apply to full-time, non-exempt, non-member-facing back-office employees, who represent approximately 40% of HSFCU's workforce. The 60% of staff who work in branches or member-facing roles would not be eligible, and that disparity is likely to generate friction. HSFCU's strength as an organization is deeply rooted in its internal culture and shared identity among all employees. A benefit that visibly applies to some employees but not others risks creating a two-tier experience that undermines that culture, even if the intent is positive. Leadership would need to carefully evaluate whether the retention benefit for back-office staff outweighs the cultural cost of an uneven policy. This goal may be better positioned as a future exploration rather than a near-term initiative.

- **Goal 4: The InvestHI Program** is strategically sound but faces meaningful execution risk tied to vendor relationships. HSFCU already has an existing investment services infrastructure, including its relationship with Cetera. Introducing InvestiFi as an embedded investing platform within Lumin creates a potential overlap with, or tension against, those existing relationships. The commercial dynamics between InvestiFi, Cetera, and the credit union's current investment services structure would need to be carefully mapped before any vendor engagement begins. If not handled deliberately, the initiative risks damaging a relationship that the organization has invested significant time and resources to build. The goal has real long-term value for Gen Z member engagement, but the organizational readiness and vendor coordination requirements mean it will take longer than the 2027 timeline suggests.

How These Goals Align with HSFCU's Current Direction

The five goals were developed to respond to the same inflection points the organization is already working through. That alignment is not coincidental; it reflects that the strategic challenges facing HSFCU are real, widely understood within the organization, and actively being addressed. The goals differ from current efforts primarily in their specific approaches rather than their underlying objectives.

Where my goals differ most from current initiatives is their emphasis on the member-acquisition funnel and the younger member demographic. Goals 3, 4, and 5 are designed to reach members earlier in their financial lives and through digital channels preferred by younger consumers.

The financial forecast shows that the deposit-to-lending conversion strategy produces improved profitability through 2028. The member acquisition goals, particularly the First $50 goal, are designed to ensure that the members opening those future deposit and loan accounts are loyal, long-term relationships rather than rate-chasing transaction accounts. That is the version of HSFCU that the five goals, taken together, are trying to build.

IX. EXECUTIVE SUMMARY

Write a clear and concise Executive Summary that synthesizes the most important findings, decisions, and recommendations from your entire project. This summary should serve as a standalone overview—something a senior leader could read to quickly understand the key takeaways and strategic direction you've proposed, without needing to read the full report.

- The Executive Summary should be 1–2 pages in length and written after the rest of your project is complete.
- Think of this as your opportunity to clearly communicate the value of your work to someone who hasn't seen the details.
- Your Executive Summary should include the following components:
- A brief description of your credit union's current position, drawing from your financial and operational analysis
- A summary of the major external trends and inflection points likely to impact the credit union
- Key insights from your SWOT analysis (especially those that shaped your planning)
- An overview of your five strategic goals, including what they aim to achieve and how they align with broader strategy
- Highlights from your three-year financial forecast, including expected outcomes and major investments or risks

- A short reflection on the feasibility and strategic fit of your proposed plan

Use clear, professional language. Avoid repeating the full content of your project—focus instead on synthesizing and communicating the most critical insights and strategic decisions.

Your Executive Summary should reflect the tone and format you would use in presenting this work to your board or senior leadership team.

Current Position

HSFCU enters the 2026 to 2028 planning period from a position of financial strength. Total assets reached $2.86 billion at year-end 2025, net income grew to $26.3 million, and the Net Worth Ratio recovered to 9.17%. Member satisfaction remained high, with a Member Service Score of 94.16% and a Net Promoter Score of 76.71. The credit union's most important forward-looking indicator is the Loan to Share ratio of 57.28%, which sits well below peer averages and signals the primary financial opportunity of the next three years: converting a deposit-rich balance sheet into higher-earning loan assets.

Key SWOT Insights

The most important takeaway from the SWOT analysis is that HSFCU has genuine strengths that competitors cannot easily replicate, but those strengths are rooted in the credit union's past relationships with existing members. The real vulnerability is forward-looking. The credit union currently lacks a defined strategy for capturing Gen Z members as they form their first financial identities, a digital referral engine to turn member satisfaction into measurable growth, and an information infrastructure too fragmented to support the AI capabilities the organization needs. The strengths in culture, branch presence, and capital give HSFCU the foundation and resources to act.

Strategic Goals

Three of the five goals address the same underlying problem from different angles: reaching the next generation of members before competitors do. The Refer a Friend Program Revamp turns existing member satisfaction into a digital, measurable acquisition engine. The InvestHI Program keeps Gen Z investment activity within the credit union's ecosystem by embedding investing directly in the Lumin platform. The First $50 Program uses Hawaii's new financial literacy graduation requirement to meet students when they first form their financial identity.

Three-Year Financial Forecast Highlights

The forecast projects assets growing to $3.17 billion by 2028, net income reaching $30.6 million, and ROA holding near 0.99% throughout the period. The central driver is loan growth. Total loans are projected to grow from $1.47 billion to $2.03 billion, pushing the Loan to Share ratio from 57.28% to 72.86% and expanding Net Interest Margin from 3.22% to 3.53%, despite a rising cost of funds. A modest dip in net income between 2026 and 2027 reflects the full-year impact of new personnel and program costs before InvestHI revenue begins in 2028, and is consistent with the goal timelines. The Net Worth Ratio, climbing toward 11% by 2028, is a sign of financial health and provides an opportunity to return member dividends or expand lending programs rather than continue accumulation.

Feasibility and Strategic Fit

The five goals were designed to address the same inflection points the organization is already working through, which increases the likelihood of adoption. The Refer a Friend revamp and the First $50 Program are the strongest near-term candidates. RBY-ai is viable but depends on resolving the fragmentation in the information architecture first. The Flex Friday Program requires careful evaluation of whether a benefit that applies to 40% of staff creates cultural friction that outweighs its retention value. InvestHI is strategically sound but needs deliberate coordination with the Cetera relationship before any vendor engagement begins. The plan as a whole reflects a coherent strategic direction. The financial foundation is in place, the member relationships are strong, and the strategic direction is clear: HSFCU must now move with urgency to capture the next generation of Hawaii members, close the digital experience gap, and convert its deposit strength into loan growth before a more agile competitor does so first.

Overall, the forecast reflects a credit union that has moved through a period of significant operational investment and is now positioned to harvest the benefits of that work through stronger loan production, a more efficient operation, and a suite of new member-facing programs. The financial story told by the graphs and ratios is consistent with the strategic narrative: steady, sustainable growth with improving profitability and a strengthening capital base.

X. YOUR CONCLUSIONS

This final section is an opportunity for you to reflect on your personal growth, professional development, and overall experience completing the project. Your responses should be thoughtful, specific, and authentic. You are encouraged to draw connections between the skills you applied, the insights you gained, and how this experience may influence your work moving forward. You can write this as one complete narrative or respond to the prompts one at a time.

Please respond to each of the following prompts:

Personal and Professional Impact

- How has completing this project influenced the way you approach your role, your decision-making, or how you set and pursue personal and departmental objectives?

Project Management Reflection

- What did you learn about your own project management skills throughout this process? Consider aspects such as time management, planning, organization, adaptability, or collaboration.

Most Enjoyable and Most Challenging Components

- Which section of the project did you most enjoy and why? Which section was most challenging for you, and what specific steps will you take to build your skills or confidence in this area?

Recommendations for Improvement

- Do you have any suggestions for improving this project experience for future participants? Are there topics or skills you wish had been covered in the curriculum that would have helped you complete the project more effective?

Personal and Professional Impact

Completing this project helped close a gap I did not fully realize existed. Coming from a marketing background, I approached most of my work through the lens of making things land with an audience, creating campaigns that resonate, and building momentum around initiatives. What this project gave me was the other side of that picture. I now understand the financial levers being pulled behind the decisions I support, and that changes how I think about my work. A campaign is not just a message; it is connected to a strategic goal, a budget assumption, and a projected outcome. Understanding that connection makes me a more effective contributor, not just within my own department but across the business units I collaborate with. That broader perspective is what I expect to carry forward most from this experience.

Project Management Reflection

WCMS ran alongside a full workload and a full life outside of work, and there were moments when the combined weight of those responsibilities made the finish line feel distant. What shifted my approach was recognizing that I did not have to carry it alone. I have a supportive leadership group and a strong team around me, and leaning into that support rather than pushing through in isolation made the difference. The mindset shift I took away from this experience is one I plan to apply going forward.

Most Enjoyable and Most Challenging Components

Section V, the strategic goals, was the section I enjoyed most. Problem-solving is where I feel most at home, and the process of examining a real organizational challenge and developing a structured, actionable response was genuinely engaging. Connecting each goal back to the inflection points and the SWOT findings made the work feel purposeful rather than academic.

Section VI, the financial analysis, was the most challenging. I went in thinking I had a working understanding of the balance sheet, and I was quickly humbled. A specific moment stands out: I assumed a Consumer Loan meant a Personal Loan. It does not. When I reached out to a mentor in senior leadership for help, rather than simply giving me the answer, he walked me through how to find it, which led me to the Callahan formulas, then to the Call Reports, and finally to the underlying account codes. Cross-referencing and validating the math took more time than any other part of the project. Now

I know, a Consumer Loan is defined as a New Vehicle Loan (Account 385) and a Used Vehicle Loan (Account 370), while a Personal Loan falls under All Other Unsecured Loans (Account 397).

Recommendations for Improvement

The project was structured around a clear, logical progression: from learning from peer groups to applying that knowledge at inflection points, to developing strategic goals, and finally to building a financial forecast. Each section built naturally on the one before it, and that sequencing worked well. My recommendation is to reconsider the placement of the research component within this project. The research section felt disconnected from that natural progression, in part because of its placement in the timeline and in part because it did not feed directly into the sections that followed, as the other components did. It may be better positioned as a standalone assignment rather than embedded within this project, where participants are already managing a significant scope of work. Separating it would allow both the research and the strategic project to receive the attention each deserves.

Closing Remarks

When I look back at WCMS, I'll remember the conversation with the now-retired EVP who challenged me. You could call it my inflection point. Since then, I've put myself in uncomfortable spots, gained new skills and knowledge, and grown my network. But the most important thing that has changed has been my *perspective*. I'm proud of the core value that makes credit unions special, a member-centric philosophy built on *people helping people*.

PS… The addition of a PSI tattoo was not on my bingo card. Thank you, WCMS.

XI. Project Appendix

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How To Build AI Strategy In Real Time (Part 1)

Six credit union leaders share how they are balancing innovation and governance while deploying new tools.

Marc Rapport

Artificial intelligence is disrupting financial services faster than the speed of the internet.

Generative AI tools for both member-facing applications and back-office processes are in the hands of employees right now, raising the stakes for governance, compliance, and smart use policies that don't hinder innovation or competitiveness. That means today's credit union leaders must balance moving quickly to unlock AI's value with putting enough governance and guardrails in place to mitigate risk.

Credit unions across Illinois, Indiana, Texas, Washington, and beyond are putting AI to work while building real-world strategies to govern it as they go. Read on to learn about their AI use cases and dive into how they're approaching governance issues.

Clear, Simple Guidelines

John Sahagian has been with BCU ($6.2B, Vernon Hills, IL) for 25 years. He became the suburban Chicago shop's vice president and chief data officer in July 2018.

Sahagian says BCU is actively integrating gen AI within existing platforms for departments like HR, marketing, and software development. These tools, often provided through partnerships, enhance efficiency and align with AI roadmaps from trusted vendors.

BUC also has heavily invested in Salesforce and Microsoft platforms, both of which offer powerful generative AI tools within secure frameworks. Additionally, the credit union is providing AI training and resources to ensure employees can work creatively and effectively alongside machine intelligence.

What steps has your credit union taken to establish clear, responsible AI governance and policy frameworks, and how are you ensuring ethical and compliant adoption across departments?

John Sahagian: Gen AI clearly holds massive potential, but it also brings entirely new risks. Instead of shutting everything down, we chose to embrace the opportunity and quickly rolled out a clear, simple AI acceptable use standard.

This guideline spelled out the do's and don'ts in plain language and helped people understand the risks involved. Gen AI tools are accessible to everyone. That makes this both a strength and a challenge.

How are you identifying and addressing "shadow AI" use within your organization, and what safeguards are in place to manage risks?

JS: Our security team has been very proactive in scanning for unauthorized AI usage and even blocking unauthorized AI activity. We don't do this to discourage AI use, but rather to ensure all tools used have been reviewed.

Furthermore, we make available to all employees permitted gen AI tools that operate inside our security framework and ensure prompts and responses are protected. So, anyone that wants to experiment and use AI absolutely can within the permitted tools.

What role have your executives and the board played in shaping your AI governance strategy, and how do you communicate its importance across the enterprise?

JS: As soon as ChatGPT hit the scene, it was apparent these new AI models and tools would be game changers. Our board gave us a dual mandate of, “there’s new risks here, you better be careful,” and “there’s a lot of value here, you better not lose pace!”

We’re fortunate our board members see where this is going and are as enthusiastic about AI progress as they are about AI defense. We provide them with quarterly updates on the progress of our AI roadmap. Communication is absolutely essential. This thing we’re trying to govern is constantly changing and moving, so it can feel overwhelming to start building policies and standards. A limited few in your organization will likely read through your AI governance standard, but it’s important every employee knows you have one.

Empowered Employees To Leverage AI Responsibly

Tammie Fletcher has been vice president of HR at CEFCU ($8.1B, Peoria, IL) for the past three years. She has been with the central Illinois cooperative since 1989, starting her career in marketing.

Fletcher says CEFCU formed an internal team led by C-level executives to develop AI guidelines and a policy framework that focus on enabling responsible use of gen AI as well as identifying current use cases and paving the way for future capabilities.

The team identified more than 60 AI use cases at the outset, many already embedded in existing software. These range from basic machine learning applications to advanced gen AI functionalities across the credit union. Employees also can use external generative AI tools like Chat GPT and internal tools like Microsoft Copilot Chat.

What steps has your credit union taken to establish clear, responsible AI governance and policy frameworks, and how are you ensuring ethical and compliant adoption across departments?

Tammie Fletcher: Our cross-functional team created a comprehensive AI policy that defines CEFCU's approach to responsible AI adoption, explains why we use it, and sets guardrails for development and deployment.

We also launched a generative AI acceptable use policy that sets clear, practical rules for ethical and secure AI usage. Both policies are now official corporate policies, recently approved by the CEFCU board.

We're finalizing a strategic roadmap under the guidance of our chief officers to ensure sustainable and impactful implementation.

How are you identifying and addressing "shadow AI" use within your organization, and what safeguards are in place to manage risks?

TF: We conducted a comprehensive survey across departments to identify existing AI applications. Detailed training will be required of all employees to ensure they understand restrictions for using AI and how to leverage tools to enable secure internal use of AI to help with tasks, including document writing, content generation, meeting minutes, data analysis and trends, and more.

There will also be technical restrictions placed on access to unapproved AI applications.

What role have your executives and the board played in shaping your AI governance strategy, and how do you communicate its importance across the enterprise?

TF: Our executive leadership has been instrumental in shaping and guiding our AI strategy, ensuring alignment with CEFCU's mission. They work closely with the AI team they formed to provide ongoing feedback.

We will ensure credit unionwide alignment through ongoing training, transparent communication about AI initiatives, and strong leadership support. AI governance is essential to maintaining our members' trust and ensuring our use of AI technology remains compliant with regulations, internal policies, and ethical standards while staying aligned with CEFCU's mission and vision.

Our approach empowers employees to leverage AI responsibly to enhance their work while keeping human judgment and fact-checking in all decision-making processes.

Weekly Recaps For Today And Tomorrow

Doug True began his career with FORUM Credit Union ($2.3B, Fishers, IN) as a management trainee in 1988. He was named the Indianapolis-area credit union's CEO in November 2011.

True says FORUM Credit Union is applying AI across multiple departments, including indirect lending, where AI helps review auto loan contracts for accuracy and compliance. In commercial services, the credit union uses AI to summarize property appraisals efficiently. In marketing, AI tools generate copy suggestions, whereas the fraud department uses AI to detect patterns relevant to Suspicious Activity Reporting (SAR). Additionally, robotic process automation is streamlining internal audit processes on large data sets.

What steps has your credit union taken to establish clear, responsible AI governance and policy frameworks, and how are you ensuring ethical and compliant adoption across departments?

Doug True: Our executive team regularly meets to discuss AI, we've established a cross-functional team, and we will possibly make a new hire in 2026. This position would help us document governance of AI tools, document usage to avoid duplication of efforts, and ensure we're leveraging existing tools before purchasing new tools.

How are you identifying and addressing "shadow AI" use within your organization, and what safeguards are in place to manage risks?

DT: Our technology team has controls in place for the use of AI tools. We're actively surveying via technology and social engineering.

What role have your executives and the board played in shaping your AI governance strategy, and how do you communicate its importance across the enterprise?

DT: Governance is happening among our executive team as well as the cross-functional team across the credit union currently using AI tools. We regularly discuss developments in the AI space at our executive team and board meetings.

We publish a recap each week for our volunteers on what we're working on at the credit union. This recap often includes how we're using AI today and how we plan to use it in the future.

AI governance is vital to the protection of member data and intellectual property. We internally develop our internet banking and mobile app platform, so it's critically important we protect this intellectual property contained in this code set.

Interviews have been edited and condensed.

How Target Figured Out A Teen Girl Was Pregnant Before Her Father Did

Kashmir Hill Aug 11, 2022 at 04:17am EDT

Target has got you in its aim

Every time you go shopping, you share intimate details about your consumption patterns with retailers. And many of those retailers are studying those details to figure out what you like, what you need, and which coupons are most likely to make you happy. Target , for example, has figured out how to data-mine its way into your womb, to figure out whether you have a baby on the way long before you need to start buying diapers.

Charles Duhigg outlines in the New York Times how Target tries to hook parents-to-be at that crucial moment before they turn into rampant -- and loyal -- buyers of all things pastel, plastic, and miniature. He talked to Target statistician Andrew Pole -- before Target freaked out and cut off all communications -- about the clues to a customer's impending bundle of joy. Target assigns every customer a Guest ID number, tied to their credit card, name, or email address that becomes a bucket that stores a history of everything they've bought and any demographic information Target has collected from them or bought from other sources. Using that, Pole looked at historical buying data for all the ladies who had signed up for Target baby registries in the past. From the NYT:

> [Pole] ran test after test, analyzing the data, and before long some useful patterns emerged. Lotions, for example. Lots of people buy lotion, but one of Pole's colleagues noticed that women on the baby registry were buying larger quantities of unscented lotion around the beginning of their second trimester. Another analyst noted that sometime in the first 20 weeks, pregnant women loaded up on supplements like calcium, magnesium and zinc. Many shoppers purchase soap and cotton balls, but when someone suddenly starts buying lots of scent-free soap and extra-big bags of cotton balls, in addition to hand sanitizers and washcloths, it signals they could be getting close to their delivery date.

Or have a rather nasty infection...

> As Pole's computers crawled through the data, he was able to identify about 25 products that, when analyzed together, allowed him to assign each shopper a "pregnancy prediction" score. More important, he could also estimate her due date to within a small window, so Target could send coupons timed to very specific stages of her pregnancy.
>
> One Target employee I spoke to provided a hypothetical example. Take a fictional Target shopper named Jenny Ward, who is 23, lives in Atlanta

> and in March bought cocoa-butter lotion, a purse large enough to double as a diaper bag, zinc and magnesium supplements and a bright blue rug. There's, say, an 87 percent chance that she's pregnant and that her delivery date is sometime in late August.
>
> via How Companies Learn Your Secrets - NYTimes.com.

And perhaps that it's a boy based on the color of that rug?

So Target started sending coupons for baby items to customers according to their pregnancy scores. Duhigg shares an anecdote -- so good that it sounds made up -- that conveys how eerily accurate the targeting is. An angry man went into a Target outside of Minneapolis, demanding to talk to a manager:

Target knows before it shows.

> “My daughter got this in the mail!” he said. “She’s still in high school, and you’re sending her coupons for baby clothes and cribs? Are you trying to encourage her to get pregnant?”
>
> The manager didn’t have any idea what the man was talking about. He looked at the mailer. Sure enough, it was addressed to the man’s daughter and contained advertisements for maternity clothing, nursery furniture and pictures of smiling infants. The manager apologized and then called a few days later to apologize again.

(Nice customer service, Target.)

> On the phone, though, the father was somewhat abashed. “I had a talk with my daughter,” he said. “It turns out there’s been some activities in my house I haven’t been completely aware of. She’s due in August. I owe you an apology.”

Target's Andrew Pole (from LinkedIn)

What Target discovered fairly quickly is that it creeped people out that the company knew about their pregnancies in advance.

> “If we send someone a catalog and say, ‘Congratulations on your first child!’ and they’ve never told us they’re pregnant, that’s going to make some people uncomfortable,” Pole told me. “We are very conservative

> about compliance with all privacy laws. **But even if you're following the law, you can do things where people get queasy.**"

Bold is mine. That's a quote for our times.

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So Target got sneakier about sending the coupons. The company can create personalized booklets; instead of sending people with high pregnancy scores books o' coupons solely for diapers, rattles, strollers, and the "Go the F*** to Sleep" book, they more subtly spread them about:

> "Then we started mixing in all these ads for things we knew pregnant women would never buy, so the baby ads looked random. We'd put an ad for a lawn mower next to diapers. We'd put a coupon for wineglasses next to infant clothes. That way, it looked like all the products were chosen by chance.
>
> "And we found out that as long as a pregnant woman thinks she hasn't been spied on, she'll use the coupons. She just assumes that everyone else on her block got the same mailer for diapers and cribs. As long as we don't spook her, it works."
>
> via How Companies Learn Your Secrets - NYTimes.com.

So the Target philosophy towards expecting parents is similar to the first date philosophy? Even if you've fully stalked the person on Facebook and Google beforehand, pretend like you know less than you do so as not to creep the person out.

Duhigg suggests that Target's gangbusters revenue growth -- $44 billion in 2002, when Pole was hired, to $67 billion in 2010 -- is attributable to Pole's helping the retail giant corner the baby-on-board market, citing company president Gregg Steinhafel boasting to investors about the company's "heightened focus on items and categories that appeal to specific guest segments such as mom and baby."

Target was none too happy about Duhigg's plans to write this story. They refused to let him go to Target headquarters. When he flew out anyway, he discovered he was on a list of prohibited visitors.

I think most readers of the excellent piece will find it both unsettling and unsurprising. With all the talk these days about the data grab most companies are engaged in, Target's collection and analysis seem as expected as its customers' babies. But with their analysis moving into areas as sensitive as pregnancy, and so accurately, who knows how else they might start profiling Target shoppers? The store's bulls-eye logo may now send a little shiver of fear down the closely-watched spines of some, though I can promise you that Target is not the only store doing this. Those people chilled by stores' tracking and profiling them may want to consider going the way of the common criminal -- and paying for far more of their purchases in cash.

***A must read:* How Companies Learn Your Secrets [New York Times] drawn from Charles Duhigg's forthcoming book, The Power of Habit: Why We Do What We Do in Life and Business**

The dark side of AI meeting notes

Kristin Stoller

Employers are facing a new workplace hazard: AI notetakers that don't know when to stop listening. In some virtual meetings, employees drop off the call while an AI assistant stays behind, quietly documenting gossip or disparaging remarks made by remaining employees, then emailing the transcript to the full team.

"Those issues create some of the most excruciating problems," says Joe Lazzarotti, an attorney at Jackson Lewis who is increasingly advising companies on AI notetaker mishaps. "One of the biggest issues is just trying to figure out how do we control that? How do we educate employees about it? And how do we make sure we're not falling into a trap of the unwary?"

AI notetakers don't always spell bad news. A new study from AI assistant startup Read AI in partnership with organizational behavior expert Rebecca Hinds found that recorded meetings lead individual contributors to speak nearly as much as managers, with women participating 9% more than men.

Still, the recording and dissemination of sensitive conversations creates real legal and HR risks. Lazzarotti advises leaders to conduct a full AI audit before problems surface, including reviewing governance, risk, and compliance rules; understanding what data is captured; deciding which meetings should be recorded; and controlling where recordings and documents are stored and who can access them.

Companies can also set clear rules around when AI notetakers are appropriate, require explicit disclosure and consent before recording begins, and limit how transcripts are distributed, avoiding automatic emails to entire teams. Some organizations are opting for summaries instead of verbatim transcripts or giving meeting hosts a "kill switch" to stop recording if conversations drift into sensitive territory.

Employee education is critical, too. Workers should understand that recorded meetings function more like written documents than private conversations and that offhand comments made after others leave a call may still be captured.

"[AI notetakers] could be a very powerful tool, but it's just a matter of thinking it through before you go out and deploy it," says Lazzarotti.

Editor's note: This newsletter will be off for Presidents Day. Catch us back in your inboxes on Feb. 23.

Kristin Stoller
Editorial Director, Fortune Live Media
kristin.stoller@fortune.com

Around the Table

A round-up of the most important HR headlines.

More managers are using AI agents to help decide raises, promotions, and layoffs. *Washington Post*

Extra vacation time now beats bonuses as the top driver of feeling valued at work, according to new research. *Wall Street Journal*

"Storytellers" are emerging as one of tech's hottest jobs, with salaries above $400,000. *Business Insider*

Watercooler

Everything you need to know from Fortune.

ROI debate. Obsessing over short-term ROI from AI tools is stifling innovation, and leaders need to loosen control, says Nvidia's CEO. —*Nick Lichtenberg*

Old-school approach. A workspace CEO says bosses who cling to rigid, five-day mandates aren't prepared for an AI-driven future. —*Orianna Rosa Royle*

New guard rising. With the average global CEO tenure down to 7.2 years, wider AI adoption could further reshape who makes it to the C-suite. —*Phil Wahba*

AI Doesn’t Reduce Work—It Intensifies It

Illustration by Eynon Jones

Right now, many companies are worried about how to get more employees to use AI. After all, the promise of AI reducing the burden of some work—drafting routine documents, summarizing information, and debugging code—and allowing workers more time for high-value tasks is tantalizing.

But are they ready for what might happen if they succeed? While leaders are focused on promised productivity gains, they may find themselves surprised by the complex reality, and may not see what these gains are costing them until it’s too late.

In our in-progress research, we discovered that AI tools didn’t reduce work, they consistently intensified it. In an eight-month study of how generative AI changed work habits at a U.S.-based technology company with about 200 employees, we found that employees worked at a faster pace, took on a broader scope of tasks, and extended work into more hours of the day, often without being asked to do so. Importantly, the company did not mandate AI use (though it did offer enterprise subscriptions to commercially available AI tools). On their own initiative workers did more because AI made “doing more” feel possible, accessible, and in many cases intrinsically rewarding.

While this may sound like a dream come true for leaders, the changes brought about by enthusiastic AI adoption can be unsustainable, causing problems down the line. Once the excitement of experimenting fades, workers can find that their workload has quietly grown and feel stretched from juggling everything that’s suddenly on their plate. That workload creep can in turn lead to cognitive fatigue, burnout, and weakened decision-making. The productivity surge enjoyed at the beginning can give way to lower quality work, turnover, and other problems.

This puts leaders in a bind. What should they do? Asking employees to self-regulate isn’t a winning strategy. Rather, companies need to develop a set of norms and standards around AI use—what we call an “AI practice.” Here’s what leaders need to know, and what they can do to set their employees up for success.

How Generative AI Intensifies Work

From April to December last year, we studied how generative AI tools changed work habits at the tech company. We did this through in-person observation two days a week, tracking internal communication channels, and more than 40 in-depth interviews across engineering, product, design, research, and operations.

We identified three main forms of intensification.

Task expansion.

Because AI can fill in gaps in knowledge, workers increasingly stepped into responsibilities that previously belonged to others. Product managers and designers began writing code; researchers took on engineering tasks; and individuals across the organization attempted work they would have outsourced, deferred, or avoided entirely in the past.

Generative AI made those tasks feel newly accessible. These tools provided what many experienced as an empowering cognitive boost: They reduced dependence on others, and offered immediate feedback and correction along the way. Workers described this as “just trying things” with the AI, but these experiments accumulated into a meaningful widening of job scope. In fact, workers increasingly absorbed work that might previously have justified additional help or headcount.

There were knock-on effects of people expanding their remits. For instance, engineers, in turn, spent more time reviewing, correcting, and guiding AI-generated or AI-assisted work produced by colleagues. These demands extended beyond formal code review. Engineers increasingly found themselves coaching colleagues who were "vibe-coding" and finishing partially complete pull requests. This oversight often surfaced informally—in Slack threads or quick desk-side consultations—adding to engineers' workloads.

Blurred boundaries between work and non-work.

Because AI made beginning a task so easy—it reduced the friction of facing a blank page or unknown starting point—workers slipped small amounts of work into moments that had previously been breaks. Many prompted AI during lunch, in meetings, or while waiting for a file to load. Some described sending a "quick last prompt" right before leaving their desk so that the AI could work while they stepped away.

These actions rarely felt like doing more work, yet over time they produced a workday with fewer natural pauses and a more continuous involvement with work. The conversational style of prompting further softened the experience; typing a line to an AI system felt closer to chatting than to undertaking a formal task, making it easy for work to spill into evenings or early mornings without deliberate intention.

Some workers described realizing, often in hindsight, that as prompting during breaks became habitual, downtime no longer provided the same sense of recovery. As a result, work felt less bounded and more ambient—something that could always be advanced a little further. The boundary between work and non-work did not disappear, but it became easier to cross.

More multitasking.

AI introduced a new rhythm in which workers managed several active threads at once: manually writing code while AI generated an alternative version, running multiple agents in parallel, or reviving long-deferred tasks because AI could "handle them" in the background. They did this, in part, because they felt they had a "partner" that could help them move through their workload.

While this sense of having a "partner" enabled a feeling of momentum, the reality was a continual switching of attention, frequent checking of AI outputs, and a growing number of open tasks. This created cognitive load and a sense of always juggling, even as the work felt productive.

Over time, this rhythm raised expectations for speed—not necessarily through explicit demands, but through what became visible and normalized in everyday work. Many workers noted that they were doing more at once—and feeling more pressure—than before they used AI, even though the time savings from automation had ostensibly been meant to reduce such pressure.

What This Means for Organizations—and How an "AI Practice" Can Help

All of this produced a self-reinforcing cycle. AI accelerated certain tasks, which raised expectations for speed; higher speed made workers more reliant on AI. Increased reliance widened the scope of what workers attempted, and a wider scope further expanded the quantity and density of work. Several participants noted that although they felt more productive, they did not feel less busy, and in some cases felt busier than before. As one engineer summarized, “You had thought that maybe, oh, because you could be more productive with AI, then you save some time, you can work less. But then really, you don’t work less. You just work the same amount or even more.”

Organizations might see this voluntary expansion of work as a clear win. After all, if workers are doing this of their own initiative, why would that be bad? Isn’t this the productivity explosion we’ve been promised?

But our research reveals the risks of letting work informally expand and accelerate: What looks like higher productivity in the short run can mask silent workload creep and growing cognitive strain as employees juggle multiple AI-enabled workflows. Because the extra effort is voluntary and often framed as enjoyable experimentation, it is easy for leaders to overlook how much additional load workers are carrying. Over time, overwork can impair judgment, increase the likelihood of errors, and make it harder for organizations to distinguish genuine productivity gains from unsustainable intensity. For workers, the cumulative effect is fatigue, burnout, and a growing sense that work is harder to step away from, especially as organizational expectations for speed and responsiveness rise.

Instead of responding passively to how AI tools reshape workplaces, both individuals and companies should adopt an “AI practice”: a set of intentional norms and routines that structure how AI is used, when it is appropriate to stop, and how work should and should not expand in response to newfound capability. Without such practices, the natural tendency of AI-assisted work is not contraction but intensification, with implications for burnout, decision quality, and long-term sustainability.

As organizations work to build their AI practice, they should consider adopting:

Intentional pauses.

As tasks speed up and boundaries blur, workers could benefit from brief, structured moments that regulate tempo: protected intervals to assess alignment, reconsider assumptions, or absorb information before moving forward.

These pauses would not slow work overall; they would simply prevent the quiet accumulation of overload that emerges when acceleration goes unchecked. For example, a decision pause could require, before a major decision is finalized, one counterargument and one explicit link to organizational goals—widening the attention field just enough to protect against drift. Incorporating such pauses into everyday workflow is one way organizations can support better decisions, healthier boundaries, and more sustainable forms of productivity in AI-augmented environments.

Sequencing.

As AI enables constant activity in the background, organizations can benefit from norms that deliberately shape when work moves forward, not just how fast. This includes batching non-urgent notifications, holding updates until natural breakpoints, and protecting focus windows in which workers are shielded from interruptions.

Rather than reacting to every AI-generated output as it appears, sequencing encourages work to advance in coherent phases. When coordination is paced in this way, workers experience less fragmentation and fewer costly context switches, while teams maintain overall throughput. By regulating the order and timing of work—rather than demanding continuous responsiveness—sequencing can help organizations preserve attention, reduce cognitive overload, and support more thoughtful decision-making in AI-forward workplaces.

Human grounding.

As AI enables more solo, self-contained work, organizations can benefit from protecting time and space for listening and human connection. Short opportunities to connect with others—whether through brief check-ins, shared reflection moments, or structured dialogue—interrupt continuous solo engagement with AI tools and help restore perspective.

Beyond perspective, social exchange supports creativity. AI provides a single, synthesized perspective, but creative insight depends on exposure to multiple human viewpoints. By institutionalizing time and space for listening and dialogue, organizations re-anchor work in social context and help counter the depleting, individualizing effects of fast, AI-mediated work.

• • •

The promise of generative AI lies not only in what it can do for work, but in how thoughtfully it is integrated into the daily rhythm. Our findings suggest that without intention, AI makes it easier to do more—but harder to stop. An AI practice offers a counterbalance: a way to preserve moments for recovery and reflection even as work accelerates. The question facing organizations is not whether AI will change work, but whether they will actively shape that change—or let it quietly shape them.