WESTERN CREDIT UNION MANAGEMENT SCHOOL
PROJECT II
2025
(For the 2026 session)

Kelley Jacobsen

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Student's Name and E-Mail Address

Yolo Federal Credit Union

Credit Union Name

266 W. Main Street Woodland, CA 95695

Address

April 13, 2026	**$406,680,672**
Date Submitted	End of year asset size (12/2025)

1204 Midway Drive Woodland, CA 95695

Student's Address

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

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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 your 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)**

<u>Professional Changes</u>

The past year has been a supernova of activity marked by unprecedented challenges, increased responsibilities, and competing demands. I mentioned in my Year 1 Project that Yolo Federal Credit Union (Yolo Federal) had completed a field-of-membership expansion and would now serve the counties of Sacramento, Placer, and El Dorado in addition to Yolo County. I conducted an extensive market analysis to determine where to place our next branch. Our Board of Directors agreed with my recommendation to build a branch in the Natomas community of Sacramento. The challenge in Natomas is there is not much open land available for sale, and the building lease options were subpar at best. I was able to locate a plot of land that was not for sale and negotiated with the owner to sell it to us. This plot of land is located in an established area, is a corner lot, and is near big-name retailers such as Costco. We closed escrow on this property on April 21, 2025. While it might seem like an operational change rather than a professional one, it's the series of events in the months following the close of escrow that led to changes in my responsibilities. When we broke ground for construction, it was discovered that the underground power lines were outside of the recorded public utility easement. In short, power lines belonging to the neighboring property ran directly through our property. We had to immediately pause construction because we could not build on top of those power lines. I now had a major issue on my hands: I had to make decisions that would affect our project timeline and budget, which also carried legal implications. During this time, I learned more about power lines, public utility easements, and construction law than I ever thought possible. I worked with an excellent attorney and our construction firm to relocate the power lines, develop a new easement agreement with the neighboring property, and negotiate a settlement agreement to recover the costs we incurred to relocate the power lines, since the seller was liable. This issue has been complex and tested my ability to remain nimble, but I worked hard to lead through it strategically, professionally, and with integrity. Construction is now back on track, and our new Natomas Branch will be completed early July 2026. Yes, right before I return for my final year of WCMS.

I worked with my Chief Executive Officer (CEO), Jenee Rawlings, and the Vice President (VP) of Risk Management, Jewel Trottier, last year to establish a 501(c)(3) foundation named the Community Alliance Foundation. The purpose of our foundation is to support the prosperity of our community by providing financial support to help people achieve their dreams. The donations will vary but will primarily focus on providing college scholarships, first-time homebuyer down payment assistance, and support for first responders and mental health services. I was elected to serve on the foundation's Board as the Chief Financial Officer (CFO). This is an exciting opportunity for me not only because I get to help my community and play a small role in helping people reach their dreams, but also because I'll be serving outside of my normal role as Chief Operating Officer (COO) at Yolo Federal. I am grateful that my CEO trusts me to be the Board's CFO for the foundation.

Another change is that I completed my term as the President of the Board of Directors for the Woodland Chamber of Commerce. Woodland is comprised of small businesses, and it has been my distinct pleasure to serve as President of the Woodland Chamber of Commerce to elevate the support we provide these businesses, which are the heartbeat of our community. One of the most gratifying moments during my term was the Holiday Parade that is hosted by the Woodland Chamber of Commerce. I sat with my family on the very first float of the parade and waved at thousands of smiling faces sitting on Main Street. Throughout the parade, my 10-year-old son would jump off the float to pass out candy to other kids who were watching the parade. I frequently had a look of cautious concern on my face, hoping he would not trip and fall as he made his way from the float to the sidewalk where families were sitting. I was waving and saying hello to people while simultaneously making sure my son did not break a limb. Joking aside, I hope that people saw a business leader they could relate to—a working parent juggling life and who cares deeply about our community.

Lastly, I was elected as Vice President of our Psi class student council. I was already the Vice President for our Psi class student council during our first year at WCMS. That certainly was a whirlwind, and I had zero clue what I was stepping into at that time. I decided not to serve on the student council during my second year to give someone else the opportunity. I also wanted to allow myself more time to study in my second year. However, I was elected again for our final year, and I want to make the most of the WCMS experience, so I agreed to serve again. I have been working closely with my fellow council members since we left campus last July. We have an excellent team, and I am particularly excited about our stellar service event, which is sure to be out of this world. Most importantly, I'm eager to make a difference and support my classmates to the fullest extent.

Organizational Changes

I wrote about the establishment of our CUSO called Alliance Support, LLC, in my Year 1 Project. The purpose of our CUSO is to provide technological support to smaller credit unions and other businesses. We have made significant progress with our CUSO since last year. The key areas we are focused on are managed IT services, cybersecurity, core support, and strategic infrastructure technology consulting. We have completed the marketing assets, developed proposed master agreements, and identified a few potential partners.

We also made a minor structural change to help position us for continued growth and success. As an executive team, we made a collaborative decision to change our structure to better align with our long-term strategic goals and prepare for the future as we inch closer to $500 million in assets. The National Credit Union Administration (NCUA) classifies credit unions of this size as complex and would no longer consider us a small credit union. This brings additional regulatory oversight, risk-based capital requirements, and more will be needed for audit and enterprise risk management. We know this will place increased demands on our Chief Financial Officer (CFO), Matt Lane. Matt was previously overseeing both accounting and our digital payments departments. To ensure Matt has the bandwidth needed to meet the increased demands that come with being a larger credit union, we moved the digital payments department to our VP of Risk Management, Jewel Trottier.

Mergers and Field of Membership Expansions

The Yolo Federal Board of Directors and Executive Team have had several discussions regarding potential merger opportunities. We have been approached informally by a few larger credit unions that expressed interest in merging. The issue is these other credit unions want to remain as the surviving credit union, but there is currently no benefit to us or our membership to do so. Although we are smaller, in most cases, we are a financially healthier credit union with better technological offerings. We know larger credit unions can deliver economies of scale, but there have been no viable opportunities that are the right fit for us. I want it to be clear that I am not opposed to mergers; in many situations, it is a necessity, or the stars align to bring a measurable and tangible benefit for members of the merging credit unions.

We were approved in January 2023 for a field of membership expansion to serve the counties of Sacramento, Placer, and El Dorado. Since then, we have not given any further consideration to expanding our membership. Our primary focus has been to establish a brand presence in these new counties, starting in Sacramento. We have begun conversations about where our next target market will be and where we could place another branch in the next 3-5 years. I have been focused on analyzing available market share, estimated return on assets, projected years to breakeven, target demographics, deposit and loan demand, future market growth, and operational viability for de novo locations within our expanded market.

Operational and Product Changes

At Yolo Federal, we move at the speed of light and rarely slow down. Admittedly, our employees can sometimes feel as though we are moving too fast. However, after decades of being on legacy systems and dying technology, we have a leadership team that is committed to rapidly advancing our products and services. Our core conversion and online banking transformation in July 2024 opened many doors for us because we now have better technology that can integrate with other platforms. This has helped us improve operational efficiency and bring more value to our members.

In 2025, we launched a completely redesigned website focused on improving usability, engagement, and overall member experience. The new website streamlines navigation, highlights key products and services, and is more intuitive for users. We have been extremely pleased to see our active users grow by nearly 34%, new users increase by over 32%, and the average number of pages that users are visiting grow by 18%. These metrics show that our website redesign is attracting and engaging users while helping us move the needle on our strategic goals.

To support our strategic goal of improving member engagement and driving members to our technology to control headcount, we implemented a virtual assistant that is available on our website and in online banking. Our virtual assistant, named Penny, utilizes Artificial Intelligence (AI) to respond to members. Our previous chatbot relied on our employees to communicate directly with members. Penny has handled 25% of the total chat engagements in 2025, allowing our employees to refocus their efforts on higher-value tasks.

We implemented Buy Now Pay Later (BNPL) through a partnership with Equipifi to give our members financial flexibility. We were hesitant at first to implement a BNPL program because it didn’t seem like a product that aligns with being financially successful. However, after reviewing transaction data for our members, we found that a large percentage were already using BNPL through other providers such as Affirm. We realized that we are their trusted financial institution, so we should offer them a better alternative that will help them be financially responsible. We only offer BNPL to existing members, who can access it through online banking. We offer a fair and transparent BNPL program, and they can trust that we won't charge predatory fees.

Another exciting product we implemented is a debit card for kids through a partnership with Greenlight. The debit card is linked to an adult's Yolo Federal checking account and allows the adult to transfer money to the debit card for the child to use. Through the app, adults can track their child's spending, create rules with restrictions, and assign chores for them to earn money. For example, I assign daily chores to my son, and he can check them off in the app once he completes them. If he's completed all his chores for the week, then he earns his weekly allowance through Greenlight. I have several spending controls configured so he can use his debit card only at merchants that I have approved. Greenlight also includes fun financial education games geared toward young children. We recently interviewed children and their parents who use the Greenlight debit card; all of whom gave raving reviews. The best moment came when we asked them what they were saving their money for. We heard everything from a Roomba Robot Vacuum to a fart machine. Kids, they say the darndest things. What's most rewarding is hearing how we are helping parents teach their children about money through real-world situations. Parents believe in it, kids love it, and we are making a difference for our members.

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?**

I oversee a large area of my credit union, which means I am constantly meeting with employees, overseeing various projects, and processing a lot of information at any given time. When I meet with employees, it's important to me that I am engaged in these conversations and not multitasking by taking notes. I want people to feel that I am focused on them and the topic we are discussing. The issue is that because I am consistently bouncing from one thing to the next. If I don't take notes, then I will quickly forget what I just talked about. I can remember the words to an obscure song from 30 years ago, but I'm embarrassed to say that I will probably forget a few details from the meeting I was just in an hour ago if I didn't take notes. AI has helped me intake the constant flow of information, summarize it, and remain present when I meet with people. AI note-taking is the primary support tool I use in my role, and it has made a meaningful impact on my ability to be more efficient.

Another way that AI technology has supported my leadership is its ability to flesh out ideas. I often will have a smattering of ideas and a general sense of direction, but I need help parsing through my mental whiteboard to formulate a coherent plan. I never ask ChatGPT to give me ideas; I always input my thoughts for what I am thinking and then ask ChatGPT to help me work through it, consider potential risks, and then I continue to collaborate until I am happy with the output. For example, I was working on revising our employee rewards program and had various ideas for how I wanted this to be structured. I shared my initial thoughts, outlined various issues I wanted to avoid, and provided some additional context. I wasn't satisfied with ChatGPT's first response, so I continued to collaborate until we were headed in the right direction.

Since I oversee both Operations and Marketing, I often hear from our employees when members report a potential issue they think is becoming widespread. For example, Operations will tell me they have heard from a "bunch" of members about a particular scamming issue, and they want Marketing to send out communication to members about it. I often need to get clarification on what they mean by a "bunch." Is it 2 members or 200 members? I understand that when you are the person helping a few members with an issue, it can feel like a lot, but we must evaluate before sending out mass communication to members. To help me further analyze these situations, I have started augmenting our AI chatbot to determine how many members have reported the same type of issue. While it only shows information from our AI chatbot, it's still helpful for me because I can retrieve it quickly and effectively.

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?

My initial response is that this feels like a trick question because I know we need to be cautious with how we use AI for our Project. As a chronic overthinker, my biggest fear is typing a response that sounds too much like AI, despite not using AI, and then my Project being flagged for AI utilization. That said, I know I don't need to worry about it because I was extremely cautious with how I used AI for my Project. I essentially utilized AI as I do with Google. For example, I try not to repeat the same word within the same sentence or even the same paragraph, if I can avoid it. Before ChatGPT, I would Google synonyms for a word to help me find an alternative option. For this Project, I would occasionally use ChatGPT as my thesaurus to avoid reiterating words. I feel safe using ChatGPT as I do with Google because I am still using my brain and formulating my own thoughts. It is very different to have ChatGPT determine ideas for you and then use those ideas as if they were your own. That's not appropriate for a Project intended to reflect our unique vision and creativity. The Harvard Business Review describes this as a "reasoning partner," where you are guiding AI rather than simply accepting the output it provided (Hallman et al., 2026).

I also used AI to verify some of my math to ensure the answer I got was correct. However, there were a few times that I had a different answer than ChatGPT. After reviewing my calculation again and not finding an error, I would ask ChatGPT why I have a different answer. ChatGPT would then recalculate and admit that it had the wrong answer and that mine is actually correct. My experience is consistent with the findings from the research conducted by QuantumBlack AI by McKinsey, which found that "Inaccuracy is the AI-related risk that respondents most often say their organizations have experienced and are working to mitigate"

(Singla et al., 2025). I found that I could not trust ChatGPT, and if I was using it to confirm my calculations, then I needed to verify the information for accuracy.

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.**

Credit unions maintain a higher standard for integrity and ethics than most banks and fintechs. We have a responsibility to our members and employees to ensure the decisions we make surrounding AI align with our mission and values, while putting controls in place to protect them. The Organization for Economic Cooperation and Development (OECD) has a framework for ethical AI in credit unions that I personally subscribe to for my AI usage in my role. The World Council describes the OECD framework in its whitepaper titled Navigating the Ethical Landscape of Artificial Intelligence in Credit Unions (Andrews, 2025). As an example of how I have begun using this framework in my role, I've described how I incorporate it when using AI note-taking during meetings with employees.

Principle	Description	My Application
Inclusive Growth, Sustainable Development and Well-Being	AI should serve to reduce inequalities and foster beneficial outcomes.	I provide employees with a copy of the AI notes and ask for their confirmation that they agree with the information captured, and I allow them to respond and document any variances to ensure there is no unfair advantage in how I am using the information.
Human Rights and Democratic Values	Respect for the rule of law and democratic practices, human rights, non-	I do not share these notes with anyone other than the person I meet with so that,

	discrimination, equality, freedom, dignity and privacy are paramount throughout the AI lifecycle.	regardless of the content of the information discussed, they maintain a level of dignity and privacy.
Transparency and Explainability	Credit unions must commit to clear disclosure regarding AI systems, providing meaningful and understandable information to members.	I never secretly record meetings with AI notetaking. I always maintain transparency and confirm that the person I am meeting with agrees to the use of technology.
Robustness, Security and Safety	AI systems must be designed to function appropriately and safely under all conditions, preventing unreasonable risks.	I carefully completed my due diligence when selecting an AI note-taker to ensure it is meeting security expectations
Accountability	Credit Unions must establish clear lines of responsibility for the proper functioning of AI.	I document the decisions I make related to AI, and I have an annual reminder to review the due diligence.

(Andrews, 2025)

I delegate tasks to improve my efficiency, but I am selective about when I use it. For example, if I know that I am meeting with an employee regarding a particularly sensitive situation, I will choose not to use AI note-taking. If I need another person present in the conversation, or to take notes for me, I will include Human Resources as additional support. The Harvard Business School highlights the importance of human skills in the AI era and said, “AI excels at pattern recognition and performs best when applied to problems with large data sets and clear rules. Human skills become especially important in scenarios involving: limited data for training, face-to-face human interactions, non-verbal communication, and nuanced judgment calls” (Stobierski, 2026). For example, if I am having a disciplinary meeting with an employee, an AI note-taker is only recording the conversation, whereas a human can notate tone of voice and body language. I remain accountable to my personal AI policy by documenting the types of situations in which I will not use AI.

Another component of my role is market research, which can be a lengthy process depending on what I am researching. I now delegate certain research to AI to speed up the process, so I can quickly parse the information and narrow my focus. I remain accountable by paying close attention to the research it responds with to confirm the source is reputable. For example, I discard anything ChatGPT provides from Wikipedia. Wikipedia is fine for answering random questions, such as why the Milky Way Galaxy supposedly smells like rum and tastes like raspberries. On the other hand, it would be frowned upon if I used Wikipedia to support my research in this section of the Project. I stay accountable by taking AI with a grain of salt and always cross-referencing the information it provides.

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 chance credit union employment in the decade ahead. Are you currently taking any steps to develop these skills?**

It is critical for credit union leaders not to delegate all their decision-making to a computer (Smith, 2024). We need to trust but verify the information that AI provides us, use it as a piece of the puzzle, but not allow it to be the entire puzzle. For example, we have a large Hispanic population in the communities we serve at Yolo Federal. We have been working to translate our documents, forms, marketing materials, signage, and other communication into Spanish. We have learned that we must be careful utilizing AI for translations because it often does not use the correct dialect and hasn't taken into consideration the various acculturation segments that are unique to our market. I am starting to see that although we can use AI to support our

Spanish translation efforts, we need to lean on our Spanish-speaking employees to validate the information. That is a prime example of how AI technology is changing the skills needed at my credit union. Although employees can verify the accuracy of the translations, we also need their support to rewrite anything that could be mistranslated or not aligned with our acculturation segments. That requires they be proficient writers and use proper grammar, something I require of my marketing team who writes in English. Many of our employees are proficient at speaking Spanish but don't feel confident reading or writing Spanish. I predict that we will need to continue investing in our Spanish-speaking employees to maximize our AI capabilities for accurately serving our Hispanic community. We have begun identifying the framework for evaluating employees who can support these initiatives, but we have not yet invested in developing their Spanish-language writing skills. That is a very specific example of a broader narrative that is emerging from AI. Human oversight is needed with AI, and at my credit union, we are in the early phases of developing the structure for how this will function. There is a skillset needed for data validation, and it requires a mix of analytical and soft skills.

There is already a need for emotional intelligence skills, but the evolution of AI is accelerating that need. The Harvard Business Review said that "Although AI can perform many tasks faster and at a greater scale than humans, it often struggles in situations that demand human judgment, connection, and interpretation" (Stobierski, 2026). We are in the business of serving people, and while AI can help enhance the member experience, certain situations require human thinking. We will need to prioritize the ongoing development of emotional intelligence. Yolo Federal currently offers some emotional intelligence development through our leadership training, but there is an opportunity to expand that training further, particularly as it relates to member service. As AI automates routine tasks at my credit union, I know that our personal interactions with members will happen during major life milestones, when they are experiencing a difficult circumstance, or when they are frustrated and need to talk to a human. All those situations require our employees to maintain a high level of emotional intelligence to help our members navigate their journey. Emotional intelligence is a skill that even the most technical and data-driven companies must prioritize. For example, the National Aeronautics and Space Administration (NASA) considers emotional intelligence one of the top qualities it looks for in its Chief Engineers. NASA says that "Utilizing emotional intelligence is critical in decision-making. Data gives us a wonderful window into technical performance, but data doesn't incorporate experience and wisdom. People do, though—and we, as leaders, must pay attention to people as strongly as we do to the data (Hirshorn, n.d.). AI can automate workflows, analyze complex data, and create content, but it cannot replace the importance of human connection. At Yolo Federal, we will not replace humans with robots but we will continue enhancing technology and refining employee roles to focus on high-value-added functions that require human care. The future will look like the automation of more tasks, but also the development of human-centric skills that machines are incapable of replacing.

II. Peer Group Construction and 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 <u>five</u> member "Peer Group will include information for:**
  - **Your credit union**
  - **<u>Three</u> 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)
< $2 million
$2 million - $5 million
$5 million - $10 million
$10 million - $20 million
$20 million - $50 million
$50 million - $100 million
$100 million - $250 million
$250 million - $500 million
$500 million - $1 billion
$1 billion - $10 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.**

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.

As I have grown throughout my career, I've learned the importance of using a metaphorical telescope in addition to a mirror when evaluating Yolo Federal. It's important to look in a mirror to self-evaluate and identify opportunities for improvement. However, a mirror only reflects the information that I already know. Using a telescope to study other credit unions can be a powerful tool. A telescope can help sharpen my focus to identify potential growth opportunities for the future. Before I peeked through my telescope, I had to determine a strategy to select credit unions for my peer group. Using the Callahan Peer Group tool, I searched for credit unions with assets between $404,005,936 and $525,207,717, which is our asset size (as of Q2 2025) plus 30%. I was most interested in researching credit unions with a slightly larger asset size than Yolo Federal so I could learn what has led to its size. Next, I focused on credit unions with strong return on assets (ROA) because, even though they may be slightly larger than we are, size does not tell the whole story, and I want to learn what is contributing to a healthy ROA at these credit unions. The final selection criterion I used was their location, as I wanted to research credit unions in the Western United States because of the proximity to Yolo Federal.

Cascade Community CU (Oregon)	Mocse CU (California)	CU Hawaii (Hawaii)	National Peer Average $250 million-$500 million

Cascade Community Credit Union

Cascade Community Credit Union (Cascade) is a federally chartered credit union that is federally insured. Cascade is headquartered in Roseburg, Oregon and serves anyone who lives, works, or worships in Douglas County. The cities in Douglas County are Reedsport, Riddle, Roseburg, Sutherlin, Winston, Yoncalla, Oakland, Canyonville, Drain, Elkton, Glendale, and Myrtle Creek. The chart below compares the demographics of Douglas County and Yolo County, the counties where our headquarters are located (U.S. Census Bureau, 2024).

Demographics	**Douglas County (Cascade)**	**Yolo County (Yolo Federal)**
Estimated Population	112,255	225,251
Race and Hispanic Origin	White alone—91.5% Black alone—0.6% American Indian alone—2.3% Asian alone—1.3% Native Hawaiian—0.2% Two or More Races—4.1% Hispanic/Latino—7.2% White alone, not Hispanic—85.6%	White alone—70.3% Black alone—3.4% American Indian alone—1.9% Asian alone—17.3% Native Hawaiian—0.6% Two or More Races—6.4% Hispanic/Latino—33.4% White alone, not Hispanic—41.6%
Median Household Income	$61,310	$92,752

**Race and ethnicity are counted separately. "Alone" means people who only identify as that category.*

There is a significant difference in the geographic footprint, and the demographics Yolo Federal serves compared to Cascade. When we combine the population of all 4 counties that Yolo Federal serves, we have over 2 million residents. Cascade serves a much smaller population of 112,255 residents. The demographics are also quite different, showing that Cascade serves a predominantly white community with a small Hispanic population. The counties Yolo Federal serves are much more diverse, with a significantly higher Hispanic population. The median household income for Douglas County is 46.5% lower than the median household income for the counties Yolo Federal serves. However, the average home value in Douglas County is $334,518 compared to $608,016 in Yolo County (Zillow, 2025). The lower median household income and average home value indicate a lower cost of living in Douglas County.

While the communities we serve might look different, Cascade and Yolo Federal are more alike than not. Cascade was established in 1948, just 6 years before Yolo Federal was formed. Their initial charter was to serve educators under their original name DougCo Schools Credit Union, and they eventually expanded their charter to serve all of Douglas County (Cascade CU, n.d.). While Yolo Federal didn't initially serve educators, we did serve a small group of employees from the Yolo County Sheriff's Department, and then later expanded to serve all of Yolo County.

Cascade is rooted in its community and highly focused on being the local choice, which is a similar brand statement that we have at Yolo Federal. They have been voted #1 Credit Union for 25 years by readers of the News Review—Yolo Federal has also been voted #1 Credit Union for 25 years by readers of our local newspaper. In 2025, they donated over $25,000 and invested over $70,000 in community events, which closely aligns with our donation and sponsorship support last year (Cascade CU, n.d.) To elevate their community giving initiatives, Cascade also offers Chalkboard Grants to help educators in Douglas County with projects and events.

Cascade has only 3 branches compared to our soon-to-be 6. I reviewed their product menu and found they offer nearly the same products as we do, the difference being that they pay much higher dividends. Cascade offers mostly the same type of deposit and loan products as Yolo Federal. The one loan product they offer that we don't is student loans, which is in partnership with Sallie Mae. Their student loans boast up to 100% coverage, no origination fees, and the option to release a cosigner after meeting eligibility requirements (Sallie Mae, n.d.). Cascade also has a high-yield checking account, which we do not currently offer.

Cascade has $441,863,756 in assets and 19,140 members as of Q2 2025. They have 42 employees, compared to our 81, which is reasonable given they have only 3 branches compared to our soon-to-be 6. Other metrics indicate something unique is happening at Cascade CU. Their 12-month loan growth rate of 10.70%, 12-month member growth rate of 4.91%, capital growth of 24.04%, and ROA of 2.40% are significantly higher than ours (Callahan Peer to Peer, Q2 2025). Those metrics piqued my interest, so I reached out to my counterpart at Cascade who then connected me with their CEO, Lynn Ager. Lynn attributes much of their real estate growth to the strong relationships they maintain with their local realtors. They have fewer employees because their lenders are also underwriting loans, and they do not have separate underwriter roles (L. Ager, Personal Communication, February 24, 2026).

Mocse Credit Union

Mocse Credit Union (Mocse) is a federally chartered credit union that is federally insured. Mocse has $430,402,382 in assets and 29,156 members as of Q2 2025. It has 71 employees, compared to Yolo Federal's 81, which is high considering its limited branch locations that are only open 5 days a week. However, its ROA is strong at 1.13%, suggesting its strategies are working quite well (Callahan Peer to Peer, Q2 2025). Mocse is headquartered in Modesto, CA and serves anyone who lives, works, or worships in Stanislaus, Merced, Mariposa, and Tuolumne Counties. They also offer membership to Select Employer Groups (SEG), members of the California State Employees Association, Don Pedro Chapter #67 and #176, employees of the City of Ripon, employees of Super Store Industries who work in Lathrop, members of California State University, Stanislaus, in Turlock, and members of record of Central Valley Credit Union (Mocse, 2014). The chart below compares the demographics of Stanislaus County and Yolo County, the counties where our headquarters are located (U.S. Census Bureau, 2024).

Demographics	Stanislaus County (Mocse)	Yolo County (Yolo Federal)
Estimated Population	556,972	225,251
Race and Hispanic Origin	White alone—81.4% Black alone—3.7% American Indian alone—2.2% Asian alone—7.0% Native Hawaiian—1.0% Two or More Races—4.7% Hispanic/Latino—51.5% White alone, not Hispanic—35.2%	White alone—70.3% Black alone—3.4% American Indian alone—1.9% Asian alone—17.3% Native Hawaiian—0.6% Two or More Races—6.4% Hispanic/Latino—33.4% White alone, not Hispanic—41.6%
Median Household Income	$81,468	$92,752

**Race and ethnicity are counted separately. "Alone" means people who only identify as that category.*

Although the county Mocse is headquartered in has a population double ours, the total combined population of all the counties Mocse serves is just under 1 million, compared to over 2 million for Yolo Federal. The demographics are more closely aligned, which is not surprising since it's just under a 2-hour drive from Yolo Federal to Mocse. The average home price in Stanislaus County is $457,131, which is well below the $608,016 average in Yolo County (Zillow, 2025). Although the median household income is lower compared to Yolo County, it is still higher than in other areas of the region, making Stanislaus County a more affordable place to live in California due to higher incomes and a lower cost of living.

Exploring Mocse's website and social media pages makes me want to drive over to Modesto and spend some time hanging out with them. The vibrant shades of orange and purple bring a sense of happiness and excitement to its website. Photos of employees on LinkedIn show a team of people who clearly enjoy where they work. Their CEO, Shane Saunders, exudes immense pride in his team and seems like the type of executive who knows all his employees' names *and* the names of their families. Those joyful vibes are reflected in their brand promise and value proposition. They encourage people to bank with them because, "You could go to a cookie-cutter bank, but why?! You're not a cookie-cutter person with cookie-cutter dreams.

Don't get us wrong, we love cookies!" (Mocse, n.d.) This likely stems from the cultural transformation journey that Mocse has been on since Shane stepped in as CEO in August of 2020. I had a delightful conversation with Shane about Mocse, and I learned that he has made it a priority to regularly visit his branches and ask, "If you had a magic want, what is the one thing you would change at Mocse" (S. Saunders, Personal Communication, February 27, 2026). He's made an effort to understand what is happening on the front line and is dedicated to making changes for the betterment of his team and ultimately his members. One of his initiatives has been to institute a Professional Development Day on Indigenous Peoples' Day, when the branches are closed, to support the continued growth of his employees.

Mocse was founded in the home of Harry and Lucille Hammer in 1959 to provide financial services to the employees of Modesto City Schools. Mocse merged with Central Valley Credit Union on July 7, 2001. Four years later, Mocse expanded its field of membership to include Stanislaus, Tuolumne, Mariposa, and Merced counties. Mocse has only 3 branches compared to our soon-to-be 6. There are 2 branches in Modesto and 1 in Turlock. Branch hours are Monday-Friday 9:00am-5:00pm with no operating hours on Saturdays. I have never seen a financial institution with its branches closed on Saturdays, so I found this to be an interesting operational decision. Shane said, "We've never been open on Saturdays and there isn't expressed pent-up demand. That said, I would love for us to open on Saturdays, but only when we have a more robust culture around sales and service to yield a positive ROI" (S. Saunders, Personal Communication, February 27, 2026). Mocse's product menu is nearly the same as ours. Where we differ is that they do not offer a rewards credit card as we do; they have one credit card option that features a low rate and extended warranty options. Another account they offer that we do not is a rewards checking account that donates $0.01 to Love Stanislaus County, a non-profit supporting foster youth and seniors in their community. Their checking accounts also have the option to round up purchases to the nearest dollar, and the difference is deposited into a high-yield savings account. This intrigued me because it aligns with our mission at Yolo Federal, and combining these features into one product is a smart way to increase interchange income while also attracting deposits.

The most distinct strategic difference is that Mocse is a Community Development Financial Institution (CDFI) and Yolo Federal is not. A CDFI certification is a designation by the Department of the Treasury to recognize financial institutions serving low-income communities (CU Collaborate, n.d.). This means these financial institutions offer products and services geared towards people of limited financial means. By doing so, the financial institution can apply for grants to support its efforts in helping people who are economically stressed. I asked Shane how Mocse balances the important work of being a CDFI while also maintaining strong financial performance. He says, “It’s a work in progress and requires constant refinement, experimentation, and sometimes a little luck” (S. Saunders, Personal Communication, February 27, 2026). I think Shane should give himself more credit than attributing luck for their success. In my conversation with him, I learned that they have been highly intentional with their promotional targeting and have kept a close eye on their cost of funds to avoid reacting too quickly to the market. They are disciplined in their approach, which has helped them maintain healthy financials while serving the underserved. Shane shared a story with me about a trucking school loan they provided for a homeless man who wanted to learn how to drive a truck. The homeless man obtained a loan to attend trucking school and went on to earn a 6-figure job.

Mocse was able to do this by funding a loss reserve with the CDFI grants. While not every story has a happy ending, like the homeless man who attended trucking school thanks to Mocse, they have been able to make a positive difference in their community and live out the credit union mission of people helping people.

CU Hawaii Federal Credit Union

CU Hawaii Federal Credit Union (CU Hawaii) is a federally chartered credit union that is federally insured. It has $420,326,346 in assets, 29,475 members, and 95.5 employees as of Q2 2025. Of the 3 credit unions I researched, it has the lowest ROA at 0.74%, but still 11 basis points higher than Yolo Federal (Callahan Peer to Peer, Q2 2025). CU Hawaii is headquartered in Hilo, HI and serves anyone who lives, works, worships, regularly volunteers, or participates in programs to alleviate poverty or distress on the Island of Hawaii. The chart below compares the demographics of Hawaii County and Yolo County, the counties where our headquarters are located (U.S. Census Bureau, 2024).

Demographics	**Hawaii County (CU Hawaii)**	**Yolo County (Yolo Federal)**
Estimated Population	209,790	225,251
Race and Hispanic Origin	White alone—34.6% Black alone—1.0% American Indian alone—0.6% Asian alone—20.5% Native Hawaiian—12.9% Two or More Races—30.5% Hispanic/Latino—12.1% White alone, not Hispanic—30.8%	White alone—70.3% Black alone—3.4% American Indian alone—1.9% Asian alone—17.3% Native Hawaiian—0.6% Two or More Races—6.4% Hispanic/Latino—33.4% White alone, not Hispanic—41.6%
Median Household Income	$78,639	$92,752

**Race and ethnicity are counted separately. "Alone" means people who only identify as that category.*

The population within the counties where our headquarters are is nearly identical. That said, CU Hawaii can serve the entire state of Hawaii, whereas Yolo Federal only serves 4 counties in California. Hawaii has a total state population of 1,446,146, which is just slightly smaller than the 2 million people residing within the 4 counties Yolo Federal serves. However, that is where the similarities end because our demographics are quite different. The average cost of a home in Hawaii County is $554,279 which is close to the $608,016 average in Yolo County (Zillow, 2025). Although the average cost of a home is similar, the median household income in Hawaii County is 15% lower than in Yolo County. This means that CU Hawaii is serving a population that could be struggling with a high cost of living.

CU Hawaii has 7 regular branches and 3 student branches located in schools, which surpasses the number of Yolo Federal branches. Branch hours vary; some are open standard hours, while other branches are only open for half a day on Fridays. Their unique business hours are likely due to the student branches, and they have one branch that serves a town with a very small population. CU Hawaii offers the same type of loan and deposit products as Yolo Federal, with a few outliers. They have a credit builder product called SmartScore, which Yolo Federal does not offer. SmartScore allows its members with no credit history to open a personal loan with a few requirements and stipulations. CU Hawaii's checking accounts are more unique than Yolo Federal's, as they offer options to earn competitive dividends based on deposit amounts. CU Hawaii has Kasasa Rewards accounts that pay cash back on savings and checking accounts when certain thresholds are met. We evaluated partnering with Kasasa many years ago, but ultimately decided not to proceed because of the cost and the decision to eventually create our own rewards checking product rather than rely on a third party. I asked a WCMS classmate and CU Hawaii employee, Brandon Beck, about their Kasasa Rewards program, and he said, "Kasasa Rewards has been very successful for us. We had a share draft penetration rate of 60% before implementing Kasasa, and we now have a share draft penetration rate of 80%" (B. Beck, Personal Communication, February 24, 2026).

CU Hawaii was established in May of 1955 under its original name of Big Island Businessmen's Federal Credit Union (CU Hawaii, n.d.). The Big Island Businessmen's Federal Credit Union eventually changed their charter to a community credit union and, in June 2000, changed its name to CU Hawaii. The new name is short and to the point, contrary to its previous name that was quite a tongue twister. CU Hawaii's mission and values emphasize friendliness, optimism, and believing in the spirit of possibility. CU Hawaii's website, newsletters, and social media pages are filled with highlights of employees giving back to their community through volunteerism, and monetary donations from CU Hawaii. I spoke with Brandon about how they use community involvement as a strategy to compete with HFS Federal Credit Union, a large credit union within their market. Brandon said, "Our strategy is to be more involved in the community, financial outreach, education, and to be involved in the more underserved areas of the Big Island" (B. Beck, Personal Communication, February 24, 2026). I found a Facebook group called Hilo Happenings where people were posting about their favorite credit union in Hilo, and CU Hawaii was consistently noted for its friendly employees and for treating members like family—or, as they say in Hawaii, Ohana.

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 the 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*)

The peer comparison table has been moved to the next page so the data fits on the same page to make it easier for viewing.

Balance Sheet ($)	Yolo	Cascade	Mocse	CU Hawaii	NPA
Assets	$404,005,936	$441,863,756	$430,402,382	$420,326,346	$356,484,592
Shares	$347,731,882	$396,608,777	$401,007,280	$367,365,206	$309,944,780
Loans	$280,047,810	$261,816,920	$222,826,984	$179,281,733	$232,289,402
Investments	$99,472,406	$151,583,615	$176,081,068	$214,444,317	$100,379,612
Net Worth	$50,099,071	$71,703,211	$42,557,339	$48,312,363	$40,760,842

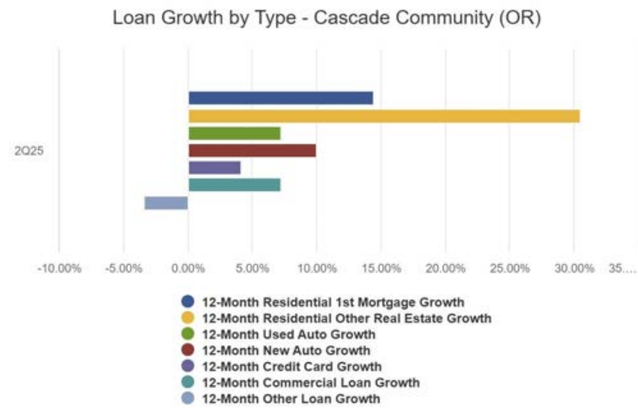
Growth Rates (%)	Yolo	Cascade	Mocse	CU Hawaii	NPA
Assets	-6.16%	3.97%	4.79%	4.34%	3.95%
Shares	-5.30%	1.37%	4.62%	5.79%	4.45%
Loans	5.29%	10.70%	-1.80%	4.15%	2.59%
Membership	1.64%	4.91%	2.02%	0.47%	0.51%
Net Worth	3.72%	15.78%	10.04%	7.20%	6.00%

Financial Ratios (%)	Yolo	Cascade	Mocse	CU Hawaii	NPA
Loans/Shares	80.54%	70.84%	55.57%	48.80%	74.95%
Investments/Assets	24.62%	34.31%	40.91%	51.02%	28.16%
Net Worth/Assets	12.40%	16.23%	9.89%	11.49%	11.43%
Delinquency/ Total Loans	0.52%	0.08%	0.74%	0.22%	0.79%
Charged Off Loans/Total Loans	0.30%	0.09%	1.33%	0.23%	0.64%
Eff. (incl. P.L.L.)	88.02%	48.25%	79.02%	81.73%	85.21%
Eff. (excl. P.L.L.)	83.97%	47.70%	68.33	81.35%	78.71%

Spread Analysis (%)	Yolo	Cascade	Mocse	CU Hawaii	NPA
Interest Income	4.28%	4.42%	4.67%	3.90%	4.89%
Cost of Funds	0.57%	0.74%	0.61%	0.76%	1.42%
Net Interest Margin	3.71%	3.68%	4.06%	3.14%	3.47%
Operating Exps.	4.01%	2.22%	3.56%	3.32%	3.65%
P.L.L.	0.22%	0.05%	0.71%	0.02%	0.35%
Fees & Other Inc.	1.06%	0.97%	1.15%	0.94%	1.16%
Non-Op. Inc./Exp.	0.08%	0.02%	0.19%	0.00%	0.07%
Net Inc. (R.O.A.)	0.63%	2.40%	1.13%	0.74%	0.70%

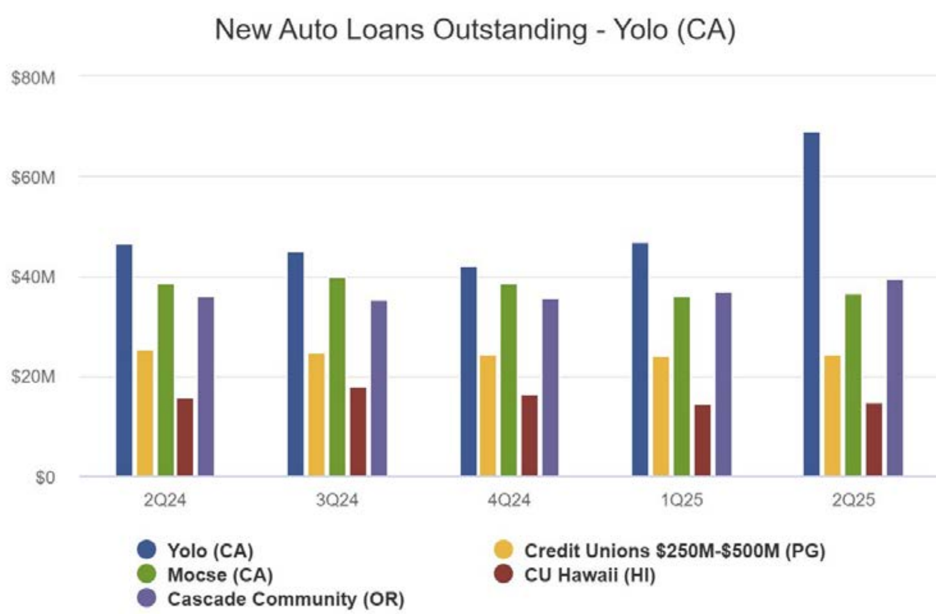
The first data point that stood out to me was Yolo Federal's negative asset growth compared to the three peer credit unions and the national peer average. I never want to see my credit union have negative growth, but I also know there is more to the story than what these metrics show. While Yolo Federal experienced negative asset growth, this was primarily due to a 5.30% decline in shares. There was share growth for Cascade (1.37%), Mocse (4.62%), CU Hawaii (5.79%), and the NPA (4.45%) as of 2Q2025. Yolo Federal made a strategic decision in early 2025 to reduce auto loan rates and offer the lowest rate in our market, resulting in loan growth of 5.29% as of 2Q2025. Since we offered an extremely competitive auto loan rate at Yolo Federal, our margins were tight, so we chose to lag the market in deposit rates. This is reflected in our cost of funds, which is 85 basis points lower than the NPA and is the lowest amongst the other three peer credit unions. Deposit rates continued to rise in 2025, and because we weren't quick to respond to the market, we saw an outflow of deposits that impacted our share growth and asset growth rates.

Compared to peers, Yolo Federal had the lowest share growth but boasted one of the highest loan growth rates. The exception is Cascade, which had a phenomenal loan growth rate of 10.70%. Cascade's loan growth appears to have primarily been from real estate. I reviewed their loan growth by type and can see that they grew 30.45% in residential other real estate and 14.45% in residential 1^{st} mortgages as of 2Q2025. That is significant loan growth for typically high-dollar loans. Residential other real estate loan growth was lower for Yolo Federal (12.38%), Mocse (7.28%), CU Hawaii (8.45%), and the NPA (16.78%). Residential 1^{st} mortgage loan growth was lower for CU Hawaii (9.81%), Yolo Federal (-5.80%), and the NPA (2.51%). The growth in residential other real estate and residential 1st mortgages was a major contributing factor to Cascade's uniquely high loan growth as of 2Q2025.



(Callahan and Associates, 2025)

The growth in new auto loans was the primary driver of Yolo Federal's higher-than-average loan growth as of 2Q2025. The graph below shows the significant increase in new auto loans at Yolo Federal from 2Q2024 to 2Q2025, while the peer credit unions remained relatively stable.



(Callahan and Associates, 2025)

Market location can impact rate setting, so this should be taken with a grain of salt. The chart below compares the lowest advertised new auto loan Annual Percentage Rate (APR) for Yolo Federal, Cascade, Mocse, and CU Hawaii from June 2025. (Data verified through the Wayback Machine archiving website.) It's clear that Yolo Federal's auto loan growth was driven by an extremely low APR, resulting in a much higher loan growth rate compared to peers.

New Auto Loans	Yolo	Cascade	Mocse	CU Hawaii
APR	3.84%	4.99%	5.85%	6.49%

I've established that Yolo Federal outperformed two of its peer credit unions and the national peer average in loan growth due to competitive rate setting. This resulted in tight margins for Yolo Federal and led to a decision to monitor the market and not be quick to increase deposit rates. This resulted in the peer credit unions outperforming Yolo Federal with share growth. I was interested in learning exactly which types of share accounts the peer credit unions experienced growth in compared to Yolo Federal. I found that each of these peer credit unions saw growth in its share draft accounts. This supports my synopsis that these other credit unions have more competitive checking account products. Yolo Federal offers a free checking account. Cascade pays dividends on its checking accounts. Mocse offers a unique checking account that rounds up purchases and transfers the difference to a high-yield savings account. CU Hawaii offers the Kasasa Rewards program, which pays higher dividends and includes special rewards. Yolo Federal is orbiting in a credit union solar system, surrounded by peers with checking account products like beautiful Saturn that has a ring of benefits. Meanwhile, Yolo Federal's checking account product is more like mercury where we exist but there is no atmosphere filled with anything exciting.

Yolo Federal's positive loan growth and negative deposit growth resulted in a much higher loan-to-share ratio (80.54%) compared to Cascade (70.84%), Mocse (55.57%), CU Hawaii (48.80%), and the national peer average (74.95%) as of 2Q2025. According to the NCUA Examiner's Guide, "The loans-to-shares ratio focuses on a credit union's ability to fund loans from member and nonmember shares. The higher the ratio, the greater likelihood the credit union might need to obtain funding from external sources" (NCUA, 2022). Although our ratio at Yolo Federal is higher than our peers, it shows we are maximizing our opportunity to lend to members. This impacted our liquidity last year since we also had deposits tied up in investments. We could have sold our investments, but that would have substantially hurt earnings and resulted in a loss. It was in our best interest to borrow short-term and reduce the impact on ROA. There were several discussions in ALCO about borrowing from our members with a promotional rate on certificates of deposit (CDs) or from the Federal Reserve and the Federal Home Loan Bank. While we did execute on both strategies, we experienced challenges attracting enough new money through CD promotions. This resulted in borrowing to meet loan and deposit needs. Yolo Federal borrowed $11 million in 2Q2025 and the other peer credit unions borrowed $0, with the national peer average borrowing $6,345,015 (Callahan and Associates, 2025).

Yolo Federal's ROA was lower (0.63%) compared to Cascade (2.40%), Mocse (1.13%), CU Hawaii (0.74%), and the national peer average (0.70%) as of 2Q2025. A major contributing factor is the variance in operating expenses between the peer credit unions. Yolo Federal's operating expense was higher (4.01%) compared to Cascade (2.22%), Mocse (3.56%), CU Hawaii (3.32%), and the national peer average (3.65%) as of 2Q2025. The operating expenses also impact the efficiency ratios (including P.L.L.) with Yolo Federal at 88.02%, Cascade at 48.25%, Mocse at 79.02%, CU Hawaii at 81.73%, and the national peer average at 52.21% as of 2Q2025. According to Callahan and Associates, an elevated or increasing efficiency ratio indicates a credit union is losing a larger share of its income to overhead expenses, while a lower ratio indicates the credit union is diverting less income into such expenses (Callahan and Associates, 2025). Mocse, CU Hawaii, and the national peer average had similar efficiency ratios, with the outliers being Yolo Federal and Cascade. I reviewed the operating expense composition and found that Yolo Federal has higher expenses than the other peer credit unions in nearly every category.

Operating Expense	Yolo	Cascade	Mocse	CU Hawaii	NPA
Employee Compensation	$3,793,840	$2,479,296	$3,354,060	$3,548,899	$3,216,965
Travel and Conference	$62,794	$1,641	$162,330	$120,751	$63,478
Office Occupancy	$556,742	$271,939	$276,542	$435,212	$398,761
Office Operations	$1,846,257	$1,402,831	$2,057,230	$1,485,438	$1,204,205
Educ. & Promotional	$311,214	$185,699	$175,196	$179,255	$206,838
Loan Servicing	$445,563	$146,251	$804,959	$247,004	$430,022
Professional Services	$831,793	$264,649	$599,480	$468,649	$706,027
Member Insurance	$0	$0	$8,645	$0	$3,532
Operating Fees + Misc.	$163,632	$45,668	$67,500	$400,975	$172,506

(Callahan and Associates, 2025)

The largest expense for a credit union is employee compensation. Yolo Federal's employee compensation is nominally higher than Mocse and CU Hawaii and is significantly higher than Cascade. There are several factors impacting this, including the number of branches each credit union has as well as the cost of living within the areas they serve. Another component is that Yolo Federal participates in the California Public Employees' Retirement System (CalPERS), which is an expensive retirement benefit to offer employees. Earlier in my peer synopsis I reviewed demographics for the county where each of the peer credit unions' headquarters is located. Yolo Federal is headquartered in a county where the median household income and the average home price is much higher than those of the counties where Mocse, CU Hawaii, and Cascade are located. This means the cost of living is higher for Yolo Federal employees than for employees at the other peer credit unions. While the cost of living doesn't directly impact salaries, it does create wage pressure since people need higher pay to live in that region, and employers have to offer competitive pay to retain employees. This means employee compensation at Yolo Federal costs more than at the other peer credit unions. Another distinguishing factor is the number of branches and employees at each credit union. In the chart below, you can see that Cascade and Mocse have fewer branches, thus fewer employees than Yolo Federal and CU Hawaii. Cascade has significantly fewer employees, resulting in lower employee compensation.

Another large expense for a credit union is the office operations. Office operations include equipment, telephone and internet, insurance, furniture, service charges, supplies, miscellaneous items, and technology expenses. The credit unions with more branches will incur higher office operations expenses, as they need to maintain these locations. Technology is also extremely expensive and can easily impact operational expenses. Yolo Federal has invested a significant amount of money over the past few years to upgrade technology. We had several legacy platforms that simply did not meet the needs of our members and were negatively affecting our operational efficiency. Over the span of three years, we replaced our entire ATM fleet with Interactive Teller Machines (ITMs), completed a core conversion, upgraded our online banking platform, replaced our Teller Cash Recyclers (TCRs), redesigned our website, launched a virtual assistant, and implemented new security platforms. We made a strategic decision to "spend" some of our capital to enhance technology to ensure we remain relevant and competitive while improving operational efficiency. The strategic decision to invest in technology upgrades has increased our operational expenses and impacted our ROA. Mocse has a similar approach to Yolo Federal and is also spending money to upgrade its technology, which is contributing to its increased operational expenses. They recently upgraded their ATM fleet, implemented an AI-powered virtual assistant, and replaced their online deposit account opening and loan origination software. Shane Saunders, Mocse CEO, said, “We’re focused on a 5-year tech stack roadmap full of big, bold moves to position Mocse for a new future” (S. Saunders, Personal Communication, March 4, 2026).

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 perspective 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.**

Changing Competitive Landscape

In the research component of Project I, I wrote about the impact of embedded finance on the credit union industry. According to Deloitte and the Institute of International Finance (IIF), embedded finance companies have capitalized on 'moment of need' matching. "When done right, embedded finance delivers the right product/service bundle to the customer in the precise moment of need, or at the moment when a key financially linked decision is being made" (Deloitte & IIF, 2023). Some of the most popular brands in the world are led by out-of-the-box thinkers who understand how to create a seamless experience that doesn't require involvement from traditional financial institutions. Consumers take the bait because we live in a fast-paced world, and any relief to our overstimulated brains is appreciated. Even if there is a price to pay, convenience often beats thrift. I carried out my research on this topic into our annual planning session in October 2025. I spoke with my Executive Team about embedded finance, and before we evaluated the opportunities, we engaged in creative conflict about its alignment with our mission and strategic goals. We narrowed our discussion about embedded finance to Buy Now Pay Later (BNPL). One of the questions our CFO, Matt Lane, posed was, "Does BNPL promote financial responsibility? It seems like a modern-day layaway program" (M. Lane, Personal Communication, October 14, 2025). Matt's question is important because he's questioning whether BNPL aligns with our mission to help our members achieve financial success. We realized, though, that we can't stop our members from utilizing BNPL, so we must shift our focus to help protect them. A review of our transaction data showed a large percentage of our members utilized BNPL programs last year. This means they are going somewhere else to have their financial needs met, and there's a good chance these BNPL programs are not protecting our members. A report compiled by the Consumer Financial Protection Bureau (CFPB) identifies several risks to consumers, including discrete harm, a lack of standardized disclosures, dispute resolution challenges, and excessive late fees. The report says, "The CFPB's analysis of typical BNPL product features demonstrates that some market participants' offerings appear to be structured to evade certain federal consumer lending requirements. These requirements are designed to protect consumers and create a level playing field that fosters competition and consumer choice. Conversely, the absence of these requirements may lead to a competitive imbalance both within the BNPL industry and against similar products, as well as cause harm to consumers" (CFPB, September 2022). Embedded finance, such as BNPL programs, is changing the competitive landscape and consumers are quick to respond. Rather than push back against this gravitational force, we recognize our responsibility to embrace embedded finance so we can offer products that we know consumers want while providing protection that unregulated embedded finance platforms won't. We can partner with third-party technology platforms to offer programs like BNPL while adhering to consumer lending requirements, applying lower fees, and providing the support and guidance our members have come to trust.

I mentioned that popular brands are often led by people who think outside the box and are wanting to enter the financial services industry. One example of this is Beast Industries, which is owned by 27-year-old YouTube superstar Jimmy Donaldson, also known as MrBeast. I likely would not have known about MrBeast if it weren't for my 10-year-old son. MrBeast is extremely popular amongst Gen Z and Gen Alpha. Beast Industries produces engaging YouTube videos centered around wild challenges and outlandish adventures. He's expanded his brand to include chocolate bars called Feastables and a “healthier” alternative to Lunchables called Feastables. His most recent endeavor was the creation of a reality competition series on Prime Video called Beast Games, which amassed 50 million viewers in just 25 days and is Amazon’s biggest unscripted show ever (Variety, January 2025).

What does a dude on YouTube who sells overpriced chocolate have to do with the changing competitive landscape of financial services? Beast Industries recently acquired Step, a financial services app geared towards teenagers and young adults. Step promotes itself as “banking for the next generation.” Step offers the Step Card, a secure credit card that draws on deposits for spending and helps young people build credit. *(Wait a minute, we already offer a secure credit card at Yolo Federal.)* Beast Industries touts its partnership with Step and said, “Together, we are focused on closing the financial literacy gap, amplifying the Step platform and bringing more groundbreaking products to the world” (Step, February 2026). (*Hold on, we also focus on closing the financial literacy gap at Yolo Federal.)* Step and Beast Industries promote the strategic acquisition to “bring innovative fintech capabilities to Beast Industries’ growing global platform, combining technology, content, and purpose to redefine financial services for the next generation” (Step, February 2026). (*Okay, this is going to be a problem for the credit union industry.)* We already do some of what Step is currently offering and what Beast Industries is promising. The difference is that Beast Industries already has their young audience locked in and, let’s be honest, their cool factor is light-years beyond ours. Despite the risks this presents for us, we still have an opportunity to compete with this type of alternative financial company. If we try to build a better technology solution, we will likely lose because they have more money and resources. We need to focus our efforts on creating an ecosystem that is attractive to young members, which may include rebranded products and technology solutions paired with human relationships to promote safety and trust. Trust and safety are where we can beat out alternative financial companies. A 2024 UCLA study found that teens valued wanting to feel safe more than any other goal (UCLA, 2024). An article written by the Center for Schools and Storytellers at UCLA said, “This finding makes sense in light of recent data from the CDC, showing increased reports of violence for young people over the last couple of years, including a larger percentage of students reporting being bulled, being threatened or injured with a weapon at school, and even missing school due to safety concerns. It illuminates the effect unregulated, 24/7 access to the news is having on young people’s psyches as they become increasingly aware and anxious about the social, environmental, and personal risks they face” (UCLA, 2024). As a mom of two young boys, these findings concern me. At the same time, it motivates me to build products and services at Yolo Federal that children and young adults will want to use and can trust will help keep them safe.

<u>Changes in the Employment Base</u>

I had an engaging conversation with my CEO, Jenee Rawlings, about the evolution of our employment base. Jenee’s background in Human Resources prior to becoming CEO shapes her unique perspective on this topic. We know that automation and AI are already changing how businesses use human resources. Jenee said, “Staff roles will continue to evolve away from operational tasks and shift toward a stronger need for analytical and consultative skills” (J. Rawlings, Personal Communication, October 14, 2025). The risk is if we ignore or remain unaware of how the employment base is evolving, because skill gaps will become evident. We see this as an opportunity to proactively develop operationally tasked staff to ensure their skills evolve at the pace necessary. We may no longer need employees who are task-oriented but rather relationship-builders who can guide and advise our members on how to achieve financial success.

The discussion about skills gaps prompted me to think about the jobs that automation and AI cannot replicate. I have firsthand experience with the need for a skilled human to help me with an issue where AI would be useless. My home was built in 1958, and while I love living in a quirky home with charm, it comes with a litany of maintenance issues. Just this morning, there was an electrical problem that occurred, and last week, my shower decided it no longer was interested in working properly. AI might teach me how to fix it, but I certainly don't have the time or interest to do so. I also fear how much worse I would potentially make that problem. I needed a skilled electrician and plumber to repair my house safely. Sadly, studies show a decline in the number of people filling skilled trade jobs. According to an article written by Forbes, "The workforce is aging out, with retirements outpacing new entrants. Recruitment struggles are compounded by a stigma around trade careers and a lack of vocational training in schools" (Forbes, 2025). The article goes on to say, "With over a million unfilled trade jobs and salaries on the rise, skilled tradespersons are not just in demand. They're the backbone of America's future. Skilled trades, encompassing roles like electricians, plumbers, welders, and renewable energy technicians are vital to the U.S. economy" (Forbes, 2025). The shortage of tradespeople will lead to an array of issues for our communities. There could be project delays and increased costs if there are not enough tradespeople to fill open positions. I also think about our healthcare system and the important role skilled nurses have. A study posted by the National Library of Medicine found that, "The inadequate supply of nurses has notably created many negative impacts on the patient's health-related outcome as well as challenges to fight diseases and improving health, which causes increased workload and stress levels on nurses and later results in decreasing the quality of nursing care, threatening the safety of patient and increasing the patient's mortality rate" (National Library of Medicine, 2022). In California, we are subject to dangerous wildfires that often result from high winds, causing hazardous power line failures. Having skilled linemen who can repair high-voltage power lines is of the utmost importance. Summers in Northern California can reach temperatures of 100+ degrees for weeks on end, which means skilled HVAC technicians are needed to ensure air conditioners continue to operate properly. These are very real issues that will ultimately have an impact on the financial, mental, and physical health of our members.

Trade schools can be expensive for someone who does not have the financial means to pay out of pocket, and available financing programs often aren't an ideal option. Very few financial institutions offer these types of loan programs, yet it fits perfectly with the credit union mission of people helping people. I remember when I started college, and I went to Yolo Federal to ask about a student loan, only to discover they didn't offer that. I have been a member at Yolo Federal long before I worked here, and I recall feeling disappointed that my own credit union could not help me. I had very few options available and ended up having to get a student loan from Wells Fargo to pay the remainder of what my federal student loans wouldn't cover. Wells Fargo helped me when my own credit union couldn't, and knowing what I know today, that makes me cringe. I understand why many credit unions don't offer traditional student loans, as there is a lot of risk involved. However, trade school loans are quite different, and the risk of loan default is reduced by the fact that 70% of tradespeople find a job within 6 months of completing school (Research.com, 2026). The cost of attending trade school is also lower than traditional college, which means the loan amounts will not be excessive. For example, the average cost of an HVAC school program is around $15,000-$20,000 for the entire program (Midwest Technical Institute, 2024). The average cost of linemen school, including supplies, is around $25,000 for the entire program (Linemen Institute, n.d.). In contrast, the average cost to attend a 4-year college is $38,270 per year (Education Data Initiative, 2026). I don't want it to seem as though I am speaking negatively about attending a 4-year college, as I am a proud college graduate. However, traditional colleges are not for everyone, and some people prefer attending a trade school. These types of trade school programs are also now on the rise, with a bright outlook for growth. According to the U.S. Bureau of Labor Statistics, skilled trade jobs are among the fastest growing occupations, with the highest projected percentage change in employment from 2024-2034 (U.S. Bureau of Labor Statistics, 2025). The top 20 list includes wind turbine service technicians, solar photovoltaic installers, and medical technicians.

There is an untapped opportunity to provide financial services to aspiring tradespeople and support them on their journey. It helps meet individual needs for those seeking that career path while also nurturing a healthy economy because they fill an important need in our communities. We could create trade school loan programs that are more competitive and a better choice to help them afford trade school. In addition, some trade professionals eventually end up owning their own business, which creates another opportunity for us to provide them with business services. They are more likely to establish their business account with us since we helped them at the very beginning of their journey. We can create a unique product lifecycle for tradespeople that has the potential to positively impact our economy, help people in need, and build a positive brand reputation.

Rapid Adoption of Technology for Services

I remember growing up watching The Jetsons on TV and being wonderstruck at the futuristic things they could do. I didn't even know what the word 'technology' meant at the time, but I never could have imagined it would one day rule the future. The Jetsons could make video calls, they had a robot vacuum, and they basically had a smart home. As a child, that seemed impossible, but I just finished a Zoom call while my robot vacuum cleaned my floors, and I adjusted my thermostat from an app on my phone. The future is here, and it's rapidly evolving. The pandemic accelerated the adoption of technology because people suddenly had to learn how to engage with the rest of the world in a remote capacity. I remember how many businesses required appointments during that time, which forced many companies to implement an online scheduling platform. The ability to easily schedule an appointment online has now become a consumer expectation. People want to do as much as possible online with as little human interaction as possible. Have you ever tried to call a Millennial or a Gen Z person? Good luck getting them to answer the phone; your best option is to send a text message. As an elder Millennial myself, I'm guilty as charged when it comes to not answering the phone. However, I can promise a quick response with a corresponding emoji if someone texts me. It isn't because I have social anxiety or am an extreme introvert. It comes down to me being a busy working mom of two very rambunctious boys. If someone calls me on the phone, then I am likely to be interrupted by a small child, and it's simply better for everyone if I can organize my thoughts in a text message, likely while I'm in between work meetings, responding to employee emails, cooking dinner, or volunteering at the little league field. I'm no different than many other people who are simply trying their best to juggle life. We are busier than ever, and technology helps us be more efficient.

Being efficient means as little friction as possible. That is what consumers have come to expect. Although we have made progress improving the member journey at Yolo Federal, there are still some areas where we are falling short. The one that immediately comes to mind is our loan applications and underwriting process. Jenee said, "We need to be able to provide loan approvals faster and with less hassle. We have to leverage data analytics for what we already know about our members to improve our process" (J. Rawlings, Personal Communication, March 5, 2026). The challenge is the rising cost of technology and the growing number of competitors that can provide loan approvals faster and with less hassle. This doesn't mean we can't do it, but we will need to accept that we will have to invest in this type of technology by partnering with third-party platforms. We will also need to become more comfortable with changing our underwriting strategy, which will require a shift in our culture away from traditional underwriting practices.

We also need to be mindful of how we communicate with members. As I mentioned previously, calling someone on the phone can feel burdensome to people, so incorporating texting is a vital communication tool. Traditional branch hours cater to chronologically advanced people who are enjoying retirement and other people with more flexibility in their day. We are missing the mark, though, with younger people who may be in school all day or busy families who are juggling other priorities throughout the day. The younger generation is our target market, yet the way we are serving them is misaligned. Offering enhanced technology solutions to expand access to Yolo Federal outside of traditional communication methods will help us improve our connection with a younger demographic. Would a younger person prefer to visit a traditional branch during regular hours, or would they prefer to communicate with us through our digital channels? I argue the latter is preferred and can help improve efficiency as well as reduce operational expenses. For example, we have two branch locations in Woodland that are less than 3 miles apart. We are also the only financial institution in Woodland with multiple locations. I see an opportunity to close the smaller branch to reduce operational expenses, since we would no longer be paying for a physical branch. We can divert a portion of the savings to other strategies that help reduce friction and enhance the member experience. We already have the technology to make it happen; we simply need to restructure how we operate to maximize success.

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 specific 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.

Strengths

Employee Longevity and Benefits

The median number of years that employees have been with their current employer is 3.9 years (U.S. Bureau of Labor Statistics, 2024). The average tenure of a Yolo Federal employee is much higher at 8.8 years. According to an article by Indeed, employee tenure is important because it leads to increased knowledge and higher productivity, resulting in fewer errors (Indeed, 2025). It also shows stability for an organization and can provide mentorship opportunities for less experienced employees. Our CHRO, Marcela Bautista, said, "I think one of the strongest reasons we have excellent longevity is the genuine sense of community we have both internally with each other and externally with our members" (Marcela Bautista, Personal Communication, October 14, 2025). We have a healthy culture at Yolo Federal, which starts at the top with our Executive Team and trickles down to our employees and members. Strong tenure on the Executive Team is particularly important as it relates to NCUA's Final Rule on Succession Planning. The NCUA requires credit unions to establish a written succession plan for key positions to ensure organizational stability and continuity (NCUA, 2024). Our Board of Directors and members can be confident that Yolo Federal will continue to successfully operate in the event of a change in leadership because we have a strong Executive Team.

We also have an excellent benefits package and offer a pension through the California Public Employees' Retirement System (CalPERS). CalPERS is a defined benefit plan that provides a guaranteed monthly pension for life. It is rare for a financial institution to offer CalPERS retirement because it's typically only available to employees of the State of California, a California State University, or a contracting public agency (CalPERS, n.d.). We were "grandfathered" into CalPERS since our initial charter served the Yolo County sheriff's department and then eventually Yolo County government employees. This is an extraordinary retirement plan we can offer our employees. Our entire benefits package is a cornerstone of our strategy to attract and retain top talent. Marcela Bautista said, “We evaluate several key factors for our benefits package that includes plan effectiveness, administrative ease, affordability for the credit union, and the potential financial impact on employees. Benefit costs are shared between the credit union and staff, and our priority is to maintain affordable employee contributions while preserving the quality of our benefits” (M. Bautista, October 14, 2025).

Robust Technology Enhancements

We have invested significant time and money into upgrading our technology over the past few years. Our CIO, David Plaut, said, “The technology investments we have made over these past few years were not just about keeping with the status quo; they were about jumping out in front and setting our own standard. We want to be seen as a forward-thinking, evolving credit union. Keeping the old-fashioned member service some people know and expect, but also creating a digital contactless opportunity the younger generation prefers” (D. Plaut, Personal Communication, October 14, 2025). The most critical upgrade was our core conversion when we transitioned to Corelation’s Keystone system. This was important because we had been on our previous core since 1983, which limited our ability to partner with third-party technology solutions, as many of them did not integrate with our ancient core system. Corelation is a robust core system that has enabled us to implement several new technology solutions to enhance our member experience. We did an online banking conversion to Alkami at the same time as the core conversion. Alkami is another robust platform that has opened many doors for us to partner with other technology platforms that we otherwise could not have used on our previous online banking platform.

Our implementation of an AI-powered chatbot through our partnership with Glia was part of a strategic initiative to use AI to improve member engagement and move members toward technology. Our virtual assistant, Penny, utilizes AI to respond to members on our website and within our mobile app. If Penny is unable to answer their question, then the chat routes to an employee to respond. We saw a 13% increase in chat engagements in 2025, and 25% of all chat engagements have been completely handled by Penny.

We also replaced our entire ATM fleet with Hyosung ITMs serviced by NextBranch. We were one of the first in our market to offer ITMs with video teller technology. These ITMs are now fully integrated with our core system, enabling greater functionality. If members forget their debit card, they can still access their account at the ITM by connecting with a Video Teller and scanning their ID at the machine. They can also make loan payments, print mini statements, and withdraw up to $3,000 with approval from a Video Teller. We have experienced quick adoption of the ITMs from members and have positioned ourselves as a market leader in this endeavor.

Brand Reputation and Marketing

Yolo Federal has been voted #1 Credit Union in Yolo County for 25 years in a row by readers of our local newspaper. We have a strong brand reputation in Yolo County because of our employees, the support we provide our community, and our dedication to maintaining strong brand guidelines and careful execution of our marketing plan. I almost did not include this as one of our strengths since I oversee our marketing department, but I give all the credit to my exceptional team. Our marketing department has received a few Diamond Awards from America's Credit Unions. The Diamond Awards recognize and reward creative excellence and outstanding results (America's Credit Unions, n.d.). We received a Diamond Award in 2020 for a video commercial we produced. Another Diamond Award was received in 2023 for our social media content. I'm most proud of the Diamond Award we received in 2024 for the communication plans we developed during our core conversion and online banking upgrade. Core conversions and online banking upgrades can be very disruptive for members and employees. We dedicated a tremendous amount of time and effort to building complex communication plans that would mitigate confusion or frustration for both members and employees. Most recently, we received another Diamond Award for a humorous video we produced for social media. We also launched a redesigned website last year that significantly enhanced functionality and the user experience. Website metrics show that we increased active users by 34%, new users by 32% and click-through rates skyrocketed over 300%. Most notably, our digital marketing efforts to expand brand awareness in Sacramento resulted in a 30% increase in website traffic from Sacramento residents in 2025. Other digital advertising campaigns conducted through social media, Google, and Spotify helped us achieve a 5.06% monthly click-through rate, which is a strong benchmark for Google and above average for social media and Spotify. Our marketing department maximizes resources in alignment with our strategic initiatives and integrates brand strategy with data-driven decision-making.

Weaknesses

Employee Hours and Training

Frontline employees at Yolo Federal only work 33.5 hours per week. That amounts to the exact number of hours the branches are open, minus a day off, plus 1 hour per week for a team huddle. A decision was made long ago, before my time, to control operating expenses by only having frontline employees work the hours our branches are open. Since that time, we pursued strategic initiatives focused on controlling headcount and reducing operational expenses. While those are important goals, reduced employee hours have presented some major challenges. Employees are earning less money, and there is no dedicated time for employee training. Many of our employees are struggling to make ends meet because the cost of living in California is high, and their salary is reduced because they are not working a full 40-hour workweek. It also means that training must be done during those 33.5 hours, which is difficult to accomplish during branch hours when they are focused on serving our members. The issue is that employees need additional training to feel confident with enhancing member relationships. If they don't have uninterrupted time set aside for learning and development, then we are doing them a disservice by not helping them grow, which ultimately impacts our members. I recently discovered that one of our employees was working two jobs to make ends meet. She was considering leaving for another financial institution that would offer her 40 hours. We pride ourselves on being a premier workplace, yet we have employees working multiple jobs, and some are even utilizing free community resource programs for food. I understand everyone's circumstances are different, and I may not have the full context for their living situation. Still, I know for certain that our employees should be able to work enough hours to earn a salary that will at least keep a roof over their head, food on their dinner table, and some extra money left over to save for a rainy day. If our employees are stressed about paying their rent or how to feed their family, then they are going to struggle advising our members on how to achieve financial success. WebMD found that employees who are financially stressed are distracted, have reduced productivity, are less engaged, and have poor physical and mental health (WebMD, 2024). I know we cannot solve our employees' financial struggles, but we can help by offering them 40 hours per week so they can earn a full salary.

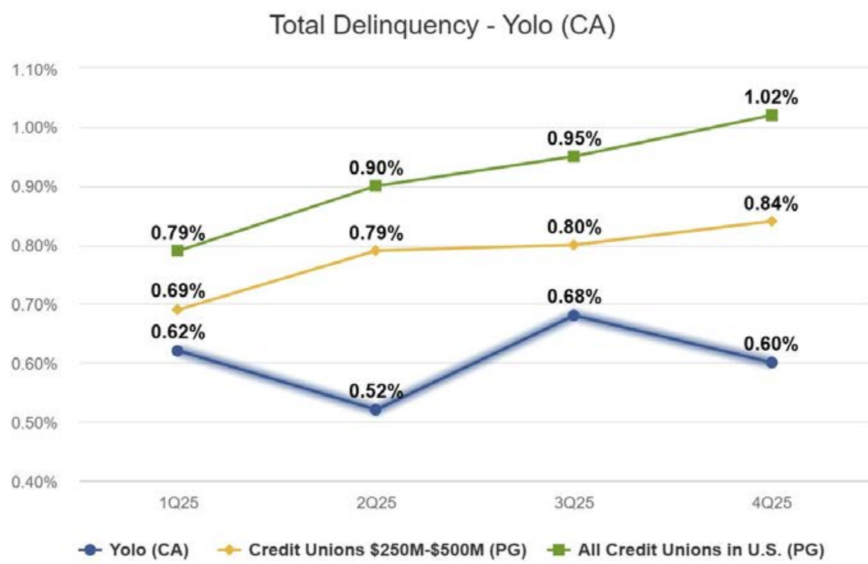
Deposit Products

I analyzed the differences between Yolo Federal's deposit products compared to peers earlier in Section II. Other credit unions are offering much more robust deposit products than we are. Our strategic initiatives over the past few years have focused on enhancing our technological solutions and growing our loan portfolio. Unfortunately, our deposit products have largely fallen into a supermassive black hole, and those decisions are reflected in our share growth performance metrics. To expand on those concerns, I want to bring another point into this orbit and evaluate how we are delivering value back to our members.

Callahan and Associates has a tool called the Return of the Member Index (ROM) that uses data to evaluate the value a member receives from their credit union compared to relevant peers (Callahan and Associates, n.d.). It measures how well we reward members for saving with us, how much value borrowers receive through the loans we provide them, and how well our members engage with our services. Callahan says, "Each metric is compared to your selected relevant peer credit unions. Your performance on each measure is converted into a percentile score. Scores are then weighted and combined to create a final ROM percentile ranking. The higher the score, the more benefit members receive relative to peers" (Callahan and Associates, n.d.). Our Return to Savers is embarrassingly low, with a weighted score of 17.42 that puts us in the 5th percentile. Our cost of funds is only 0.62% because our deposit rates are abysmal. In previous sections, I've discussed that we strategically chose to lag the market on deposit rates and, in turn, chose to keep auto loan rates low to increase lending. That decision shows up in our strong Return to Borrowers metric that places us in the 96th percentile. We are imbalanced between what we offer our savers and our borrowers.

Conservative Underwriting Practices

The delinquency rate at Yolo Federal is very low. The graph below shows our total delinquency rate throughout 2025 compared to our NPA, as well as all credit unions in the U.S.



(Callahan and Associates, 2025)

I evaluated our loan application status reports for all of 2025 and found that we denied 52% of the loan applications that we received. I also reviewed the credit scores for the approved loan applications. Yolo Federal uses the VantageScore model by Experian when making underwriting decisions. Experian considers scores between 781-850 as Super Prime, 661-780 as Prime, 601-660 as Near Prime, and 300-600 as Subprime (Experian, n.d.). Our approved loans consisted of 49% Super Prime, 38% Prime, 3.46% Near Prime, and 1.56% Subprime. We are primarily lending to top-tier borrowers. We do risk-based pricing, which means our best rates are given to these borrowers, which impacts our yield on loans. We are also starting to develop a reputation in the community that you need to have excellent credit to get a loan from Yolo Federal, and other people who may need our help are choosing to go elsewhere. With the exception of indirect loans, all loan applications are reviewed by an underwriting employee, which is contributing to the high number of loan application denials. We do have the option to set up automated approvals and denials within our core system, but our lending department has chosen not to do that because there are certain stipulations they want to include that the automated system is unable to incorporate. This can sometimes cause delayed loan decisions, and then people choose to go to another lender with a faster approval process.

Since I oversee Operations, I frequently receive complaints from my frontline employees about how conservative our underwriting is. I acknowledge their frustration, but I also remind them that we have a responsibility to not lend to people if it is not in their best interest. Another important factor to consider is that we maintain strong financial health as a credit union and have weathered many storms, such as recessions and a pandemic, because we don't typically make risky lending decisions. That said, I also believe I can hold those beliefs in one hand while, in the other hand, recognizing that our conservative underwriting practices could be impacting our growth, profitability, and reputation. I'm not suggesting that we lend to people who don't have the capacity to repay their loan, but there is an opportunity to ease up on the manual review of our loan applications and trust our risk-based pricing with automated underwriting.

<u>Opportunities</u>

Small Business Banking

The region we serve in Northern California is home to businesses across retail, agriculture, dining, manufacturing, and service-based businesses. Small businesses are the heart of our community, and Yolo Federal has long been a champion of the "shop local" campaigns. However, a significant gap exists between what small businesses need and what financial institutions offer. My husband is a small business owner, and I have seen firsthand the challenges small businesses face with their banking options in our region. Most financial institutions either cater to large businesses or focus entirely on the agriculture sector.

At Yolo Federal, our focus has primarily been on business lending, and we have not dedicated the time or resources to build a suite of products to support the entire small business relationship. The issue we have discovered is that most small businesses want to keep their entire relationship with one financial institution. Some financial institutions offer discounts if they keep their relationship with them, so they often don’t want to segment their banking relationship. Small businesses also typically have fewer employees, which means the owners are wearing multiple hats throughout their day to keep the business running. There is an opportunity within our market to develop a full suite of products uniquely designed for small business owners.

Hispanic Market

The Latino population continues to grow throughout the communities we serve. We see this represented in our member demographics at Yolo Federal, where 44% of our members living in Yolo County and 35% of our members living in Sacramento County are of Hispanic origin. It is crucial for us to understand the various acculturation segments within this demographic so we can best serve them. Acculturation can be considered a spectrum because it involves more than just adopting the customs of another culture; it can include language preferences, attitudes, and behaviors. I have seen too many organizations miss the mark when they try to reach the Hispanic population. For example, they want to advertise in Spanish, so they input their marketing information into Google Translate, then copy and paste. However, Google Translate does not typically take into consideration regional or cultural nuances. Google also translates words literally, which means marketing lingo does not always make sense when translated. The intentions are good, but it can often leave people feeling confused, disconnected, and not having their needs met. There is a significant opportunity to strategically reach the growing Hispanic community within our market if done right.

Threats

Oversaturated Market

It has become increasingly challenging to differentiate ourselves in a market that is oversaturated with other financial institutions. I evaluated the number of financial institutions within a 2-mile radius of each of our physical branch locations in each market we serve, along with their total deposits. I've omitted the report since it would significantly lengthen my Project. However, what I found is there is significant competition surrounding each of our locations. Every single one of those banks and credit unions is substantially larger than Yolo Federal and has more resources to dedicate to marketing, branding, and technology. It is imperative for us to be laser-focused on our mission and values, ensure our employees are aligned with our strategic priorities, and communicate effectively to cut through the noise and gain our share of the market. Otherwise, we risk being swallowed up by much larger financial institutions to increase their market share.

Overdraft Protection Regulation

The California Senate Bill 1075 (SB 1075) required state chartered credit unions to cap their overdraft fees at $14 starting January 1, 2026. As a federally chartered credit union, we are not required to comply; however, most of our local competitors had to reduce their overdraft fees because they are state chartered. Even most of the federally chartered credit unions in our market have chosen to reduce their overdraft fee to $14 despite not being required to. Our Board of Directors adopted a "wait and see" approach to this issue, since it would be a 30%

reduction in our overdraft fee income, which would reduce our ROA by 9 basis points. It's important to note that we proactively chose to reduce our overdraft fee to $20 in 2019, long before California state chartered credit unions were forced to reduce their overdraft fee. Nevertheless, perception drives consumer decisions, and the decision to maintain a higher fee than competitors within our local market may threaten our reputation.

We have received questions from our members asking when we will be reducing our overdraft fee to $14. This has created some tension for our employees to try to explain why we have not reduced our fee. From the consumer perspective, it could appear as though we are not compliant or that we are trying to price-gouge them. Consumers don't live in our world of credit union regulations or understand the nuances that can impact these decisions, so they can be quick to make unfair assumptions. A survey conducted by the American Bankers Association showed that 42% of bank customers would leave their bank if another bank offered a much lower overdraft fee (American Bankers Association, 2025). Even if someone is not financially struggling, higher fees could drive someone to switch financial institutions based purely on principle.

In my conversations with other credit union employees and volunteers, I have found that there sometimes is a negative perception about the type of member who uses overdraft protection. It is often assumed that all overdraft users have a limited member relationship and a lower propensity to qualify for more products. I researched our members who utilize overdraft protection and found that is not true at Yolo Federal. The following data represents our members who utilized overdraft protection in 2025:

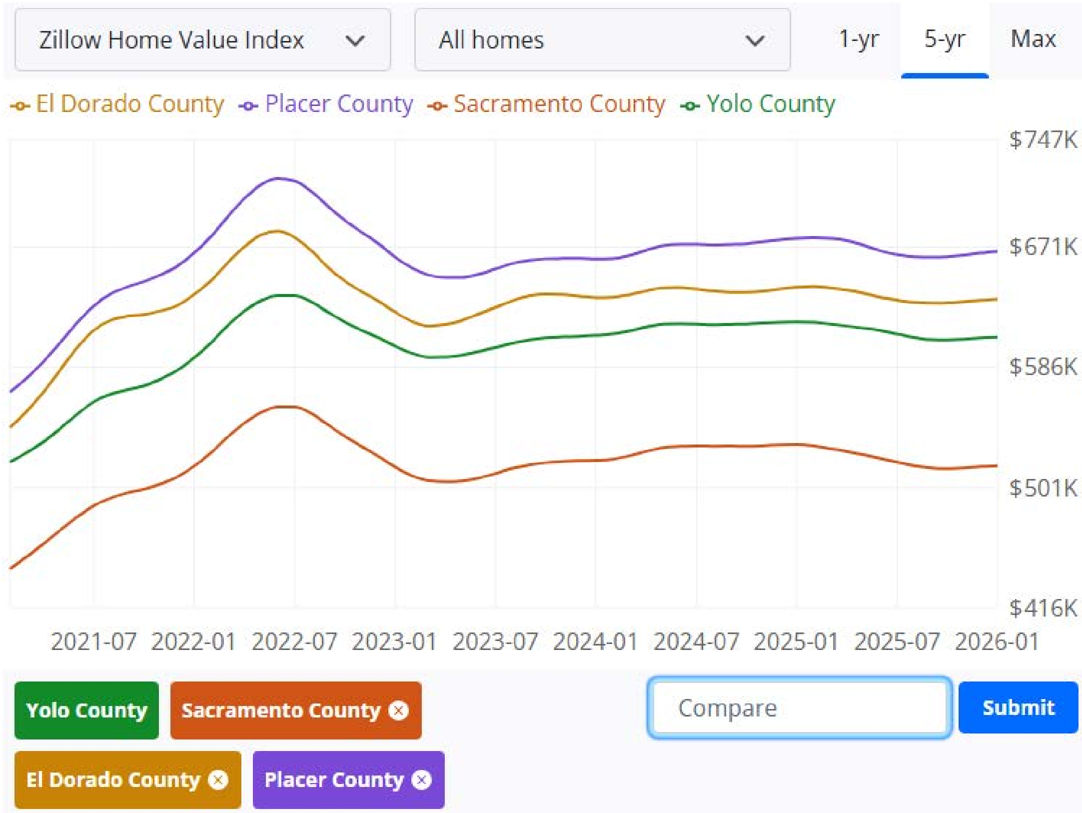
- Average Age—44

- Average Years of Membership—14
- Number of Products—2.47
- Average Deposit Balance—$4,108
- Average Loan Balance—$8,203

It is true that some members who utilize overdraft protection have a limited relationship with us and are struggling financially. However, the average member who uses overdraft protection is loyal, engages with our products and services, and contributes to the growth of Yolo Federal. For many people, the use of overdraft protection is a sign they are juggling a busy schedule and forgot to move money around to cover a pending transaction. Regardless of those statistics, credit unions were formed to help people of modest means, and we do bear the important responsibility of ensuring our fees are reasonably priced and aligned with market demands. If there is a disparity in our overdraft pricing compared to other credit unions in our local market, it poses a threat to our reputation and possible growth.

Housing Affordability and California Insurance

A significant portion of our loan portfolio is comprised of mortgages. The challenge we are experiencing in the markets we serve is the threat of home prices remaining high and issues with home insurance in California. Home prices peaked in 2022, dipped slightly in 2023, and have remained elevated since then. The graph below shows the counties we serve and the average home prices over 5 years. Housing affordability remains a pressing issue as more people are finding it difficult to purchase a home.



(Zillow, 2026)

Even if someone can afford to buy a home, they are experiencing issues obtaining home insurance. Premiums continue to rise, some policies are being canceled, and several insurance carriers have left the California market entirely because of the ongoing wildfire risks across the state. Our own Board Chairman, Bill Schemel, received a notice from his home insurance carrier last year that they were canceling his policy. The cost of my home insurance has substantially increased, as it has for everyone I have spoken with about the issue. We also frequently hear from our local realtors that their buyers are having trouble securing home insurance. Furthermore, studies show that mobile homes carry higher insurance costs as a share of home value (Terner Center for Housing Innovation, 2023). Mobile home lending is a niche for Yolo Federal since we are one of the few traditional lenders that offer mobile home financing in our area. This means we have the opportunity to grow our mobile home loan portfolio, but we will continue to experience challenges because home insurance costs are much higher for this type of home.

The U.S. Bureau of Economic Analysis says that it costs 12.6% more than the national average to live in California (U.S. Bureau of Economic Analysis, 2026). Those increased costs are largely due to housing affordability, which has caused some people to move out of California. Despite the disagreement from our government officials in Sacramento, the "California Exodus" is real, and it is felt throughout our communities. The combination of rising home prices and challenges in obtaining affordable insurance puts a strain on mortgage lending and is a threat to the growth of our loan portfolio, but more importantly, to the livelihoods of our members.

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.

STRATEGIC GOAL TEMPLATE

Goal Title: [Insert a clear, descriptive title]
Goal Statement: [Write a SMART-formatted goal statement]
Goal Explanation and Strategic Rationale: [Explain why this goal matters strategically, including its connection to your SWOT or inflection point analysis]

Action Steps:

1. **[Insert action step]**
   - **Cost/Revenue:**
   - **Completed by (date):**
2. **[Insert action step]**
   - **Cost/Revenue:**
   - **Completed by (date):**
3. **[Insert action step]**
   - **Cost/Revenue:**
   - **Completed by (date):**

Expected Impact/Results: [Describe the strategic benefit and measurable outcome, including overall financial impacts expected if this goal is achieved]

<u>Strategic Goal #1</u>

Goal Title: Branch Consolidation for Operating Expense Realignment

Goal Statement: Close the Sycamore Pointe Branch by December 31, 2026, to reduce operating expenses and save $325,784 annually.

Goal Explanation and Strategic Rationale:

In the peer comparison section, I found that Yolo Federal's operating expenses of 4.01% are much higher compared to Cascade (2.22%), Mocse (3.56%), CU Hawaii (3.32%), and the national peer average (3.65%) as of 2Q2025. In the strategic inflections and SWOT sections, I wrote about the rapid adoption of technology, our robust technology enhancements, and our members' shifting how they engage with us. Throughout these sections, I shared ideas that could strengthen Yolo Federal, but they would increase our expenses and ultimately reduce our ROA. It is important for us to evaluate our current expenses and determine if there are opportunities to save money or realign our expenses. A portion of the savings can be used toward other initiatives that will have a higher return on investment.

Yolo Federal is the only financial institution that has multiple locations in Woodland. The Woodland Main Branch and Sycamore Pointe Branch are less than 3 miles apart in Woodland. The Sycamore Pointe Branch is smaller and was added in 1997 on the East Side of town, where new development was occurring. The strategy back then was to build a brick-and-mortar branch within the new development to reach young families who lived nearby. At that time, we didn't have a mobile app or any of the enhanced technology we do today. Consumer behavior has drastically shifted since that time. While there is still a desire for brick-and-mortar branches in the communities we serve, it is unnecessary for Yolo Federal to have 2 branches within a 3-mile radius. Closing the Sycamore Pointe Branch would allow us to reallocate some of the savings toward the other four strategic goals I am proposing.

Action Step	Cost/Revenue	Completed by
1. Obtain board resolution that approves the closure of the Sycamore Pointe Branch. Submit the board resolution to the NCUA.	There are no costs associated with this step.	April 30, 2026
2. Submit an early termination notice to the landlord and property management company. The lease agreement requires payment of the remaining annual lease costs upon termination.	$252,000 for early lease termination $130,000 to write-off lease improvements	July 31, 2026
3. Transfer 1 of the Sycamore Pointe employees to the other branch in Woodland to help with increased traffic to the branch. The other 2 Sycamore Pointe employees will be transferred to other branches that currently have a vacancy for the same role. Since 2 Sycamore Pointe employees will fill currently vacant roles, then we can reduce our total employee headcount by 2.	Approximately $104,000* saved per year **Average salary plus benefits for a frontline employee at Yolo Federal is $52,000. Multiplied by 2 since we will remove 2 positions from the total employee headcount.*	July 31, 2026
4. Establish a member communication plan that will provide them with resources on how they can still conduct their banking through our robust technology platforms or at the other branch down the road. Provide employees with talking points to help them feel confident when responding to member questions.	$5,000 for printed communication materials and signage for the branch. This expense will come from the existing marketing budget that contains a line item for unexpected expenses in the year. Communication will also be sent through our digital channels and there are no additional costs associated with this.	July 31, 2026
5. Relocate the 4 ITMs and 1 TCR from Sycamore Pointe to the new Natomas Branch that is currently under construction in Sacramento. We already	$114,072 saved per year	July 31, 2026

budgeted for the cost to install new ITMs and a TCR at the new Natomas Branch, so no additional expenses need to be added to the budget to transfer these machines.		
6. Terminate utilities, monthly supply order, and security monitoring from the branch.	$107,712 saved per year	July 31, 2026

Expected Impact and Results:

If the Sycamore Pointe Branch is closed by July 31, 2026, Yolo Federal will save $325,784 annually from the reduction of utilities, supplies, equipment, and employee headcount. Although we will need to recognize the full cost of the early lease termination and write off the lease improvements in 2026, we will reduce our annual office occupancy costs by $77,356 by no longer having to make lease payments or recognize the expense of our leasehold improvements.

There could be an impact on traffic flow to the other remaining Woodland Branch. However, there are currently no teller stations at the Sycamore Pointe Branch, which means there should not be an impact on the teller stations at the other Woodland Branch. The Woodland Branch is our largest branch with plenty of room to accommodate additional people. There are 3 ITMs at the Woodland Branch, and 2 of them have minimal utilization because there are also teller stations at this branch. Redirecting ITM traffic from the Sycamore Pointe Branch to the other Woodland Branch will help increase utilization of the ITMs at that branch.

Realistically, 1 employee could handle the number of members who currently come through the Sycamore Pointe Branch. The reason there are 3 employees assigned to the Sycamore Pointe Branch is because of dual control and branch coverage needs. If the members who currently visit Sycamore Pointe were to instead go to the Woodland Branch down the road, only 1 additional employee would be needed at the Woodland Branch to handle increased traffic and ensure wait times are not negatively impacted. The other 2 Sycamore Pointe employees can fill current vacancies at the other local branches. Those vacancies are the same position they currently hold, and those branches are within a 20-minute drive. Reassigning these employees to fill vacancies at other branches will reduce our total employee headcount by 2. This strategic decision would save money and realign our resources, rather than continuing to invest in a physical branch location that is not needed.

Strategic Goal #2

Goal Title: Frontline Employee Hours

Goal Statement: Increase frontline employee hours from 33.5 to 40 starting January 1, 2027 to improve employee satisfaction, expand training opportunities, and support net loan growth of $49,147,826 and net deposit growth of $52,888,756 by December 31, 2027.

Goal Explanation and Strategic Rationale:

In the strategic inflections section, I wrote about changes in the employment base and how there is going to be a greater need for employees with consultative skills. In the SWOT analysis, I identified a weakness in the hours we currently have assigned to our frontline employees and how that impacts the time we dedicate to ongoing employee training. Employees are also struggling financially due to working fewer hours, and they have expressed a desire to work a full 40 hours per week. Additionally, with fraud continuing to run rampant, we know that one of the best defenses is a good offense with well-trained employees who are educated and can help stop fraud before it happens.

Increasing employee hours from 33.5 to 40 will give employees time outside branch hours to dedicate to training and to enriching member relationships through proactive outreach. This will help resolve current training gaps due to a lack of available hours. The additional hours will be spent on enhanced member service training, best practices to enrich member relationships, and fraud detection training. The additional time will also be used to nurture member relationships for those who we know may benefit from a particular product or service. They will also support the increased production that I will be projecting for 2027.

Action Step	**Cost/Revenue**	**Completed by**
1. Include 162.5 additional hours in the 2027 budget.	$278,492* increased annual salary costs **Adding 6.5 hours to existing frontline employees and includes the additional cost of salary and benefits. Will be recognized in the 2027 budget.*	December 31, 2026
2. Communicate changes to employees once the Board of Directors approves the 2027 budget in early December.	No immediate impact on the cost or revenue for this step.	December 31, 2026
3. Using existing training resources, develop an annual training plan for frontline employees that focuses on product knowledge, enriching member relationships, enhancing the member experience, and fraud prevention.	No immediate impact on the cost or revenue for this step since existing resources will be utilized.	December 31, 2026
4. Assign production goals to each branch to ensure they are putting into practice what they are learning and that we are meeting our growth objectives of $49,147,826 in loans and $52,888,756 in deposits for 2027*. **Added after I completed my financial projections.*	No immediate impact on the cost or revenue for this step.	December 31, 2027

Expected Impact and Results:

The production growth I have projected for 2027 is feasible, but requires that our employees are proficient at building relationships with members and they have the time available to accomplish that. Increasing our frontline employee hours will provide the support needed to achieve those production growth goals. If we increase employee hours and, in turn, operating expenses by $278,492, it will reduce our Net Worth Ratio by 6 basis points in 2027. However, I don't believe we can reasonably meet my projected production goals without employees having additional time to handle the increased growth. Additionally, I see this as an investment in our employees' happiness and, ultimately, in our members' satisfaction.

I understand it may seem counterintuitive to add employee hours in a corporate world that's reducing employee headcount due to automation and technology. However, the communities we serve desire technology and a human connection when they need one. My strategic vision is to automate tasks but also invest in people who can humanize the member experience when necessary. I want to ensure we have knowledgeable employees to guide a member if they are in a difficult situation and need someone to personally advise them. Having well-trained, happy employees can translate into greater productivity, fewer errors, and an improved member experience. Employees will continue to develop and strengthen their consultative skills through increased training, better equipping them to advise our members on their finances and to identify opportunities to enhance the relationship.

Strategic Goal #3

Goal Title: Improve Business Products

Goal Statement: Improve the business suite of products to grow $12,000,000 in commercial loans and $10 million in commercial deposits by December 31, 2028.

Goal Explanation and Strategic Rationale:

In the strategic inflections section, I discussed the need for tradespeople and the growth outlook for skilled trade jobs. I would love to create a trade school loan program at some point in the future, but we aren't yet prepared to build the type of infrastructure needed to support that type of loan program. There are vendors we could work with, but I want to focus our strategic goals on what will have the greatest impact on our deposit and loan growth. Tradespeople can still fit into the picture through our small business products. Several of our local tradespeople own and operate small businesses, but the local banking options do not meet their needs. In the SWOT analysis, I outlined the opportunities in our market to better serve small businesses. In the peer analysis section, I uncovered issues pertaining to our negative deposit growth compared to our peers. Enhancing our suite of business products to better serve the entire small business relationship could help us improve deposit growth. We already have an employee dedicated to business loans, and this person can handle the projected loan growth through 2027, so we would not need to hire any additional employees. We also already have partnerships with Total Merchant Concepts (TMC) for payment processing and with CU Business Group (CUBG), which can provide us with additional guidance and support.

Action Step	Cost/Revenue	Completed by
1. Implement the business online banking platform through Alkami. (We currently only offer the consumer platform through Alkami.) The business online banking platform will offer sub-user management, cash flow management tools, automated billing, and fraud prevention with Positive Pay.	$26,000 cost for implementation fees $48,000 annual cost for 2027 and 2028	March 30, 2026
2. The Product Development Committee will evaluate the business products to determine which need enhancement to better compete in the market. Based on existing knowledge, adjustments will likely be needed for the Business Money Market and Business Visa Credit Card. The other business loan products are competitive, but are not growing due to the lack of other necessary business products. A proposal will be sent to ALCO and then the Board for approval.	Existing staffing resources will be used. There is no immediate impact on the cost or revenue for this step.	June 30, 2026
3. Once the Board of Directors approves the changes to the identified products, the Product Development Committee will begin configuration changes in our core system and begin testing within our test environment.	Existing staffing resources will be used. There is no immediate impact on the cost or revenue for this step.	October 31, 2026
4. Communicate changes to employees, conduct staff training, and begin updating existing marketing materials.	$5,000 to update existing marketing materials. This will come from the existing marketing budget that contains a line item for unexpected expenses in the year.	November 30, 2026
5. Identify local businesses that are not retail-focused to avoid cash-heavy businesses that could put a strain on frontline operations. Focus on service-oriented businesses (trades such as plumbers, HVAC technicians, electricians, etc.), professional services (legal,	Existing staffing resources will be used. There is no immediate impact on the cost or revenue for this step.	December 31, 2026

consulting, bookkeeping, etc.), and real estate companies. Develop a comprehensive 2-year marketing and business development plan to reach the target market.		
6. Launch enhanced business suite of products.	There is no immediate impact on the cost or revenue for this step.	January 1, 2027
7. Execute the 2027 marketing and business development plan that will support commercial deposit and loan growth with the target market.	$10,000 cost to execute marketing initiatives	December 31, 2027
7. Grow commercial deposits by $5,000,000 Assuming this growth is driven by the combination of offering a business online banking platform as well as an enhanced Business Money Market product. The current rates for Business Money Market products in our local market range from 1% to 3.5%. I will use a Weighted Average Rate of 2.75% to estimate the interest expense for these new deposits.	$137,500 dividend expense	December 31, 2027
8. Grow commercial loans by $6,000,000 I'm estimating $2 million in commercial real estate at a Weighted Average Rate of 4.75% in 2027. I'm estimating the remaining $4 million will be all other commercial loans at a Weighted Average Rate of 5.75%.	$95,000 interest income from commercial real estate loans $230,000 interest income from all other commercial loans	December 31, 2027
9. Execute the 2028 marketing and business development plan that will support commercial deposit and loan growth with the target market.	$10,000 cost to execute marketing initiatives	December 31, 2028
10. Grow commercial deposits by $5,000,000 Assuming this growth is driven by the combination of offering a business online banking platform as well as an enhanced	$137,500 dividend expense	December 31, 2028

Business Money Market product. The current rates for Business Money Market products in our local market range from 1% to 3.5%. I will use a Weighted Average Rate of 2.75% to estimate the interest expense for these new deposits.		
11. Grow commercial loans by $6,000,000 I'm estimating $2 million in commercial real estate at a Weighted Average Rate of 4.5% in 2027. I'm estimating the remaining $4 million will be all other commercial loans at a Weighted Average Rate of 5.5%. The rate reduction from 2027 to 2028 will be explained in the financial data analysis section.	$90,000 interest income from commercial real estate loans $220,000 interest income from all other commercial loans	December 31, 2028

Expected Impact and Results:

We already have an existing framework for our business services program. Still, we lack the technology to effectively serve these members, and some deposit products do not have attractive benefits. Implementing business online banking, enhancing our business products, and executing a targeted marketing and business development plan could drastically improve the success of our business services program. If we achieve the goals I outlined in the action steps, then we will see a 104% growth in commercial deposits and an 88% growth in commercial loans. While those projections are aggressive, I believe they are reasonable given the limited business banking options currently available in our local market and the fact that businesses typically maintain higher deposit and loan balances.

In 2027, I'm estimating net growth of $2 million in commercial real estate, with a Weighted Average Rate of 4.75%, resulting in interest income of $95,000. I'm also estimating net growth of $4 million in all other commercial loans, with a Weighted Average Rate of 5.75%, resulting in interest income of $230,000. I anticipate total interest income from commercial loans to be a combined $325,000 in 2027. However, to take it a step further and consider the full Return on Investment (ROI), I will also incorporate the spread and expenses. The interest paid on generating the commercial deposits is 2.75%, which puts the spread at 2% for commercial real estate and 3% for all other commercial loans, and the first-year revenue at $175,000. For the costs I will include the initial implementation fee for business online banking, the annual fee for online banking, and the marketing costs from 2026 and 2027, resulting in a total cost of $89,000. This results in a positive ROI of 97% for the new commercial loans generated in 2027.

In 2028, I'm estimating net growth of another $2 million in commercial real estate, with a Weighted Average Rate of 4.5%, resulting in interest income of $90,000. I'm also estimating net growth of another $4 million in all other commercial loans, with a Weighted Average Rate of 5.5%, resulting in interest income of $220,000. I anticipate total interest income from commercial loans to be a combined $310,000 in 2028. I will again take it a step further and consider the full ROI and incorporate the loan spread and expenses. The interest paid on generating the commercial deposits is 2.75%, which puts the loan spread at 1.75% for commercial real estate and 2.75% for all other commercial loans, and the first-year revenue at $145,000. For the costs, I will include the annual fee for online banking and the marketing costs for 2028, resulting in a total cost of $58,000. This results in a positive ROI of 150% in 2028.

Strategic Goal #4

Goal Title: Pre-Approval Loan Campaign

Goal Statement: Implement pre-approval loan campaigns to add $3,756,742 to the credit card portfolio by December 31, 2028.

Goal Explanation and Strategic Rationale:

In the strategic inflections section, I wrote about the correlation between efficiency and minimal friction with the member experience. I also shared my CEO's perspective about the importance of providing loan approvals faster and with less hassle. In the SWOT analysis, I shared my concern about our extremely conservative underwriting practices and how nearly every loan is reviewed by a human. While I appreciate and respect the important work that our underwriters do, there is an opportunity to loosen the reigns a bit and reduce friction with pre-approval campaigns. Nearly all our competitors are doing pre-approval campaigns, and we are stunting our growth if we aren't proactively presenting our qualified members with loan offers. We need to show them what they qualify for and make it easy on them to proceed with a loan. If we don't, someone else will. This will help reduce friction since pre-approvals make the lending process easy with less hassle. It will also dip our toes in the water of loan automation since the underwriters would not be manually reviewing these loans.

Action Steps:

Action Step	**Cost/Revenue**	**Completed by**
1. Partner with Savvy Money and Alkami to implement pre-approval campaigns. Include expense in the 2027 budget.	$2,500 implementation fee $48,500 annual cost **Will be included in 2027 budget.*	December 31, 2026
2. Assemble project team once the Board of Directors approves the 2027 budget at the December 2026 Board meeting.	No immediate impact on the cost or revenue for this step.	January 30, 2027
3. Begin project implementation and prepare marketing collateral.	No immediate impact on the cost or revenue for this step since existing resources will be utilized.	June 30, 2027
4. Launch pre-approval campaign prior to the holiday shopping season.	No immediate impact on the cost or revenue for this step since existing resources will	October 31, 2027

	be utilized and the implementation cost has already been accounted for.	
5. Monitor results and make adjustments to reach a goal of a 10% lift above projected regular market growth for 2027. I estimate our credit card and unsecured loan portfolio to grow to $15,593,288* in 2027, and a 10% lift would result in $1,559,329. The Weighted Average Rate for credit cards is estimated to be 11.20% in 2027. **The new Natomas Branch is expected to bring in $1,176,000 in credit card balances in 2027 and will be reflected in my financial projections. However, that is not included in the calculation above since it is a de novo branch and outside of our historical growth. The 10% lift on the credit card portfolio is calculated above the projected regular market growth.*	$174,645 interest income	December 31, 2027
6. Launch pre-approval campaign at the beginning of the summer travel season.	No immediate impact on the cost or revenue for this step since existing resources will be utilized and the implementation cost has already been accounted for.	June 1, 2028
7. Monitor results and make adjustments to reach a goal of a 10% lift above projected regular market growth for 2028. I estimate our credit card and unsecured loan portfolio to grow to $21,974,191* in 2028, and a 10% lift would result in $2,197,419. The Weighted Average Rate for credit cards is estimated to be 10.95% in 2028. **The new Natomas Branch is expected to bring in $680,000 in credit card balances in 2028 and will be reflected in my financial projections. However, that is not included in the calculation above since it is a de novo branch and outside of our historical*	$240,617 interest income	September 30, 2028

growth. The 10% lift on the credit card portfolio is calculated above the projected regular market growth.		

Expected Impact and Results:

According to a case study by Savvy Money, PCM Credit Union saw a 67% lift in its credit card portfolio through a pre-approval campaign (Savvy Money, 2024). Realistically, I know we would likely not see results as high as PCM Credit Union because even with our underwriters not manually reviewing these loans, we still have conservative underwriting criteria. Given that, I estimate we will see a 10% lift on our credit card portfolio with a pre-approval campaign.

In 2027, I estimate that the pre-approval campaign will generate $1,559,329 in new credit card balances. I anticipate the Weighted Average Rate for credit cards will be 11.20%, which results in interest income of $174,645. However, to take it a step further and consider the full ROI, I will also incorporate the loan spread and expenses. I anticipate cost of funds to be approximately 0.60% in 2027, which puts the loan spread at 10.60%, and the first-year revenue at $165,289. The annual cost, including the implementation fee, is $51,000, which results in a positive ROI of 224%.

In 2028, I estimate the pre-approval campaign will generate $2,197,419 in new credit card balances. I anticipate the Weighted Average Rate for credit cards will be 10.95%, which results in interest income of $240,617. To again take it a step further and consider the full ROI, I will also incorporate the loan spread and expenses. I anticipate cost of funds to be approximately 0.61% in 2027, which puts the loan spread at 10.34%, and the first-year revenue at $227,213. The annual cost is $48,500 (removing implementation fees that were already paid in 2027), which results in a positive ROI of 368%.

Strategic Goal #5

Goal Title: Improve Deposit Products for Generation Z

Goal Statement: Create a suite of deposit products geared towards Generation Z to grow total share balances $20 million by December 31, 2028.

Goal Explanation and Strategic Rationale:

In the peer comparison section, I analyzed our peers' share growth, reviewed their deposit products, and examined how that impacted asset growth. I expanded on the type of deposit products they offer and how they are far more competitive than Yolo Federal's. In the strategic inflections section, I shared perspectives on the changing competitive landscape. I included emerging threats, such as celebrities like MrBeast, partnering with fintech companies to offer attractive products to younger generations. I also shared statistics about how younger generations place great importance on feeling safe. In the SWOT analysis, I evaluated our return to savers score through Callahan and found that we are imbalanced, returning value to borrowers rather than savers.

To solve the issues I previously described, I'm proposing the development of a suite of products geared towards Generation Z. This will be a 3-pronged approach that features high-yield savings, round-up transfers, and a share secured credit card. All three products will be branded under one name, Verb Money Account, and will feature a cool design and fun colors that will attract a younger generation. A verb means action, and taking action is the intention behind these products. Their savings will grow when they take action with their Verb Debit Card, which is enabled with the round-up feature. Their Verb Debit Card transactions will round up to the nearest dollar, and the difference will be transferred to their Verb High-Yield Savings account, which will feature a 3% APY. The only way to deposit money into their Verb High-Yield Savings is through the automatic transfer from their Verb Debit Card after a transaction has been rounded up. The other component of the Verb Money Account is helping them establish a share secured credit card that will be rebranded as a Verb Secured Credit Card. The Verb Secure Credit Card will require a refundable deposit ($250-$5,000) and will help them establish credit. The Verb Money Account suite of products would ensure we are returning value to our savers, increasing card utilization, and helping young people establish credit with a financial institution they can trust.

Action Step	**Cost/Revenue**	**Completed by**
1. Product Development Committee to research and prepare product proposal for ALCO.	No impact to cost or revenue	June 30, 2026
2. Once ALCO approves, present the product proposal to the Board for their approval.	No impact to cost or revenue	July 31, 2026
3. The Product Development Committee will begin project implementation once the Board approves. This includes building and testing the product within our core system.	No impact to cost or revenue	December 31, 2026
4. Communicate new product to employees and begin staff training.	No impact to cost or revenue	July 30, 2027
5. Marketing will rebrand the product and begin updating existing marketing materials.	$25,000 for branding, newly designed cards, and updating printed marketing collateral	July 30, 2027
6. Verb Money Account product launch	No impact to cost or revenue	August 1, 2027
7. Product launch and begin marketing campaign. Marketing campaign expected to drive in $5,000,000 in deposits. • Verb Secured Credit Card-$2,500,000 • Verb High-Yield Savings-$135,000 (Earning 3% APY)	$10,000 for marketing campaign $4,050 dividend expense	December 31, 2027

8. Implement targeted member outreach contest with employees to grow $3,000,000 in deposits. • Verb Secured Credit Card-$1,500,000 • Verb High-Yield Savings-$256,500	$3,000 for employee contest* $7,695 dividend expense **We already keep funds in our budget for employee contests, so I will be taking the $3,000 from our existing budget and will not need to add to it.*	June 30, 2028
9. Conduct another marketing campaign expected to drive in $12,000,000 in deposits. • Verb Secured Credit Card-$6,000,000 • Verb High-Yield Savings-$702,000	$20,000 for marketing campaign $21,060 dividend expense	December 31, 2028

Expected Impact and Results:

The Verb Money account is designed for Generation Z, so it's important to know how many people in that category live in the markets we are proactively targeting. According to CUAnalyst, approximately 400,000 people in that age range live in the markets we are targeting. If we achieve at least 2% of that target market, we will grow by 8,000 members. Additionally, New York Life's 2025 New Year Outlook Wealth Watch survey found that Generation Z has an average savings of $6,164.67 (New York Life, 2025). I compared that to current Generation Z members at Yolo Federal and found the average deposit balance to be $5,601 (Yolo Federal Credit Union, 2026). To remain conservative, I'll assume an average deposit balance of $5,000 for the additional 8,000 members we expect to grow by, resulting in an additional $40,000,000. While it's possible to grow by 8,000 members and $40,000,000, I'm being realistic and don't expect that to happen in the next 3 years. I will reduce that by half and expect to grow deposits from Generation Z to $20,000,000 by December 31, 2028. Total shares were at $347,852,153 as of 4Q2025 and this would grow total shares to $367,852,153 (Callahan and Associates, 2026).

The $20,000,000 in deposits would likely be split between securing their Verb Secured Credit Card and their checking account that's tied to their Verb Debit Card. Only the difference in their transactions will be rounded up and transferred to their Verb High-Yield Savings. It's difficult to quantify exactly how much will be transferred to their Verb High-Yield Savings. However, based on existing data for our current round up program, the average member automatically transfers approximately $45 per month to their regular savings account by rounding up purchases, resulting in $540 transferred per member per year. This would equate to a total of $135,000 in the Verb High-Yield Savings portfolio by December 31, 2027, and grow to $1,093,500* by December 31, 2028. The remaining deposits would be split between the Verb Secured Credit Card and their checking account linked to a Verb Debit Card.

Deposits can be expensive, but it's important for marketing to understand how much it costs to generate deposits minus the rate we are earning when we lend out those deposits to determine the ROI. In 2027, I estimate the Weighted Average Rate on our loan portfolio to be 5.22%. Since we would be paying 3% to generate $135,000 in the Verb High-Yield Savings, that means our spread is 2.22%, and our first-year revenue would be $2,997 for that product. The remaining $4,865,000 would be split between savings and checking, and I'll use the higher rate of 0.03% to remain conservative, which means our spread is 5.19%, and our first-year revenue is $252,494. The combined first-year revenue for those deposits is $255,491. For the expenses in 2027, I will include $25,000 for the rebranded cards and $10,000 for the marketing campaign. This results in a positive ROI of $630%.

**A detailed description for how I arrived at this number will be included in the Appendix.*

In 2028, I estimate the Weighted Average Rate on our loan portfolio to be 5.33%. Since we would be paying 3% to generate $958,800 in the Verb High-Yield Savings, that means our spread is 2.33%, and our first-year revenue would be $22,340 for that product. The remaining $14,041,500 would be split between savings and checking, and I'll use the higher rate of 0.03% to remain conservative, which means our spread is 5.30%, and our first-year revenue is $744,200. The combined first-year revenue for those deposits is $766,540. For the expenses in 2028, I will include the $3,000 for the employee contest and the $20,000 for the marketing campaign. This results in a positive ROI of 3,233%.

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. 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

	Dec-2022	Dec-2023	Dec-2024	Dec-2025	Dec-2026	Dec-2027	Dec-2028
Loans							
Consumer Loans	$80,130,625	$93,475,240	$91,611,951	$136,495,865	$150,145,451	$164,655,633	$178,458,527
Real Estate Loans	$151,642,053	$151,757,952	$148,330,739	$145,023,209	$152,274,369	$174,712,773	$193,433,976
Credit Card & Unsecured Loans	$12,157,640	$14,776,213	$14,722,601	$14,109,977	$14,815,476	$20,828,617	$32,351,610
Other Loans	$2,561,617	$3,044,349	$3,407,096	$3,232,297	$3,458,558	$9,644,657	$15,430,783
Total Loans **(A)**	$246,491,935	$263,053,754	$258,072,387	$298,861,348	$320,693,854	$369,841,680	$419,674,896
Allowance for Loan Loss **(B)**	-$1,766,488	-$2,400,626	-$2,008,259	-$2,432,853	-$2,676,138	-$2,943,752	-$3,238,127
Investments & Cash **(C)**	$144,355,778	$141,784,872	$114,423,142	$85,300,911	$81,918,598	$76,572,806	$83,047,115
Fixed & Other Assets **(D)**	$21,434,089	$20,584,959	$20,877,677	$21,620,405	$22,389,556	$23,186,069	$24,010,919
NCUA or ASI Deposit **(E)**	$3,520,109	$3,438,079	$3,531,698	$3,330,861	$3,474,903	$3,977,346	$4,511,751
Total Assets (A-B+C+D+E)	**$414,035,423**	**$426,461,038**	**$394,896,645**	**$406,680,672**	**$425,800,771**	**$470,634,149**	**$528,006,553**
Deposits							
Checking	$94,125,065	$91,336,984	$89,854,089	$96,412,844	$103,161,743	$121,250,065	$140,861,112
Savings	$192,230,020	$165,948,593	$160,765,102	$168,363,643	$176,781,825	$196,546,916	$219,106,710
Money Markets	$64,010,334	$44,458,201	$41,253,993	$39,277,097	$41,240,952	$53,201,000	$65,339,050
Certificates	$15,691,653	$58,564,103	$51,005,759	$35,818,258	$36,534,623	$39,529,316	$41,520,739
Other Deposits	$9,104,819	$8,736,841	$9,844,014	$7,980,311	$8,060,114	$8,140,715	$8,201,770
Total Deposits **(A)**	$375,161,891	$369,044,722	$352,722,957	$347,852,153	$365,779,257	$418,668,013	$475,029,381
Other Liabilities **(B)**	$5,652,406	$21,464,683	$2,642,631	$14,055,335	$14,755,969	$4,491,529	$1,367,164
Net Worth **(C)**	$43,958,533	$46,457,336	$48,606,412	$50,959,537	$51,513,762	$53,785,307	$57,983,815
Other Equity **(D)**	$0	$0	$0	$0	$0	$0	$0
Unrealized Gain/(Loss) **(E)**	-$10,737,407	-$10,505,703	-$9,075,355	-$6,186,353	-$6,248,217	-$6,310,700	-$6,373,807
Other Equity							
Total Liabilities & Equity (A+B+C+D+E)	**$414,035,423**	**$426,461,038**	**$394,896,645**	**$406,680,672**	**$425,800,771**	**$470,634,149**	**$528,006,553**

Income Statement

	Dec-2022	Dec-2023	Dec-2024	Dec-2025	Dec-2026	Dec-2027	Dec-2028
Net Loan Interest Income	$8,591,495	$11,175,375	$12,924,124	$14,089,348	$15,228,740	$18,012,970	$21,056,559
Investment Income	$2,326,236	$3,484,725	$4,620,622	$3,439,898	$2,560,889	$2,304,796	$2,373,912
Fee & Other Income	$3,971,896	$4,189,912	$4,406,700	$4,448,676	$4,389,351	$5,024,016	$5,700,353
Total Gross Income (A)	**$14,889,627**	**$18,850,012**	**$21,951,446**	**$21,977,922**	**$22,178,980**	**$25,341,781**	**$29,130,825**
Compensation & Benefits	$5,745,806	$6,853,355	$6,901,344	$7,918,196	$8,741,098	$9,944,405	$11,038,289
Travel and Conference	$99,070	$74,158	$109,784	$150,120	$172,638	$198,534	$228,314
Office Occupancy	$1,057,749	$1,140,962	$1,186,903	$1,178,915	$1,134,857	$1,282,708	$1,321,189
Office Operations	$2,641,304	$3,096,411	$3,793,376	$3,898,123	$3,972,611	$4,122,251	$4,243,344
Marketing	$403,930	$475,423	$712,211	$755,194	$777,850	$822,850	$662,850
Loan Servicing	$659,633	$655,638	$551,128	$821,738	$944,999	$1,086,748	$1,249,760
Professional & Outside Services	$1,673,985	$1,691,409	$2,815,378	$1,765,411	$1,818,373	$1,872,923	$1,929,110
Member Insurance and Other Operating Expense	$213,600	$186,822	$213,440	$267,459	$275,483	$283,747	$292,259
Total Operating Expense (B)	**$12,495,077**	**$14,174,178**	**$16,283,564**	**$16,755,156**	**$17,837,908**	**$19,614,165**	**$20,965,114**
Non-Operating Gains/(Losses) **(C)**	-$808,013	$144,987	$558,211	$401,983	-$182,000	$200,000	$200,000
Dividends	$265,347	$655,772	$2,860,264	$2,083,126	$2,147,118	$2,525,288	$2,885,932
Interest on Borrowed Money	$14	$528,454	$766,434	$335,998	$440,000	$0	$0
Total Cost of Funds (D)	**$265,361**	**$1,184,226**	**$3,626,698**	**$2,419,124**	**$2,587,117**	**$2,525,288**	**$2,885,932**
Provision for Loan Loss **(E)**	-$247,914	-$517,052	-$450,317	-$843,099	-$1,017,729	-$1,130,783	-$1,281,271
Net Income (A-B+C-D-E)	**$1,073,262**	**$3,119,543**	**$2,149,078**	**$2,362,526**	**$554,225**	**$2,271,545**	**$4,198,507**

Key Data & Ratios

	Dec-2022	Dec-2023	Dec-2024	Dec-2025	Dec-2026	Dec-2027	Dec-2028
Net Worth Ratio (%)	10.62%	10.99%	12.36%	12.53%	12.10%	11.43%	10.98%
Return on Assets (%)	0.26%	0.74%	0.52%	0.59%	0.13%	0.51%	0.84%
Asset Growth (%)	-0.09%	3.00%	-7.40%	2.98%	4.70%	10.53%	12.19%
Deposit Growth (%)	1.56%	-1.63%	-4.42%	-1.38%	5.15%	14.46%	13.46%
Cost of Fund (%)	0.07%	0.31%	0.98%	0.68%	0.62%	0.56%	0.58%
Loan Growth (%)	8.28%	6.72%	-1.89%	15.81%	7.31%	15.33%	13.47%
Loan Yield (%)	3.62%	4.39%	4.96%	5.06%	4.92%	5.22%	5.33%
Loan Delinquency (%)	0.31%	0.77%	0.83%	0.60%	0.65%	0.70%	0.80%
Loan Charge Offs (%)	0.06%	0.19%	0.32%	0.29%	0.25%	0.25%	0.25%
Member Growth (%)	1.17%	3.58%	-0.73%	5.26%	3.73%	16.71%	19.51%
Loans to Shares (%)	65.70%	71.28%	73.17%	85.92%	87.67%	88.34%	88.35%

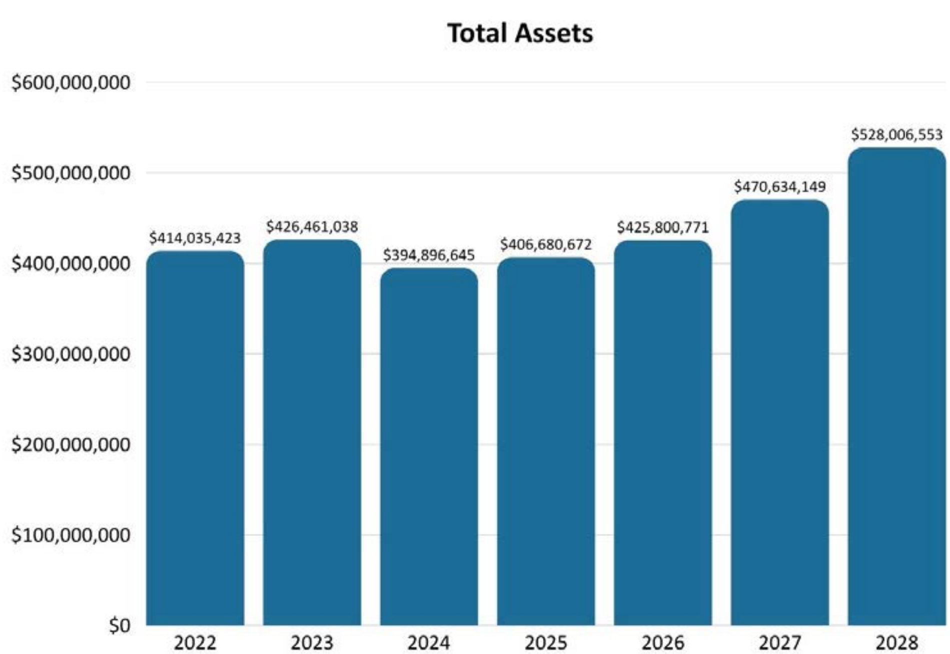
B. 7-Year Graphs

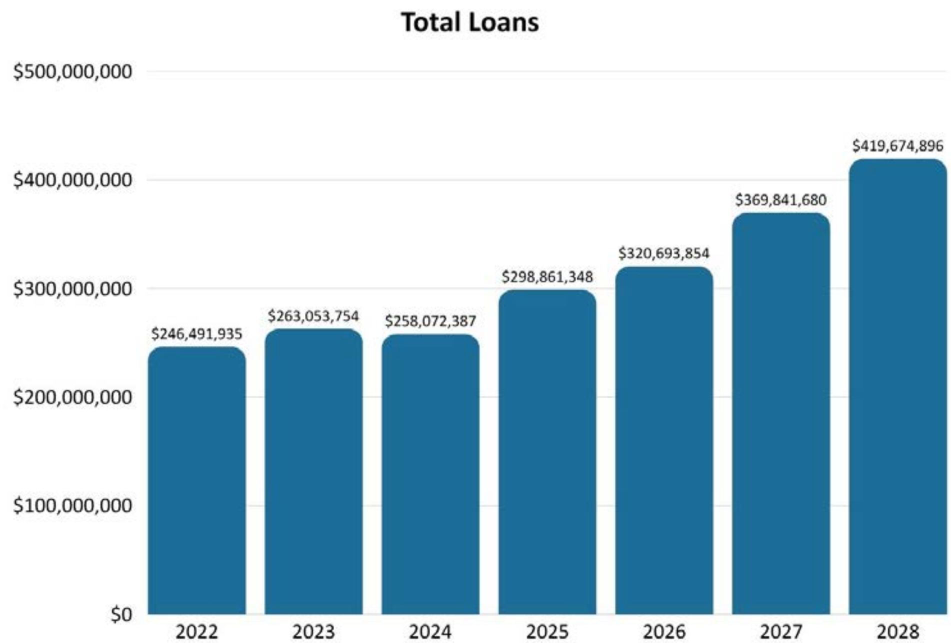
Create bar or line charts that graphically represent trends across all 7 years (2022-2028) of data from the Balance Sheet, Income Statement and Key Ratios tables.

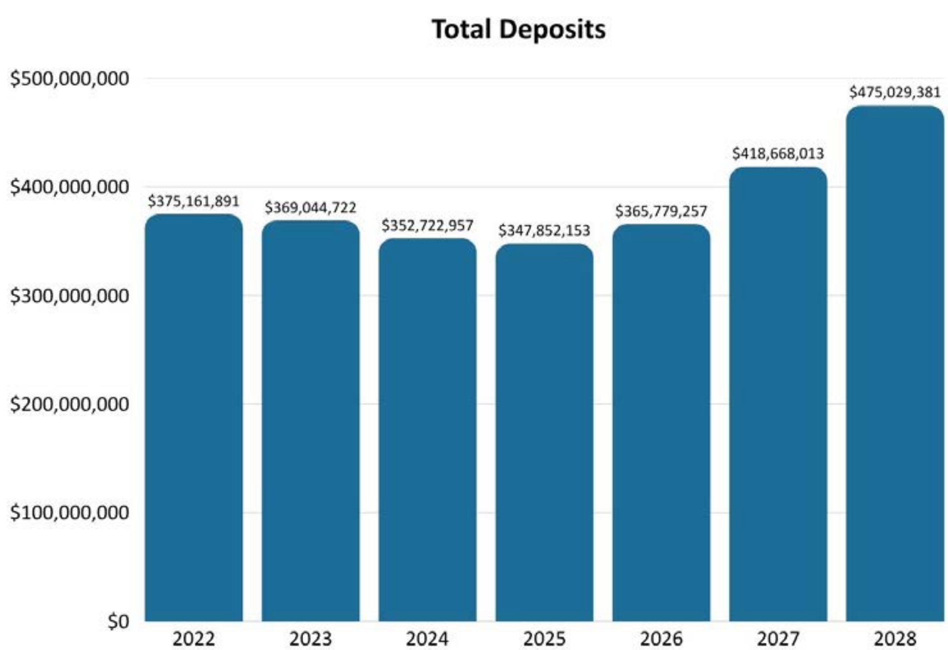
Since Peer-to-Peer is solely used to analyze historical information, that tool cannot be effectively utilized to produce these graphs. You will need to find an alternative means to produce them.

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 Loans
$500,000,000
$400,000,000
$300,000,000
$200,000,000
$100,000,000
$0
$246,491,935
$263,053,754
$258,072,387
$298,861,348
$320,693,854
$369,841,680
$419,674,896
2022
2023
2024
2025
2026
2027
2028


Total Deposits
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$400,000,000
$300,000,000
$200,000,000
$100,000,000
$0
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$369,044,722
$352,722,957
$347,852,153
$365,779,257
$418,668,013
$475,029,381
2022
2023
2024
2025
2026
2027
2028


Equity
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
$43,958,533
$46,457,336
$48,606,412
$50,959,537
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2022
2023
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2026
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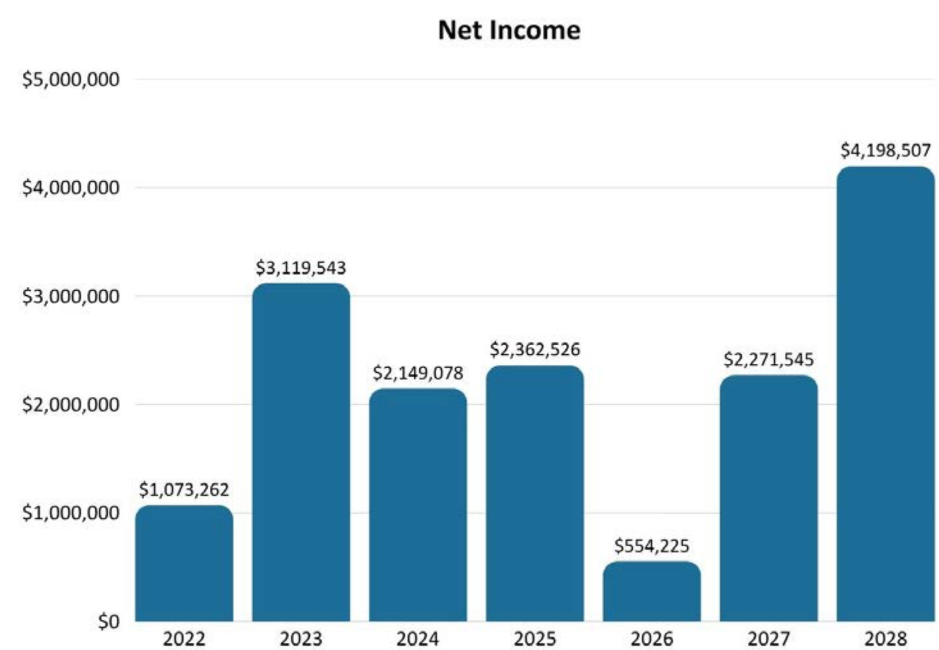
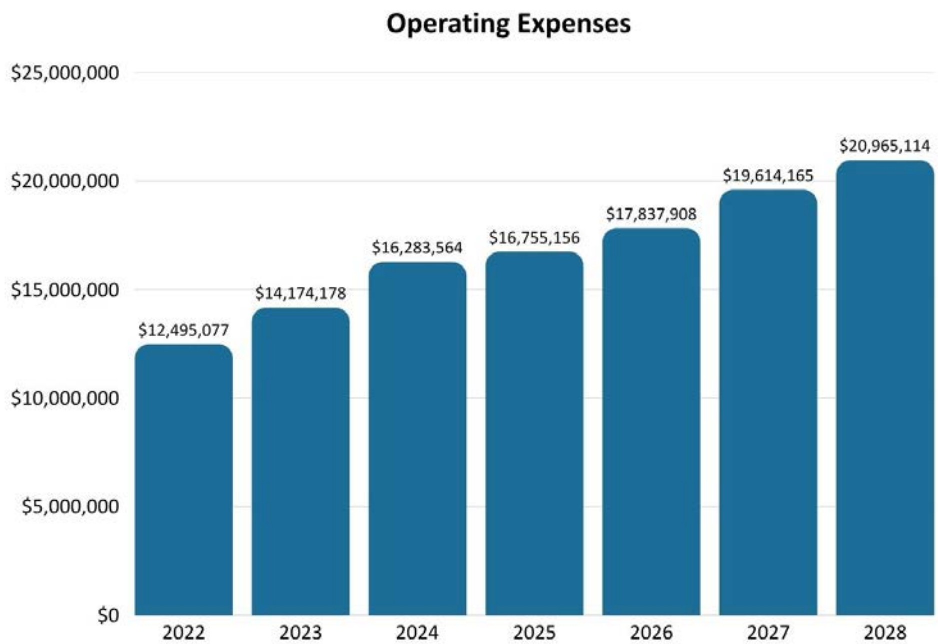
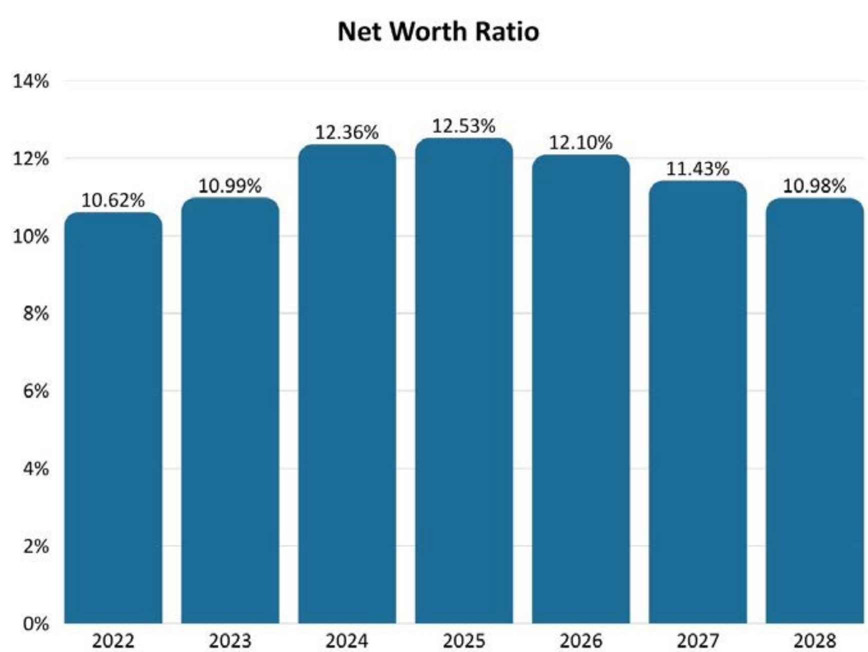
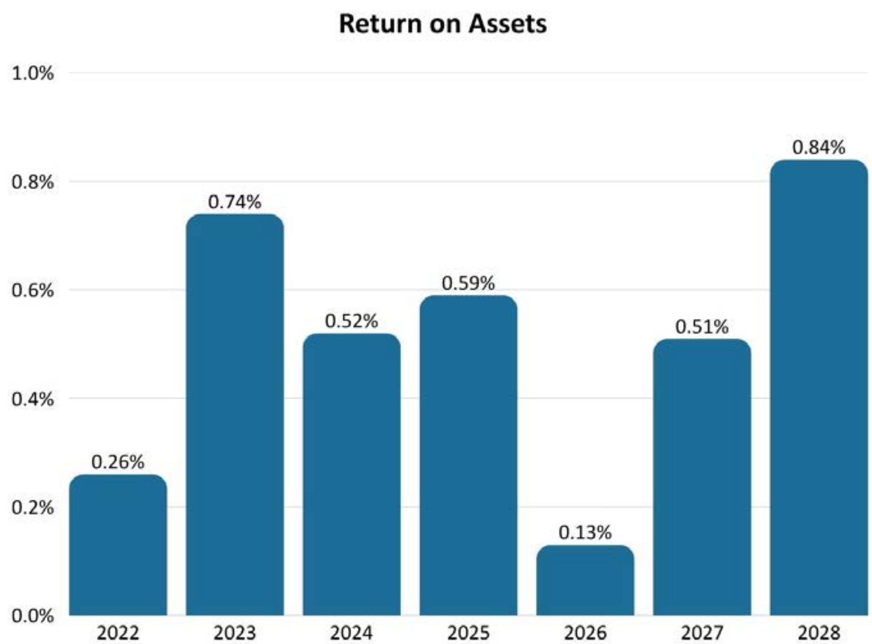
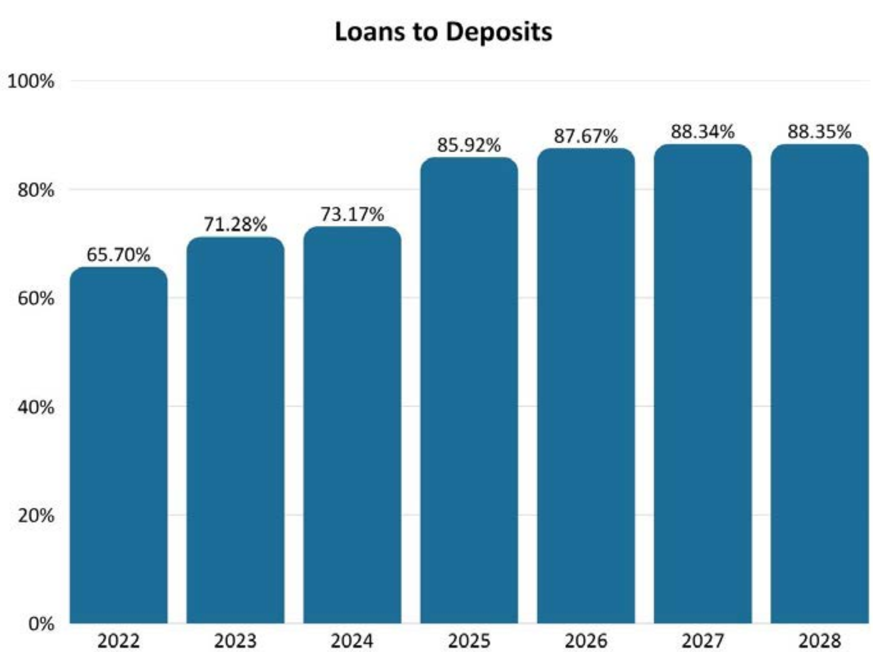
2028


Net Income
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$0
$1,073,262
$3,119,543
$2,149,078
$2,362,526
$554,225
$2,271,545
$4,198,507
2022
2023
2024
2025
2026
2027
2028


Operating Expenses
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
$12,495,077
$14,174,178
$16,283,564
$16,755,156
$17,837,908
$19,614,165
$20,965,114
2022
2023
2024
2025
2026
2027
2028


Net Worth Ratio
14%
12%
10%
8%
6%
4%
2%
0%
10.62%
10.99%
12.36%
12.53%
12.10%
11.43%
10.98%
2022
2023
2024
2025
2026
2027
2028


Return on Assets
1.0%
0.8%
0.6%
0.4%
0.2%
0.0%
0.26%
0.74%
0.52%
0.59%
0.13%
0.51%
0.84%
2022
2023
2024
2025
2026
2027
2028

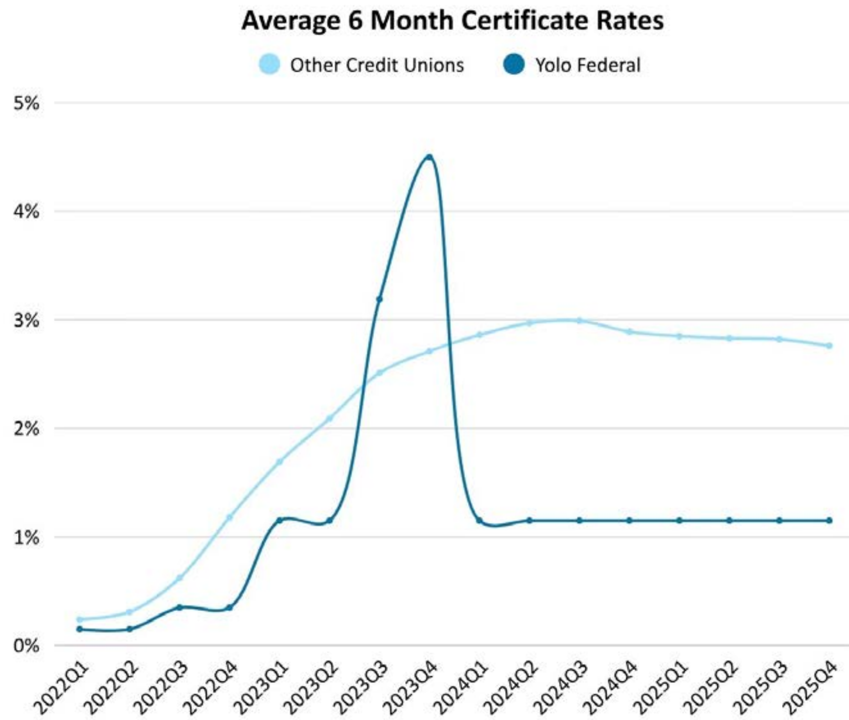

Loans to Deposits
100%
80%
60%
40%
20%
0%
65.70%
71.28%
73.17%
85.92%
87.67%
88.34%
88.35%
2022
2023
2024
2025
2026
2027
2028

C. Financial Data Analysis

1. 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.

Yolo Federal's asset size grew 3% from 2022 to 2023, but declined 7% from 2023 to 2024, before ticking back up 3% in 2025. Unfortunately, our total asset size declined from 2022 to 2025 and is below average compared to other credit unions within our same asset size. Just looking at 2025, credit unions of a similar asset size grew total assets by 5.04% as of Q42025, and Yolo Federal grew total assets by 2.98% (Callahan, 2026). A contributing factor to the decline in assets is the outflow of deposits due to rate competition in our market. We began to see an outflow of total deposits in 2023 (down 2% from 2022), 2024 (down 4% from 2023), and 2025 (down 1% from 2024) as consumer spending returned to normal and deposit rates began to increase. I've mentioned in previous sections that Yolo Federal typically lags the market on deposit rates, which also contributed to deposit outflows. Although total deposits decreased year over year from 2022 to 2025, we did have a 273% spike in certificates from 2022 to 2023 due to a certificate promotion with a special rate. The chart below shows the gap that typically exists between Yolo Federal's deposit rates compared to other credit unions, as well as the rate spike in 2023 from the special certificate promotion that generated a significant influx of deposits.



(NCUA, 2026)

Loans grew 7% from 2022 to 2023, with a 2% dip in 2024, primarily due to an increase in members paying off their real estate and consumer loans. I noted in earlier sections that there has been an influx of people moving out of California due to the high cost of living, and our balance sheet certainly shows the impact of that. There was a 16% increase in loans in 2025 that resulted from a rate reduction on auto loans. We boasted the best auto loan rate in our market, which drove in a significant number of new loans and new members. Savings increased nearly 5% in 2025, which was directly correlated to the increase in new CUDL members. We saw an outflow of certificates in 2024 (13% decline) and 2025 (30% decline) as existing certificates began maturing. Despite offering more certificate promotions on other terms, it became increasingly difficult to grow deposits in 2025, and our certificate promotions were primarily working to retain existing deposits. The 3% asset growth in 2025 (from 2024) was largely driven by the significant growth from indirect loans.

We continued adding to equity year over year with a 16% growth from 2022 to 2025. Despite rising operating expenses, we were able to grow net income and equity due to increased interest income and investment income. The office operations expense grew 17% in 2023 (from 2024), 23% in 2024 (from 2023), and then stabilized with a 3% growth in 2025 (from 2024). The major growth in expenses in 2023 and 2024 was due to the major technology conversion we completed to convert our core, online banking, ITMs, and several smaller technology platforms. There was also a major increase in the marketing budget of 50% in 2024 (from 2023) and a modest increase of 6% in 2025 (from 2024). The drastic change in the marketing budget was due to our field-of-membership expansion and marketing to a new community. It also includes a 3-year partnership agreement with Major League Baseball for the Athletics, who are temporarily playing in Sacramento. We also saw a 66% increase in professional and outside services in 2024 (from 2023), which declined 37% in 2025 (from 2024). There was an unexpected vacancy in our accounting department, coupled with an increased workload because of our technology conversion, and we needed to temporarily hire outside support. Fortunately, our loan interest income continued to grow 30% in 2023 (from 2022), 16% in 2024 (from 2023), and 9% in 2024 (from 2024) due to the continued growth in auto lending. Another important component of the growth in net income and equity was our investment income. Our CFO began exploring new options for investments, which resulted in 50% growth in 2023 (from 2022) and 33% in 2024 (from 2023). However, there is a noticeable 26% dip in investment income in 2025 (from 2024) that was driven by our need to retain deposits to fund the increased loan demand. Our loan to share ratio remained consistent in 2022 (65.70%), 2023 (71.28%), and 2024 (73.15) but spiked in 2025 (85.92%). The loan to share ratio grew due to the decline in total deposits and growth in total loans in 2025.

The continued growth of our total assets and equity resulted in a peak net worth ratio in 2025 of 12.53% compared to 10.62% in 2022. ROA also improved to 0.59% in 2025 compared to 0.26% in 2022. Although I've explained in detail what contributed to this growth, I will land this rocket ship by saying the net worth ratio and ROA growth were fueled by decreased asset size, increased loan interest income and investment income, and controlling our cost of funds.

2. 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?

Macroeconomics

Before inputting my projections, I researched and estimated where I think the economy is heading. The Federal Open Market Committee (FOMC) dot plot map shows a potential rate cut in 2026, another cut in 2027, and holding steady in 2028. Inflation is currently elevated, and developments in the Middle East are creating uncertainty, so I expect rate cuts in 2026 and 2027. However, I don't anticipate this having a major impact on my projections. Historically, Yolo

Federal hasn't immediately felt the impact of a rate cut until 6-12 months after it occurs. I expect a rate cut toward the end of 2026, so the impact would likely be seen in 2027. Given that, I kept our regular growth rate for loans and deposits in 2026 similar to what we typically budget each year. In 2027 and 2028, I increased the regular growth rate for loans by 25 basis points (each year) but only on certain products. We typically see an increase in loan production when rates are cut, which is why I increased the loan growth rate. I subsequently reduced interest rates on certain loan products by 25 basis points in 2027 and again in 2028. For deposits, I kept the regular market growth rates similar to what we typically budget for each year. Historically, we have grown deposits when rates are cut, likely because we are a trusted local financial institution and people feel safe parking their money with us. It also takes some time for that to happen, and I don't expect to see an immediate impact on growth. With that said, I reduced certain deposit rates by 25 basis points in 2027 and 2028 to account for projected rate cuts. I will explain in more detail below, in the deposit and loan sections, why I adjusted rates only on certain products.

New Branch

Another important aspect I needed to consider is including the projected growth for our new Natomas Branch, which we are building in Sacramento, CA. This branch is expected to be completed in July 2026, so I have included it in my projections to ensure I have an accurate picture of our financials. I have completed a market share projection for this new market and included those results within the deposit and loan sections. The suggested market share penetration for Natomas is 3.1%-3.8%, and I selected a midpoint of 3.35% to formulate those projections. That is based on us earning our "fair share" of the Natomas market and distributed conservatively over the years 1 and 2. The market data was retrieved from Fiserv's CUAnalyst and Bancography software.

Provision for Loan Loss and Allowance for Loan Less

Although our underwriting criteria isn't changing, we are moving into a new market with the Natomas Branch, increasing production, growing business loans, and conducting pre-approval campaigns for credit cards. To reflect those changes, I've increased our charge-off ratio to 25%, and the Provision for Loan Loss/Allowance for Loan Loss projections align with that rate for 2026-2028.

2026 Assumptions

Total Loan Growth—7.31%

Consumer Loans—Although we grew nearly 50% in consumer loans in 2025, that was an anomaly due to our decision to reduce auto loan rates and offer the best rate in our market. Loan growth has already begun to slow, and while I expect it to remain elevated, I don't see it being at the level it was in 2025. Particularly since other credit unions in our market have reduced their auto loan rates and are now more closely aligned with ours. Given this, I applied a 10% growth rate to increase Consumer Loans to $150,145,451.

Real Estate Loans—America's Credit Unions published an economic forecast report that projects loan growth at 5.5% for 2026 (America's Credit Unions, 2025). I decided to reduce that to 5% because the California housing market is weak, and it has been challenging to grow real estate loans. Although our real estate portfolio declined by 2% in 2025, we recently reduced mortgage rates, and are seeing growth in our home equity products. A 5% growth is reasonable given the economic forecast, our reduced mortgage rates, and the growth in home equity utilization. This will increase Real Estate Loans to $152,274,369.

Credit Card and Unsecured Loans—Credit card and unsecured loan growth has been declining over the past few years. We are making some improvements to those products in 2026, and with America's Credit Unions projecting 5.5% growth in loans, I believe a 5% projection is conservative and will increase Credit Card and Unsecured Loans to $14,815,476.

Other Loans—This is a unique outlier because we recently implemented a Buy Now Pay Later product for our members that can only be accessed through online banking. Although loan projections are expected to be 5.5%, I'm assuming we will see 7% growth in Other Loans due to our Buy Now Pay Later product. This will increase Other Loans to $3,458,558.

Net Loan Interest Income Growth—8.09%

Although I project the Federal Reserve will cut rates in 2026, I don't expect the impact until 2027 and have maintained our current Weighted Average Rate for each of these loan products.

- Consumer Loans
    - Net Growth: $13,649,586
    - Weighted Average Rate: 5%
    - Interest Income: $682,479
- Real Estate Loans
    - Net Growth: $7,251,160
    - Weighted Average Rate: 5%
    - Interest Income: $362,558
- Credit Card and Unsecured Loans

- Net Growth: $705,499
- Weighted Average Rate: 11.45%
- Interest Income: $80,780

- Other Loans
  - Net Growth: $226,261
  - Weighted Average Rate: 6%
  - Interest Income: $13,576

Total Deposit Growth—5.15%

Checking—In 2025, we saw 7.30% growth in our Checking portfolio. That is higher than normal, but we recently implemented a new digital onboarding program that includes a widget to switch your direct deposit easily, so I expect to see elevated growth for the Checking portfolio and am projecting a 7% growth rate that will increase Checking to $103,161,743.

Savings—America's Credit Unions economic forecast report projects deposit growth at 6% in 2026. We saw a growth rate of 4.73% in 2025. Given that my strategic goals for deposit growth won't be implemented until 2027, I project a 5% growth rate that will increase Savings to $176,781,825.

Money Markets—We saw a 4.79% decline in our Money Market portfolio in 2025. However, we are preparing to launch a new Money Market product in 2026, so I expect to see a more normalized growth rate of 5%, which will increase Money Markets to $41,240,952.

Certificates—Although America's Credit Unions projects a deposit growth rate of 5%, we have continuously struggled to grow Certificates. I don't expect a 5% growth rate, but we do have new Certificate promotions in 2026. I project a minimal 2% growth, which will increase Certificates to $36,534,623.

Other Deposits—These typically follow a similar trend to Certificates and have minimal growth. To remain conservative, I'm projecting a 1% growth rate, which will bring Other Deposits to $8,060,114.

Total Dividend Growth—3.07%

Although I project the Federal Reserve will cut rates in 2026, I don't expect the impact until 2027, and I have maintained our current rates for each of these deposit products.

- Checking
  - Net Growth: $6,748,899
  - Rate: 0.01%
  - Dividends: $675
- Savings
  - Net Growth: $8,418,182
  - Rate: 0.03%
  - Dividends: $2,525
- Money Markets
  - Net Growth: $1,963,855
  - Weighted Average Rate: 2%
  - Dividends: $39,277
- Certificates
  - Net Growth: $716,365

    - Weighted Average Rate: 3%
    - Dividends: $21,491
- Other
    - Net Growth: $79,803
    - Rate: 0.03%
    - Dividends: $24

Fee & Other Income—Historically, fee and other income have been approximately 0.012% of our total deposits, as it is primarily driven by fees on our deposit products. Given that, I calculated 0.012% of our total deposits in 2026, resulting in a Fee & Other Income total of <u>$4,389,351</u>.

Operating Expenses— Impacted by Strategic Goals #1 & #3

Compensation & Benefits—I expect to save $104,000 in compensation and benefits by closing the Sycamore Pointe Branch and having 2 employees fill currently vacant positions. The branch would close in July 2026, so I projected 5 months of savings and reduced Compensation & Benefits by $43,333 for a subtotal of $7,874,863. I then applied an 11% increase for the annual adjustment, which is higher than other financial institutions due to our CalPERS pension and premium benefits plan, for a Compensation & Benefits total of <u>$8,741,098.</u>

Office Occupancy—I expect to save $107,712 in Office Occupancy expenses by closing the Sycamore Pointe Branch and eliminating the need to pay for utilities and branch supplies. The branch would close in July 2026, so I projected 5 months of savings and reduced Office Occupancy by $44,880 for a subtotal of $1,134,035. Our monthly lease amount is $4,946.40, so I have reduced Office Occupancy by $24,732 to account for the 5 months of closure, for a subtotal of $1,109,303. Our monthly leasehold improvements amount is $1,500, so I have reduced Office Occupancy by $7,500 for the 5 months of closure, for a subtotal of $1,101,803. I then applied a 3% increase to the remaining Office Occupancy expenses to account for a normal annual adjustment, bringing the total Office Occupancy costs to $1,134,857.

Office Operations—I expect to save $114,072 in Office Operations expenses by closing the Sycamore Pointe Branch and transferring equipment to the brand new Natomas Branch opening in July 2026. The cost of the equipment for the Natomas Branch was already included in the 2025 budget, so this can be removed since the additional equipment will no longer be needed. The Sycamore Pointe Branch would close in July 2026, so I projected 5 months of savings and reduced Office Operations by $47,530, for a subtotal of $3,850,593. I then applied a 3% increase to the remaining Office Operations expenses to account for a normal annual adjustment, for a subtotal of $3,966,111. Finally, I included the Business Online Banking implementation fee. The implementation fee is $26,000, but I annualized it for the 4-year contract, which resulted in an expense of $6,500 for 2026. This brought total Office Operations expenses to $3,972,611.

Non-Operating Gain/Loss-The early termination fee for our Sycamore Pointe Branch lease agreement requires us to pay the total monthly lease amount for the remainder of the contract. I calculated that this would cost us $252,000 that we will need to recognize as a direct expense in 2026. We will also need to write off the leasehold improvements for the remodel we completed at that branch years ago. The remaining amount is $130,000 that we will need to recognize in 2026. We had a $401,983 gain from investments in 2025, but I expect that to slow by approximately 50% in 2026 and hold steady in 2027 and 2028. Given that, I've applied a

$200,000 gain in 2026. The total loss is $382,000, but we have a gain of $200,000, resulting in a total Non-Operating Gain/Loss of -$182,000.

Interest on Borrowed Money—I expect we will still have an $11 million loan with the Federal Home Loan Bank, as liquidity remains tight. The loan has a 4% rate, resulting in $440,000 in Interest on Borrowed Money.

2027 Assumptions

Total Loan Growth—15.33%

Consumer Loans

- Regular Market Growth—I expect continued elevated loan growth, particularly as we feel the impact of a rate cut from the end of 2026. However, I believe the growth rate will start to normalize for us, and we won't see the abnormal growth rate we saw in 2025 or that I projected in 2026. I'm projecting a regular growth rate of 7% to increase Consumer Loans to $160,655,633.
- Growth from Natomas Branch—Our projected market share for the first full year we are open is $4,000,000. This is in addition to the regular market growth rate since it is a de novo branch and will increase Consumer Loans to $164,655,633.

Real Estate Loans—Impacted by Strategic Goal #3

- Regular Market Growth—I have increased the growth rate by 25 basis points from 2026, reflecting an expected rate cut that could trigger increased lending activity. I'm projecting a regular growth rate of 5.25% to increase Real Estate Loans to $160,268,773.

- Growth from Natomas Branch—Our projected market share for the first full year we are open is $12,444,000. This is in addition to the regular market growth rate since it is a de novo branch and will increase Real Estate Loans to $172,712,733.
- Growth from Commercial Real Estate Loans—Included the $2,000,000 in new commercial real estate loans generated from Strategic Goal #3. This is in addition to the regular market growth, growth from the new Natomas Branch, and will increase Real Estate Loans to <u>$174,712,773</u>.

Credit Card and Unsecured Loans—Impacted by Strategic Goal #4

- Regular Market Growth— I have increased the growth rate by 25 basis points from 2026, reflecting an expected rate cut that could trigger increased lending activity. I'm projecting a regular growth rate of 5.25% to increase Credit Card & Unsecured Loans to $15,593,288.
- Growth from Natomas Branch—Our projected market share for the first full year we are open is $1,176,000. This is in addition to the regular market growth rate, as it is a de novo branch, and will increase Credit Card & Unsecured Loans to $16,769,288.
- Growth from Pre-Approval Campaign—Included the 10% lift above regular market growth from Strategic Goal #4, which results in an additional $1,559,329. This is in addition to the regular market growth, growth from the new Natomas Branch, and will increase Credit Card & Unsecured Loans to <u>$20,828,617.</u>

Other Loans—Impacted by Strategic Goal #3

- Regular Market Growth—I am maintaining the regular growth rate of 7% due to our newly launched Buy Now Pay Later program. This will increase Other Loans to $3,400,657.
- Growth from Natomas Branch—Our projected market share for the first full year we are open is $1,944,000, including business loans. This is in addition to the regular market growth rate, as it is a de novo branch, and will increase Other Loans to $5,644,657.
- Growth from Business Loans—Included the $4,000,000 in new business loans generated from Strategic Goal #3. This is in addition to the regular market growth, growth from the new Natomas Branch, and will increase Other Loans to $9,644,657.

Total Net Loan Interest Income Growth—18.28%

I have reduced the Weighted Average Rates across all loan products by 25 basis points due to the Federal Reserve's projected rate cut in late 2026. I believe we will begin to experience the impact of that rate cut in 2027.

- Consumer Loans
    - Net Growth: $14,510,182
    - Weighted Average Rate: 4.75%
    - Interest Income: $689,234
- Real Estate Loans
    - Net Growth: $22,438,404
    - Weighted Average Rate: 4.75%
    - Interest Income: $1,065,824

- Credit Card and Unsecured Loans
    - Net Growth: $6,013,141
    - Weighted Average Rate: 11.20%
    - Interest Income: $673,472
- Other Loans
    - Net Growth: $6,186,099
    - Weighted Average Rate: 5.75%
    - Interest Income: $355,701

Total Deposit Growth—14.46%

Checking—Impacted by Strategic Goal #5

- Regular Market Growth Rate—Maintained a growth rate of 7% for an increase of Checking to $110,383,065.
- Verb Account Growth—Included $2,365,000 for the new Verb Account from Strategic Goal #5. This is in addition to the regular market growth and will increase Checking to $112,748,065.
- Natomas Branch Growth—The projected market share for the first full year we are open is $8,502,000. This is in addition to the regular market growth and Verb account growth since it is a de novo branch and will increase Checking to <u>$121,250,065.</u>

Savings—Impacted by Strategic Goal #5

- Regular Market Growth Rate—Maintained a growth rate of 5% for an increase of Savings to $185,620,916.

- Verb Account Growth—Included $2,500,000 for the shares that will secure the Verb Share Secured Card. I've also included the $135,000 for the Verb High-Yield Savings account. This is in addition to the regular market growth and will increase Savings to $188,255,916.
- Natomas Branch Growth—The projected market share for the first full year we are open is $8,291,000. This is in addition to the regular market growth and Verb account growth since it is a de novo branch and will increase Savings to $196,546,916.

Money Markets—Impacted by Strategic Goal #3

- Regular Market Growth Rate—Maintained a growth rate of 5% for an increase of Money Markets to $43,303,000.
- Natomas Branch Growth—The projected market share for the first full year we are open is $3,919,000 for regular Money Market accounts and $979,000 for Business Money Market accounts. This is in addition to the regular market growth since it is a de novo branch and will increase Money Markets to $48,201,000.
- Growth from Business Deposits—Included the $5,000,000 generated from the improvement of business services from Strategic Goal #3. This is in addition to the regular market growth, Natomas Branch growth, and will increase Money Markets to $53,201,000.

Certificates

- Regular Market Growth—Maintained a growth rate of 2% for an increase of Certificates to $37,265,316.

- Natomas Branch Growth—The projected market share for the first full year we are open is $2,264,000. This is in addition to the regular market growth since it is a de novo branch and will increase Certificates to $39,529,316.

Other Deposits

- Regular Market Growth—Maintained a growth rate of 1% for an increase of Other Deposits to $8,140,715.

Total Dividends Growth—17.61%

Checking—Impacted by Strategic Goal #5

- Net Growth: $18,088,322
- Rate: 0.01%
  - Based on our current rates. Although I expect we will begin to feel the impact on other products from the Federal Reserve cutting rates in 2026, I don't foresee an impact on this product. The growth of this product is not typically driven by rate, and this rate is already low.
- Dividends: $1,809

Savings—Impacted by Strategic Goal #5

- Regular Savings
  - Net Growth: $19,630,091
  - Rate: 0.03%
    - Based on our current rates. Although I expect we will begin to feel the impact on other products from the Federal Reserve cutting rates in 2026,

I don’t foresee an impact on this product. The growth of this product is not typically driven by rate, and this rate is already low.

  - Dividends: $5,889

- Verb High-Yield Savings
  - Net Growth: $135,000
  - Rate: 3%
    - Although I expect we will begin to feel the impact on other products from the Federal Reserve cutting rates in 2026, this product will not need a rate adjustment since it is launching in 2027. That decision would be reassessed if the Federal Reserve were to drastically adjust rates, but that is unlikely to happen.
  - Dividends: $4,050

Money Markets— Impacted by Strategic Goal #3

- Regular Money Markets
  - Net Growth: $5,981,048
  - Weighted Average Rate: 2%
    - I am maintaining this rate at 2% and not adjusting even though I expect the Federal Reserve to cut rates in late 2026. The new Money Market product launching in 2026 is geared towards a younger demographic, so I am strategically choosing to keep a higher rate to grow membership with a younger demographic. This decision would be reassessed if rates were to drastically be adjusted by the Federal Reserve.

        - Dividends: $119,621

- Business Money Market
    - Net Growth: $5,979,000
    - Weighted Average Rate: 2.75%
        - Although I expect we will begin to feel the impact on other products from the Federal Reserve cutting rates in 2026, this product will not need a rate adjustment since it is launching in 2027 with a Weighted Average Rate of 2.75%. That decision would be reassessed if the Federal Reserve were to drastically adjust rates, but that is unlikely to happen.

Certificates

- Net Growth: $2,994,692
- Weighted Average Rate: 2.75%
    - Reduced by 25 basis points from a rate cut in late 2026.
- Dividends: $82,354

Other Deposits

- Net Growth: $80,601
- Rate: 0.03%
    - Based on our current rates. Although I expect we will begin to feel the impact on other products from the Federal Reserve cutting rates in 2026, I don’t foresee an impact on this product. The growth of this product is not typically driven by rate, and this rate is already low.
- Dividends: $24

Fee & Other Income—Impacted by Strategic Goals #3 & 5

Historically, fee and other income have been approximately 0.012% of our total deposits since our fee and other income is primarily driven by fees pertaining to our deposit products, which have grown due to my strategic goals. Given that, I calculated 0.012% of our total deposits in 2027 to get a total of <u>$5,024,016</u> in fee and other income.

Operating Expenses—Impacted by Strategic Goals #1, #2, #3, & #4, & #5

Compensation & Benefits—I expect to save $104,000 in compensation and benefits by closing the Sycamore Pointe Branch and having 2 employees fill currently vacant positions. The branch would have already closed in July 2026, and I accounted for 5 months' savings in my 2026 totals. I'm now going to include the remaining 7 months of savings to recognize the full amount. Therefore, I'm reducing Compensation & Benefits by $60,667, which brings the sub-total to $8,680,431. I need to increase Compensation & Benefits by $278,492 because to accomodate frontline employees working 40 hours per week, bringing the subtotal to $8,958,923. Finally**,** I applied the annual 11% adjustment, which increases total Compensation & Benefits to <u>$9,944,405.</u>

Office Occupancy—I expect to save $107,712 in Office Occupancy by closing the Sycamore Pointe Branch and eliminating the need to pay for utilities and branch supplies. The branch would have already closed in July 2026, and I accounted for 5 months' savings in my 2026 totals. I'm now going to include the remaining 7 months of savings to recognize the full amount. Therefore, I'm reducing Office Occupancy by $62,832, which brings the sub-total to $1,072,025. Our monthly lease amount is $4,946.40, and I have already reduced my 2026 totals for 5 months of savings. I'm now going to include the remaining 7 months of savings to recognize the full amount and reduce Office Occupancy by $34,624, which brings the subtotal to $1,037,401. Our monthly leasehold improvement amount is $1,500, and I have already reduced my 2026 total by 5 months of savings. I'm now going to include the remaining 7 months of savings to recognize the full amount and reduce Office Occupancy by $10,500, which brings the subtotal to $1,026,901. I've applied a 3% increase to the remaining Office Occupancy expenses to account for a normal annual increase, bringing the subtotal to $1,057,708. The new Natomas Branch will now be open, and we need to include the annual building cost of $225,000, bringing the total Office Occupancy expenses to <u>$1,282,708</u>.

Office Operations—I expect to save $114,072 in Office Operations by closing the Sycamore Pointe Branch and transferring equipment to the brand new Natomas Branch that opened in 2026. The Sycamore Pointe Branch would have already closed in July 2026, and I accounted for 5 months of savings in my 2026 totals. I'm now going to include the remaining 7 months of savings to recognize the full amount. Therefore, I'm reducing Office Operations by $66,542, which brings the sub-total to $3,906,069. I applied a 3% increase to the remaining Office Operations expenses to account for a normal annual increase, bringing the subtotal to $4,023,251. I'm including the $2,500 implementation fees for the pre-approval campaigns with Savvy Money/Alkami, but will not annualize it since it is immaterial. The annual cost of $48,500 for Savvy Money/Alkami is also included in the expenses, which brings the sub-total to $4,074,251. Since we will begin enrolling business members in online banking starting in 2027 and will be charged by Alkami, I've included the annual cost of $48,000 for business online banking. This brings the total Office Operations expenses to <u>$4,122,251.</u>

Marketing—I added $10,000 for marketing the new business account suite of products, $25,000 for branding the Verb cards, and $10,000 for the Verb account. This brings the total marketing expenses to <u>$822,250.</u>

Interest on Borrowed Money and Other Liabilities—I'm optimistic that the war on deposits will have eased by 2027 and that we will no longer need the $11 million loan from the Federal Home Loan Bank. I have removed the interest in borrowed money and subsequently reduced Other Liabilities by $11 million.

<u>2028 Assumptions</u>

Total Loan Growth—13.47%

Consumer Loans

- Regular Market Growth—I expect we will continue to see elevated loan growth, particularly since we could feel the impact of a rate cut from 2027. I've increased growth by 25 basis points for a regular loan growth rate of 7.25%, resulting in Consumer Loans growing to $176,181,257.
- Growth from Natomas Branch—Our projected market share for the second year is expected to grow by $2,277,000. This is in addition to the regular market growth rate since it is a de novo branch and will increase Consumer Loans to <u>$178,458,527.</u>

Real Estate Loans—Impacted by Strategic Goal #3

- Regular Market Growth—I have increased the growth rate by 25 basis points from 2027, reflecting an expected rate cut that could trigger increased lending activity. I'm projecting a regular growth rate of 5.5% to increase Real Estate Loans to $184,321,976.

- Growth from Natomas Branch—Our projected market share for the second year we are open is expected to grow by $7,112,000. This is in addition to the regular market growth rate since it is a de novo branch and will increase Real Estate Loans to $191,433,976.
- Growth from Commercial Real Estate Loans—Included the $2,000,000 in new commercial real estate loans generated from Strategic Goal #3. This is in addition to the regular market growth, growth from the new Natomas Branch, and will increase Real Estate Loans to <u>$193,433,976.</u>

Credit Card and Unsecured Loans—Impacted by Strategic Goal #4

- Regular Market Growth— I have increased the growth rate by 25 basis points from 2027, reflecting an expected rate cut that could trigger increased lending activity. I'm projecting a regular growth rate of 5.5% to increase Credit Card & Unsecured Loans to $21,974,191.
- Growth from Natomas Branch—Our projected market share for the second year we are open is expected to grow by $680,000. This is in addition to the regular market growth rate since, as it is a de novo branch, and will increase Credit Card & Unsecured Loans to $22,654,191.
- Growth from Pre-Approval Campaign—Included the 10% lift above regular market growth from Strategic Goal #4, which results in an additional $2,197,419. This is in addition to the regular market growth, growth from the new Natomas Branch, and will increase Credit Card & Unsecured Loans to <u>$32,351,610.</u>

Other Loans—Impacted by Strategic Goal #3

- Regular Market Growth—I am maintaining the regular growth rate of 7% due to our newly launched Buy Now Pay Later program. The projected rate cut in 2027 could increase lending activity for BNPL in 2028. Still, this product is only available to our existing members, so I'm hesitant to increase the growth rate since we are limited in our growth opportunities for this product. This will increase Other Loans to 10,319,783.
- Growth from Natomas Branch—Our projected market share for the second year we are open is expected to grow by $1,111,000, including business loans. This is in addition to the regular market growth rate, as it is a de novo branch, and will increase Other Loans to $11,430,783.
- Growth from Business Loans—Included the $4,000,000 in new business loans generated from Strategic Goal #3. This is in addition to the regular market growth, growth from the new Natomas Branch, and will increase Other Loans to $15,430,783.

Total Net Loan Interest Income Growth—16.90%

I have reduced the Weighted Average Rates across all loan products by 25 basis points due to the Federal Reserve's projected rate cut in 2027. We will begin to experience the impact of that rate cut in 2028.

- Consumer Loans
  - Net Growth: $13,802,894
  - Weighted Average Rate: 4.5%
  - Interest Income: $621,130
- Real Estate Loans— **Impacted by Strategic Goal #3**

- Net Growth: $18,721,203
- Weighted Average Rate: 4.5%
- Interest Income: $842,454

- Credit Card and Unsecured Loans— **Impacted by Strategic Goal #4**
  - Net Growth: $11,522,993
  - Weighted Average Rate: 10.95%
  - Interest Income: $1,261,768
- Other Loans—**Impacted by Strategic Goal #3**
  - Net Growth: $5,786,126
  - Weighted Average Rate: 5.5%
  - Interest Income: $318,237

Total Deposit Growth—13.44%

Checking—Impacted by Strategic Goal #5

- Regular Market Growth Rate—Maintained a growth rate of 7% for an increase of Checking to $129,461,612.
- Verb Account Growth—Included $6,541,500 for the new Verb Account from Strategic Goal #5. This is in addition to the regular market growth and will increase Checking to $136,003,112.
- Natomas Branch Growth—The projected market share for the second year we are open is $4,858,000. This is in addition to the regular market growth and Verb account growth, as it is a de novo branch, and will increase Checking to <u>$140,861,112.</u>

Savings—Impacted by Strategic Goal #5

- Regular Market Growth Rate—Maintained a growth rate of 5% for an increase of Savings to $205,910,210.
- Verb Account Growth—Included $7,500,000 for the shares that will secure the Verb Share Secured Card. This is in addition to the regular market growth and will increase Savings to $213,410,210. I also need to include the additional $958,500 for the Verb High-Yield Savings account. This will increase Savings to $214,368,710.
- Natomas Branch Growth—The projected market share for the second year we are open is $4,738,000. This is in addition to the regular market growth and Verb account growth, as it is a de novo branch and will increase Savings to $219,106,710.

Money Markets—Impacted by Strategic Goal #3

- Regular Market Growth Rate—Maintained a growth rate of 5% for an increase in Money Markets to $55,861,050.
- Natomas Branch Growth—The projected market share for the second year we are open is $3,919,000 for regular Money Market accounts, and $559,000 for Business Money Market accounts. This is in addition to the regular market growth since it is a de novo branch and will increase Money Markets to $60,339,050.
- Growth from Business Deposits—Included the $5,000,000 generated from the improvement of business services from Strategic Goal #3. This is in addition to the regular market growth, Natomas Branch growth, and will increase Money Markets to $65,339,050.

Certificates

- Regular Market Growth—Maintained a growth rate of 2% for an increase of Certificates to $40,226,739.
- Natomas Branch Growth—The projected market share for the second year we are open is $1,294,000. This is in addition to the regular market growth since it is a de novo branch and will increase Certificates to $41,520,739.

Other Deposits

- Maintained a growth rate of 1% for an increase of Other Deposits to $8,201,771.

Total Dividends Growth—14.28%

Checking—Impacted by Strategic Goal #5

- Net Growth: $19,868,951
- Rate: 0.01%
  - Based on our current rates. Although I expect we will begin to feel the impact on other products from the Federal Reserve's rate cuts in 2027, I don't foresee an impact on this product. The growth of this product is not typically driven by rate, and this rate is already low.
- Dividends: $1,987

Savings—Impacted by Strategic Goal #5

- Regular Savings
  - Net Growth: $22,036,498
  - Rate: 0.03%

        - Based on our current rates. Although I expect we will begin to feel the impact on other products from the Federal Reserve's rate cuts in 2027, I don't foresee an impact on this product. The growth of this product is not typically driven by rate, and this rate is already low.
    - Dividends: $6,611
- Verb High-Yield Savings
    - Net Growth: $965,250
    - Rate: 3%
        - Although I expect we will begin to feel the impact on other products from the Federal Reserve's rate cuts in 2027, I'm strategically keeping this rate higher since it is newly launched, and one of the goals is to attract a younger demographic. That decision would be reassessed if the Federal Reserve were to adjust rates drastically, but that is unlikely.
    - Dividends: $28,958

Money Markets— Impacted by Strategic Goal #3

- Regular Money Markets
    - Net Growth: $6,280,100
    - Weighted Average Rate: 1.75%
        - I am reducing this rate by 25 basis points due to a projected rate cut in late 2027. Although it encapsulates a Money Market product geared towards a younger generation, it's been 3 years since it launched, and it's

reasonable to expect the Money Market product to fluctuate with the market.

  - Dividends: $109,902
- Business Money Market
  - Net Growth: $5,857,950
  - Weighted Average Rate: 2.75%
    - Although I expect we will begin to feel the impact on other products from the Federal Reserve's rate cuts in 2027, I'm strategically keeping this rate higher since it is newly launched, and one of the goals is to attract a younger demographic. That decision would be reassessed if the Federal Reserve were to adjust rates drastically, but that is unlikely.
  - Dividends: $161,094

Certificates

- Net Growth: $2,082,760
- Weighted Average Rate: 2.5%
  - Reduced by 25 basis points from a rate cut in late 2027.
- Dividends: $52,069

Other Deposits

- Net Growth: $81,206
- Rate: 0.03%
  - Based on our current rates. Although I expect we will begin to feel the impact on other products from the Federal Reserve's rate cuts in 2027, I don't foresee an

impact on this product. The growth of this product is not typically driven by rate, and this rate is already low.

- Dividends: $24

Fee & Other Income—Impacted by Strategic Goals #3 & 5

Historically, fee and other income have been approximately 0.012% of our total deposits, as it is primarily driven by fees on our deposit products, which have grown in line with my strategic goals. Given that, I calculated 0.012% of our total deposits in 2028 to get a total of $5,700,353 in fee and other income.

Operating Expenses—Impacted by Strategic Goals #4 & #5

Compensation & Benefits— I applied the annual 11% adjustment, which increases total Compensation & Benefits to $11,038,289.

Office Occupancy— I've applied the annual 3% adjustment, which increases Office Occupancy to $1,321,189.

Office Operations— I removed the $2,500 pre-approval campaign implementation fee from Savvy Money/Alkami, as it was a one-time payment in 2027. This reduces Office Operations to $4,119,751. I applied the annual 3% adjustment, which increased Office Operations to $4,243,344.

Marketing— I removed the $25,000 Verb branding cost since that was a one-time expense in 2027. This reduces Marketing to $797,850. I also removed $135,000 from the marketing budget since our partnership with Major League Baseball for the Athletics will have ended, and we will not incur that expense in 2028. This reduces Marketing to $662,850.

Summary

I provided a detailed rationale to ensure my assumptions and projections are clear. As a mom to a 5th grader who is constantly reminding him to “show your work” when he completes his homework, I decided to show how I arrived at these forecasted assumptions. Based on historical data, market share projections, and other research I have completed, the results are consistent with my narratives. The data, ratios, and graphs mostly aligned with what I expected to see. My primary concern is the impact on our ROA in 2026 from closing the Sycamore Pointe Branch. I was initially excited to see our ratios trend in a positive direction when I input the cost savings for closing that branch. Everything was locking into orbit until an asteroid came crashing through, when I realized I would need to write off the remainder of our lease contract and recognize those expenses in 2026. That reduced ROA by 9 basis points in 2026 and crash-landed me at a measly 0.13% ROA. An ROA that low would certainly raise concerns for our regulators and Board of Directors. Despite having a frightening ROA, we would still have a healthy Net Worth Ratio of 12.10%.

I did some research and found that while an ROA that low is not ideal, it is less concerning if it is part of a strategic move with a recovery plan in place. While I do not like seeing my ROA at 0.13% in 2026, we begin to recover in 2027 with an ROA of 0.51%, and then a very healthy ROA of 0.81% by 2028. I realized that sometimes you must take a step backward to leap forward eventually. I evaluated the impact on my financial projections if I kept my other four strategic goals but did not include the savings from closing Sycamore Pointe. If I were to keep these other strategic goals and not close Sycamore Pointe, it would reduce our Net Worth Ratio by 4 basis points in 2026, 12 basis points in 2027, and 18 basis points in 2028. It’s clear that the cost savings from closing Sycamore Pointe have a measurable impact on my ability to implement my other strategic goals while maintaining a strong financial performance.

We are in a unique position because our Natomas Branch is being built while I am working on this project, and it will open during the time period of my projections. Knowing this is happening, I wanted to ensure I was as accurate as possible and included the projected growth from that branch. This was important to include, but it did add some complexity to my forecasted projections that challenged my thinking at times. I also found myself staring at total gross income and wanting to see that increase to offset the growing cost of funds and operating expenses. I realized that I should have taken action to further address our loan yields to help grow our net loan interest income. We pride ourselves on having low rates, just like nearly every other credit union, but I think there's an opportunity to address our pricing structure to improve loan yields. I also might want to consider what fees I should potentially implement within my strategic goals to help offset some of these expenses and improve our ratios. I also have our assets growing at a fast pace, which impacts our Net Worth Ratio and ROA, and I might consider slowing that growth. Overall, my forecast is achievable, albeit a bit aggressive, and is supported by educated assumptions.

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

Spread Analysis

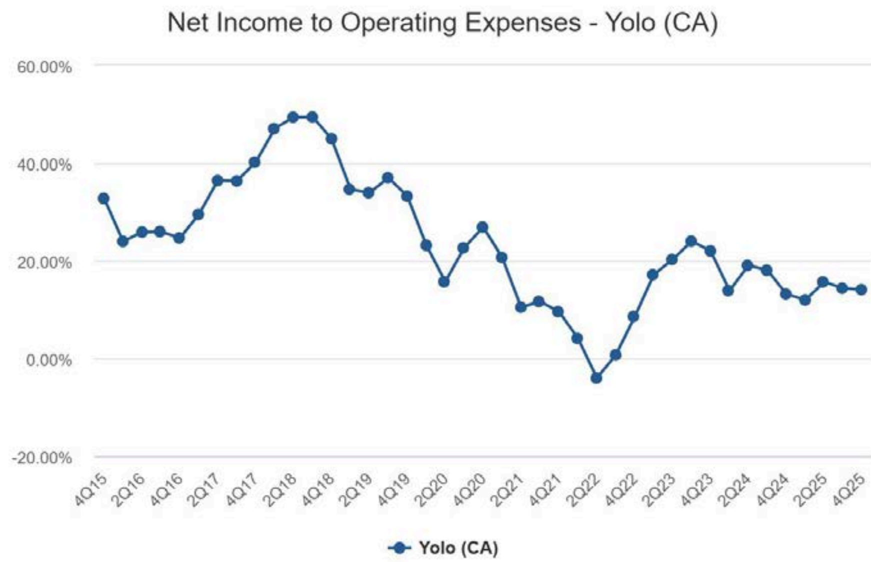
		2025 $	**2025 %**	**2028 $**	**2028%**
	Interest Income	$17,529,246	4.37%	$23,430,471	4.69%
-	Cost of Funds	$2,419,124	0.60%	$2,885,932	0.58%
=	***Net Interest Margin***	$15,110,122	3.77%	$20,544,539	4.11%
-	Operating Expense	$16,755,156	4.18%	$20,965,114	4.20%
-	Provision for Loan Loss	$843,099	0.21%	$1,281,271	0.62%
+	Fee & Other Income	$4,850,659	1.21%	$5,900,353	1.18%
=	***Net Income (ROA)****	$2,362,526	0.59%	$4,198,507	0.84%

*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?

My forecast projects a 25-basis-point improvement in ROA, which I am gratified to see. If we follow my strategic plan and achieve the goals I have outlined in this project, our ROA will be the highest it has been since 2020. Prior to the pandemic, our ROA ranged anywhere from 0.80% to well above 1%. Our operating expenses have increased since we underwent a massive technology conversion in 2023, and we have also been preparing to open our new Natomas Branch in Sacramento. Throughout this project, we have reviewed financial data from 2022-2025, with most of the focus being on 2025. Our ROA and net interest margin have been below expectations, and I understand we have been dealing with unique circumstances to support our future growth, which has impacted our key financial metrics. Fortunately, we have maintained a very healthy Net Worth Ratio, which has enabled us to invest in our technology enhancements and market growth.

I wanted to have a deeper understanding of our financial position further back in history, during a time when we weren't making significant changes, and compare it to where we have been the past few years. I reviewed our Net Income to Operating Expenses graph in Callahan, and this enlightened me. During the period of time when our ROA hovered between 0.80% to over 1%, our Net Income to Operating Expenses ratio was much higher than it has been in the past few years. I dug further into the data and found the primary issue to be that our Operating Expenses have drastically increased, and our Net Income has not kept at the same pace. I compared 2015 to 2025 and can see that our Net Income has decreased 9% while our Operating Expenses have increased 111%. Our Net Income to Operating Expenses ratio as of 4Q2025 is 14.10%, and based on my projections for 2028, that ratio would improve to 20%.



(Callahan & Associates, 2026)

The biggest impact driving these changes is interest income and operating expenses. The interest income ratio improved from 2025 to 2028 by 32 basis points. Historically, most of our loan growth has been with net auto loans that have a lower yield than our other loan products. My projections include growth with business loans and credit cards, both of which have a higher loan yield that results in higher interest income. Although our operating expense ratio increased by 2 basis points, that is minimal considering we are adding a new branch. Operating expenses would have been much higher if I had not incorporated the closure of our Sycamore Pointe Branch. The interest income and operating expense levers moved in the way I expected them to. What was a little surprising to me was that the cost of funds ratio moved in a different direction than what I had anticipated. I expected the cost of funds ratio to increase since I've significantly increased deposits with higher rates. However, now that I have analyzed this further, I see how that makes sense because our asset size is larger. While I know credit unions try to keep the cost of funds low, I was disappointed to see that my cost of funds ratio for 2028 was lower than 2025. Two of my strategic goals were intended to improve deposit products and give back more to our savers. I believe they are supporting those efforts, and are helping us grow, but I now see that I could have done more to give back to our savers. I take that as a learning opportunity as I continue to dig further into each of these levers because I don't want a significant disparity between our return to borrowers and our return to savers. Again, that goes back to our loan pricing structure because we can still maintain a competitive rate without leaving too much money on the table, so to speak. In turn, that would increase our interest income and allow us to pay more on our deposit products, thereby increasing our cost of funds. Despite my disappointment with a lower-than-expected cost of funds, I am happy with the improved profitability.

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. 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.

- **What will it take for your credit union to actually adopt all or part of your 5-goal plan?**

After completing the peer comparison and SWOT analysis sections, I realized there are a lot of strategic goals that I would like to implement. I have several "shoot for the moon" ideas that I want to ideate further on, but I see those as part of a larger 5-7 year plan. I wanted to be realistic with my strategic goals for the next 3 years and ensure they would help improve our profitability. Given that, most of my strategic goals are feasible, but some will encounter resistance due to our culture of conservative underwriting practices and a desire to lag the market on deposit pricing. Having "buy-in" from each of my fellow Executives is critical to the success of my 5-goal plan. I want to meet with them individually and ask some preliminary questions to gauge their perspective on each of these goals. This will ensure I am not operating in a silo and can address any concerns they might have within my proposal.

What will be most impactful to help adopt my 5-goal plan is sharing the projected financial metrics with my Executive team. Whenever I proposed a strategic goal in the past, my recommendations were rooted mostly in market and member data, trends, research, and an estimated return on investment. What was missing was the impact on our overall financial position, but I wasn't confident in my ability to accurately calculate and present that information. After attending WCMS and completing this project, I feel far more confident that I am competent and can include the impact on our key financial metrics in my proposals, making them more impactful.

Ultimately, it will come down to what I will call the "3 C's," which are: Contribution, Communication, and Collaboration at all levels within our credit union. I need to start with my Executive team to share how these strategic goals will contribute to our mission, overall business plan, and growth objectives. I need to ensure they understand the qualitative nature of the goals, but also the quantifiable nature of how they impact our key metrics. If they agree and support my strategic goals, then I will share the information with our Board of Directors to ensure we have their support. My intention is for my Executive team and Board of Directors to clearly see how these goals will contribute to our success, and ultimately the success of our members, so they will eagerly take a seat on my rocket ship. Before we lift off, we have to prepare our communication plans. It's critical for our employees to understand what we are doing and why we are doing it. Otherwise, we'll blast off into space with a loss of communication. The last thing I want to hear is, "Houston, we have a problem" (Howard, 1995, 01:36:45). I know issues can arise during the implementation of strategic goals, but it had better not be from poor communication. Lastly, having "buy-in" from my Board of Directors, Executive Team, and all our employees leads to improved collaboration. The implementation of these goals should not be done in a vacuum. We must effectively collaborate for these goals to be adopted. The success of this mission depends on demonstrating the contribution to our goals, clear communication across all levels, and everyone supporting collaboration with their unique skillsets.

- **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?**

I'm confident that all 5 of my strategic goals have a chance of being adopted by my credit union, but likely not the way I currently have them constructed. There are components of each that I believe could be moved forward, and other components of each goal that are less likely to be adopted by my credit union. I'll explain both and include the factors that lead me to that opinion, for each of the 5 goals.

<u>Strategic Goal #1—Close Sycamore Pointe Branch to Reduce Operating Expenses</u>

I have no doubt in my mind that we will close the Sycamore Pointe Branch at some point within the next few years. I have already mentioned this idea to my CEO, Jenee Rawlings, and she is in favor of exploring this further. As operating expenses increase and members transition to interacting with us through our digital channels, we must be strategic with our physical branch locations. There is no need for us to have 2 branches within a 3-mile radius, so this is an ideal opportunity to close the branch and invest the savings somewhere that will have a greater return on investment. I can clearly show how this goal contributes to our future success, and I believe I can effectively communicate the "what" and "why" for maximum collaboration.

The component of that goal that has less of a chance of being adopted is the timeline. Ideally, I would have liked to close the branch in time to transfer the existing equipment to our new Natomas Branch. However, we have far too many projects currently in our pipeline to be able to execute this in time. Furthermore, despite the future cost savings of terminating the lease contract early, I think I could have a challenge demonstrating the value of writing off those expenses rather than waiting for our contract to end. Primarily because it does have a negative impact on our ROA, and they might prefer to wait out the contract. What likely will happen is that we will begin preparing for the closure of the Sycamore Pointe Branch as we get closer to the lease agreement ending. That would also more closely align with the lease agreement on the ITMs at that branch, so we could return those ITMs or move them to another location within our expanded market.

<u>Strategic Goal #2—Frontline Employee Hours</u>

Out of all my strategic goals, I am most passionate about increasing my frontline employees to 40 hours per week. They have asked for it, and I want to be able to offer that to them. I care deeply for my employees, and I see how hard they work to help our members. I am fully supportive of automating tasks, implementing artificial intelligence, and enhancing technology for the benefit of our members. However, there is still value in having well-trained employees who love where they work. I would much rather close a branch to save money and reinvest some of those savings into our employees, who are the ambassadors of our brand. The cost of living continues to climb, particularly in California, and my employees deserve to earn a full-time salary. I will passionately advocate for this strategic goal to become a reality, and I am optimistic I can clearly communicate the value and garner supportive collaboration to make it happen. I already have an ally with my Chief Human Resources Officer, Marcela Bautista, who was supportive of this goal when I shared it with her.

The challenge I will likely face is that this is an expensive strategic goal. I can estimate how this could positively impact our bottom line, but it is based on several assumptions that aren't as black and white as my other goals. Showing how this contributes to our growth goals isn't as clear as I would like it to be. What likely could happen is that we begin increasing hours in phases over a period of time. It would allow us to gradually add the expense and give us time to monitor success or identify areas of opportunity. This would equip me with data that will enable me to show the measurable difference and how it contributes, or does not, to our success.

Strategic Goal #3—Improve Business Suite of Products

My strategic goal to improve our business suite of products is the goal that I think has an easier lift with the greatest payoff. Our local small business community needs better banking options, and we are a perfect solution if we can improve our products and services. We already have the framework in place for business accounts and loans; it really just needs some care and attention. Our business loan products are competitive, but we are missing out on opportunities because our business deposit products are less than desirable. Our online banking provider, Alkami, offers small business banking solutions that would be fairly easy for us to implement. We already have a partnership with a merchant processor, and we have an employee who has established relationships with local businesses, as well as a business development employee. The structure is in place, but we need to build more depth into what we offer if we want to grow relationships with small businesses. Our business loans are profitable, so I can easily show the importance of nurturing more of these relationships and how they contribute to our growth. I can clearly communicate the value of supporting our local business community, and I believe our employees will be eager to collaborate to ensure this goal is successful.

The only component of this strategic goal that gives me some cause for concern as it relates to adoption is the deposit pricing. Our Asset Liability Committee (ALCO), which I am a part of, can sometimes be uncomfortable with competitive deposit pricing. The opinion amongst some of our ALCO members, one that I don't necessarily agree with, is that our members are not rate sensitive, so we can lag the market in deposits. However, we continue to see an outflow of deposits, and our business deposit growth is essentially nonexistent. I understand the importance of controlling the cost of funds, but we can't only compete on loan rates and ignore our deposit rates as if they don't impact relationship growth. Especially with business members, many of them receive loan discounts from other financial institutions if they keep their deposits there, too. They likely will not switch their loans to us if we can't also offer them competitive deposit products. I have an extreme amount of respect for my fellow ALCO members—they are smart and strategic. To be fair, I am currently behind a computer writing this and have not boldly proclaimed my opinion like I just did in this paragraph. After completing this project, I feel more confident articulating how this strategic goal contributes to our success, and I am eager to respectfully share my perspective with ALCO. I know that advocating for better deposit pricing on our business products will be a bit of a challenge, but I am optimistic I can get them on board.

<u>Strategic Goal #4—Pre-Approval Credit Card Campaign</u>

I have a bit of FOMO (fear of missing out) when it comes to pre-approval campaigns. Honestly, we have got to be one of the very few credit unions (of our asset size or larger) that haven't done a pre-approval campaign in the past decade. I can easily make a case for how this contributes to our growth goals. I know that I can communicate the value of how this could help our members. I am even confident that I can get nearly all our employees, with the exception of one department, to collaborate successfully on the implementation of this goal. I see this goal as “low-hanging fruit” to help us get our credit cards into more of our members’ hands.

The component of this goal that could inhibit the adoption is resistance from our underwriting department. In fact, I asked our Chief Lending Officer, Matt Isika, what his response to me would be if I sent him a calendar invite with the subject line, “Kelley wants to discuss a credit card pre-approval campaign.” His response was, “I think you already know! I would accept the meeting but then share our most recent delinquency statistics with you” (M. Isika, Personal Communication, 2026). Joke’s on him because I already have our delinquency report, and I can see how incredibly low our delinquencies are. I say that in good fun because I have worked with Matt for a long time, we have a huge amount of mutual respect, and our conversations are typically laced with humor. This is a peek into the window of the creative conflict we often engage in. I completely understand his hesitation because his job is to control our delinquencies, which he has done an exceptional job at. That said, as a marketer, I have a missing tool in my marketing toolbox by not being able to do pre-approval campaigns. What will likely happen is that we will compromise and agree to a pre-qualification campaign rather than a pre-approval campaign. Even that will give Matt some heartburn, but I know he is reasonable and we’ll be able to agree on a solution we can both be happy with. At the end of the day, our job is to mitigate risk, and we can’t expect to grow by taking on zero risk.

Strategic Goal #5—Improve Deposit Products for Generation Z

This strategic goal is the one that I think most of our employees will be excited about. Nearly 35% of our employees are Generation Z and have expressed a desire to improve some of our products so they are more attractive to the younger generation. We have a greater likelihood of successful adoption when our employees are bought into a product and are eager to collaborate for implementation. We already have a student checking account with an associated BIN setup, but the benefits of this account are currently lacking. It would be easy for us to redesign this product and rebrand it so that Gen Z sees the value. Additionally, our Executive team and Board of Directors understand the value of growing our membership younger and are supportive of developing products that align with that goal. I asked one of our Gen Z employees, Abigail Fuller, what she thought of this product. Abigail said, "I love this! Currently, I have the round-up feature on my Cash App card. Whenever I spend money, the change that's left is invested in stocks. To me, this is an easy way to start saving that's not intimidating to our members and gives them the opportunity to take advantage of a higher yield while making everyday purchases" (Abigail Fuller, Personal Communication, March 30, 2026). To summarize, the implementation would be an easy lift, and the communication and collaboration for this product are fueled with excitement and positive energy. Or as the young kids these days say, it has aura.

The only component of this goal that could inhibit adoption is the rate. I've mentioned several times throughout this project that our deposit pricing is not competitive, and there is a hesitancy to increase deposit rates. Historically, we have offered various deposit promotions that pay a higher rate for members who have loans with us. While that is a great strategy to reward members who have strong relationships with us, that may not work for a young demographic, since they may not be ready to obtain a loan. Even if they do want to get a loan from us, there's a strong likelihood they may not qualify due to our conservative underwriting criteria. However, that is why I also want to rebrand our share secure credit card so that Gen Z clearly understands how that type of product can help them establish and begin building credit. That way, when they are ready to apply for a loan, our underwriting department can see that they have been working to build their credit. While we may not see the immediate impact of nurturing relationships with Gen Z, we must be patient and play the long game. I will need to clearly show how it will contribute to our future profitability.

- **How do your goals differ from your credit union's current goals? How are they similar?**

Our goals are divided into five categories: growth-quality of member relationships, products and services, delivery channels and technology, talent, and financial. I'll describe each of them below and share how my goals differ or are similar within each of these categories.

<u>Growth-Quality of Member Relationships</u>

We have goals under this category to increase membership, grow deposits, and expand relationships. This includes launching a foundation, expanding ITIN lending, improving deposit retention by implementing Zelle, and developing an approach to activate indirect members. My goals to improve the business suite of products, conduct pre-approval campaigns, and improve deposit products for Gen Z are similar to these goals because they help with the growth and quality of member relationships.

Products and Services

The intention of the goals in this category is to offer products and services that attract, engage, and retain members. Our current goals are centered around exploring monthly subscription accounts, considering AI options to automate underwriting, and developing a plan to implement the new government savings accounts. My goals to improve the business suite of products and enhance deposit products for Gen Z align with the intention of this category to attract, engage, and retain members.

Delivery Channels & Technology

Our current goal with this category is to fully integrate systems that provide hyper-personalized member interaction, support efficiency, and increase earnings. For example, analyzing potential AI opportunities and reducing friction to streamline the lending process. Most of my goals differ from what is in this category, with the exception of the pre-approval campaign, since that would help reduce friction and streamline the lending process. I did initially want to include a goal relating to AI, but I chose not to since it is already one of our strategic goals.

Talent

The intention with our talent goals is to recruit, retain, and reward staff who are actively engaged in fulfilling our mission. One of our current goals is to evolve competencies within the talent pool to eliminate entry level needs. That goal aligns with my goal to increase frontline employee hours to allow for more time for staff training. When we allocate more time for staff training, we have a greater opportunity to develop competencies amongst our frontline employees. However, we also have a goal within the Talent category to reduce employee headcount through attrition by automating more processes. That is where my goal slightly differs because even though we are not increasing the employee headcount, I am adding hours.

Financial

The purpose of this category is to help achieve our financial targets. Some of the short-term strategies are to explore alternative revenue opportunities and develop a plan for expanding and enhancing investment strategies. This is primarily where most of my goals differ, as my goals don't pertain to investment strategies. However, my goal to close the Sycamore Pointe Branch does help us reduce expenses and supports the achievement of our financial targets.

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.

Yolo Federal Credit Union has made significant changes within the last three years, including technological conversions and a field-of-membership expansion, that have positioned us to better serve our members and the community at large. Although those changes were necessary for future growth, they have rapidly increased operating expenses. Net income has declined slightly due to economic conditions and conservative underwriting practices, leading to tight margins. The combination of higher operating expenses and declining net income has resulted in an ROA lower than what we typically see. However, we maintain a very healthy Net

Worth Ratio, and are beginning to feel the positive impact of our technology conversion and field-of-membership expansion.

Unconventional partnerships are starting to form within the fintech space that will impact us. For example, Beast Industries (led by popular YouTube personality Mr. Beast) acquired Step, a financial services app that is geared towards younger generations. Automation is also impacting how businesses use their human resources, which is shifting people from performing operational tasks towards analytical and consultative roles. The rapid adoption of technology and changes in how Millennials and Gen Z engage with companies are resetting expectations and transforming how businesses deliver services. Consumers expect as little friction as possible when making buying decisions, which impacts how we interact and communicate with them. There is still a desire for human interaction, but it’s on their terms and typically through a digital channel.

My SWOT analysis uncovered a few key areas of opportunity for improvement. Although we have strong employee longevity and benefits, I’ve found that some of our employees are struggling since they work 33.5 hours rather than a full 40-hour workweek. They only work the hours the branch is open, which leaves little to no time for additional training. Some employees are working multiple jobs to make ends meet, which increases their stress level and decreases their overall job satisfaction. Our deposit products are lackluster, which has contributed to negative deposit growth. I evaluated various metrics and found that we are returning little value to our savers. This leads to another opportunity to improve deposit products to better serve small businesses in our community. We are surrounded by thriving small businesses, and despite being in a market oversaturated with financial institutions, the available banking options in our market for small businesses are less than desirable.

I have prepared 5 strategic goals to strengthen our current position while addressing these inflection points and opportunities for improvement. I'm proposing we close the Sycamore Pointe Branch since there is no longer a need for 2 locations within a 3-mile radius. This will reduce unnecessary operating expenses and reinvest the savings into other goals that will help increase income. I'm recommending we increase frontline employee hours from 33.5 to 40. This will allow more time for ongoing training needs, improve employee satisfaction, and support the increased production that is expected. The next goal is focused on improving the business suite of products to help grow deposits and meet a growing need within our community. I also have a goal to conduct pre-approval campaigns to grow our credit card portfolio. Much of our loan growth has been in new auto loans, and our credit cards are a higher-yielding product. Not only will this help increase our net income, but it will also reduce friction since we are presenting members with an offer and making the process as simple as possible. My final goal is to improve deposit products for Generation Z to compete with companies such as Beast Industries/Stripe, while also returning more value to our savers.

My three-year financial projections show that we will improve ROA by 35 basis points from 2025 to 2028. There will be a significant decline in ROA to 0.13% in 2026, but that is a strategic decision due to writing off expenses from the closure of the Sycamore Pointe Branch. We will quickly recover the following year and will continue that growth for an ROA of 0.84% in 2028. Our Net Worth Ratio will decline from 12.53% in 2025 to 10.98% by 2028, but it's worth noting that it is still considered well capitalized by the NCUA. I am comfortable with those metrics because we are returning more value to our members, enhancing products, diversifying our portfolios, improving our net income to operating expense ratio, and growing. Based on the factors I have described throughout this summary, the strategic goals I have prepared are reasonable, financially viable, and support our growth into a half-billion-dollar credit union while meeting the needs of our community.

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 effectively?

I recently asked ChatGPT, “Based on what you know about me and the types of questions I ask, how would you describe me as a leader?” To be clear, I did not use ChatGPT for this project, this is simply summarizing the types of questions that I ask in general. The response said, “You come across as a thoughtful, grounded, and quietly strategic leader—someone who cares about getting things right, not just getting things done.” It went on to describe me as a “Translator-leader, someone who takes complex reality, understands it deeply, and turns it into clear, responsible direction others can trust.” My ChatGPT then provided me with an opportunity for improvement based on what it knows about my leadership style, and I found it to be very telling because I saw this trait run rampant while I worked on this project. It said, "You might occasionally over-index on precision, which can slow decisions or make you feel like you need one more data point. At your level, sometimes 80% clarity + decisive action beats perfect understanding" (OpenAI, 2026). I am a detail-oriented person, but it can sometimes slow my decision-making or cause me to overthink. This is what I experienced while working on this project because I would sometimes fall into a black hole analyzing a particular point before I would write about it. I truly enjoyed my time in those black holes because I would discover data or information that would make me think, but I frequently had to pull myself out and succinctly summarize my thoughts. Although I started my project early and often, I would spend more time than necessary on certain components because I wanted to intimately understand the information before I wrote about it. I've found that I need to allocate a specific amount of time for research and discovery, then make a decision and start writing. In short, or maybe not so short, I have learned that I often fall victim to paralysis by analysis.

This project was an enjoyable experience; I don't have any recommendations for how to improve the project experience. What was most surprising to me was that the section of the project that I enjoyed the most was the financial projections. It was fun to make assumptions and watch the various financial levers move and see how they impacted the key metrics. At one point, I stopped and thought to myself, do I enjoy accounting? I never imagined I would think such a wild thought as that. However, what I enjoyed the most is also what was the most challenging for me. I'll share more in my closing thoughts about the personal and professional impact of this project, but numbers have been my nemesis for most of my life. The financial projections started out as a challenge, but it became enjoyable as certain things began clicking for me.

Growing up, I despised anything having to do with numbers in school. I struggled with math, which made me feel inadequate because it seemed all the smart kids excelled at math. When I started college, I said I wanted to do the least amount of math possible. Turns out, being a business major meant I still had to do math. Again, I persevered through my math courses and went on to graduate. Early on in my career, when I first started working at Yolo Federal Credit Union, people who didn't know what department I worked in would ask me financial questions and I would say, "Oh, sorry, I work in the marketing department." I'm embarrassed I ever said such a ridiculous statement because now, as a seasoned marketing leader, I correct my marketers when they say they "aren't a numbers person." Marketers must understand how to calculate the profitability of their marketing efforts. Even though I knew basic marketing profitability calculations, I still didn't fully comprehend all the levers that comprise our key financial ratios. I knew just enough to sound like I knew what I was talking about, but there wasn't enough depth to my knowledge, and the feeling of inadequacy still pumped through my nervous system. This took the form of imposter syndrome, and I tried to hide my vulnerability.

This project has completely transformed how I operate as a leader and has had a profound impact on me. I now understand the financial levers and how the impacts from our strategic goals and other external factors move them. I am a hands-on learner, so being able to watch the key ratios fluctuate as I made changes gave me the depth of knowledge that I needed to be a confident leader. The financial projections worksheet was a game changer for me, and something I will save and continue to use throughout my career. Even though the projection spreadsheet automatically calculated the key ratios for me, I would go back through and manually calculate them myself to ensure the numbers I got matched what the spreadsheet said. This helped me fully understand how the numbers are calculated so that I could ingrain this knowledge into my memory. This project has helped me become a more well-rounded leader because I now understand our financials on a more granular level. I no longer have the weighty feeling of inadequacy, and I have shaken off the imposter syndrome.

My decision-making process for the departments I oversee will look different now that I have a deeper understanding of our financials. My dramatically unrealistic response after finishing this project was that all departments need to stop asking for money, and we need to cut as many expenses as possible. Obviously, that is not feasible or reasonable. That said, I now see how the different levers tactically interact with one another. My decision-making is now rooted in a desire to mitigate expenses where feasible, increase income, and grow our asset size at a controlled rate. Deposits are needed to fund loan demand, which means smart pricing decisions must be made that will support deposit and loan growth with a healthy yield.

Most importantly, I need to remember who my decisions impact—our members. Credit unions were created to help people of modest means, and while our society might look a bit different than it did back then, we exist to serve the needs of our community. It's critical to understand the factors that influence our economy, consumer behavior, and how people want to engage with us. I started my Year 1 project referencing the stars in the sky, so it's only fitting that I close my Year 2 project with a quote from NASA's Artemis II Crewmember, Victor Glover, who is currently flying by the moon. He said, "You guys are talking to us because we're in a spaceship really far from Earth, but you're on a spaceship called Earth that was created to give us a place to live in the Universe, the Cosmos. I think maybe the distance we are from you makes you think what we're doing is special, but we're the same distance from you. You are special, in all this emptiness. This is a whole bunch of nothing, you have this oasis, this beautiful place that we get to exist together" (Glover, 2026). This is an inspiring reminder that all of us serve a special purpose and have an opportunity to make a difference in the lives of others. My mission may not include spaceflight, but I am part of the credit union crew, and my flight path involves people helping people.

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Generative AI

What the Best AI Users Do Differently—and How to Level Up All of Your Employees

by Nick Hallman, Zach Kowaleski, Anu Puvvada and Jaime J. Schmidt

March 19, 2026

Yaorusheng/Getty Images

Summary. Leaders often struggle to assess whether their employees are using AI successfully. Often, they default to measuring what's easily observable: how much they're using AI tools. To get a clearer picture, researchers partnered with KPMG and... **more**

Organizations have moved quickly to put AI tools in the hands of their employees. But for all of this investment, many leaders struggle to assess how it's going. Is AI measurably improving the quality, speed, and ambition of people's work? Is it strengthening professional judgment? Who is succeeding with it, and why? What does successful use even look like?

Because the tools and frameworks to capture qualitative workforce outcomes don't yet exist at scale, most organizations lack clear, behavior-based signals that indicate whether AI is having a positive effect. In the absence of such signals, leaders default to what is easiest to count: frequency of use, hours logged, number of prompts, tokens used, and self-assessed skill levels become proxies for progress. In other words, they measure activity, not sophistication or impact.

Unsurprisingly, performance gains remain uneven and leaders struggle to offer concrete guidance on how employees can use AI to improve their performance. Without better measurement, leaders can't tell which behaviors to reinforce, which to teach, and which to move beyond.

To understand what separates routine AI use from sophisticated human-AI collaboration, KPMG partnered with researchers at the University of Texas Austin. Together, we analyzed more than 1.4 million AI prompts and responses generated by some 2,500 employees over an eight-month period. Through this analysis, we assembled a definition of sophisticated use that builds on prompt engineering—prioritizing clear prompts along with deliberately applied strategies—and discovered a set of low-cost, observable indicators such as model switching and structured initial prompts that predict high-level use. These insights are being integrated into KPMG's talent, learning, and performance systems, and they offer a framework any organization can use to cultivate and measure more sophisticated AI use by their employees.

What Sets the Best AI Users Apart?

When this project started, KPMG had reached a relatively mature stage of AI adoption: nearly 90% of employees used AI regularly, and they had access to a growing set of tools. The company could measure usage frequency, but it lacked a clear definition of what effective or sophisticated use actually looked like—and how to measure it. This was a problem. Without that clarity, it was difficult to move the organization beyond baseline adoption. We believed that if we could define and measure what "good" looks like, we could more intentionally encourage advanced, high-impact AI use across the firm.

Our study analyzed the habits of a diverse population of professionals spanning functions, roles, and levels of experience. Recall that, over an eight-month period, we created an archive of all of the prompts and answers generated by the 2,500 employees —1.4 million in total. The scale and duration of the dataset allowed us to move beyond snapshots, to see not just how employees used AI on a given day, but how patterns of framing problems, guiding reasoning, evaluating outputs, and applying AI across different kinds of work evolved and diverged over time.

To analyze this data, we asked ChatGPT model o1, one of OpenAI's "thinking models," to evaluate each conversation—including both prompts and responses—and indicate whether certain characteristics were present, including the types of use case, prompt engineering strategies, and other behavioral measures of AI use. The analysis, which required extensive compute time, produced over 50 variables, which we then refined.

With these signals in hand, we asked: How can these provide a shorthand that can help guide people toward more effective use? Can they help us identify superusers without using expensive compute like what was used in our study? Here's what we found.

Breaking Down Sophisticated Use

When we identified who the most sophisticated users at the company were, we found that there was wide variation in roles and seniority. But there were also clear commonalities that emerged. We found four distinct behavioral patterns that sophisticated users all seemed to share:

- **They were ambitious in how they approached AI use.** Sophisticated AI use emerges from compounding behaviors over time, not from usage volume alone. Top users tended to have longer interactions with more back and forth with the LLM; wrote longer, more involved initial prompts; were intentional about switching between models or tools depending on the task; and used AI with relatively high frequency.
- **They treated AI as a reasoning partner.** Rather than accepting initial outputs at face value, they actively shaped the model's thinking. They used techniques such as role definition, giving LLMs examples of the output they wanted, iterative refinement, self-verification, and structured reasoning prompts. The value came from guiding the model over time, not from asking "better" one-off questions. They asked the model to help think through problems, test assumptions, and explore alternatives. This behavior is visible in sticking with a problem, using structured prompts, and employing iterative improvement.

- **They delegated complex tasks with clear objectives.** Advanced users were also far more likely to delegate complex, multi-step tasks to AI. They would specify constraints and success criteria, define the structure of the response they wanted, and articulate clear objectives. Their ambition showed up not just in prompt length, but in the complexity of the task being delegated.
- **They treated AI as a general cognitive tool rather than a narrow productivity shortcut.** Sophisticated use showed up in ideation, analysis, technical guidance, knowledge work, and problem solving alike. Sophisticated users employed AI across a broad set of use cases and switched intentionally between models based on the use case. Informal language, typos, and a conversational tone often accompanied advanced use—small but telling signals of comfort and fluency.

A portrait emerged: Sophisticated users demonstrate significant agility and flexibility in how they work with AI tools. They are more likely to switch between models, leverage multiple AI platforms, and delegate increasingly complex, multi-step tasks to AI, reflecting a more mature mental model of AI as a dynamic collaborator rather than a single-purpose tool.

The research also uncovered a surprising trend: The best users were often those above manager level. This caught us off guard, given the conventional wisdom that more junior employees tend to feel more comfortable with these tools and use them more naturally. But the findings showed that there might be an important distinction between comfort and sophistication.

We noticed a few other important trends:

- While AI adoption was widespread at the company (again, around 90%), we found that only around 5% of users fit our definition of highly sophisticated. This early concentration of advanced usage signals that AI adoption in large organizations does not happen organically or evenly. Instead, it underscores that driving meaningful, value-creating use requires more deliberate intervention than simply making tools available to employees.
- While all levels of employees use LLMs for writing assistance, employees above manager level are more likely to use LLMs for a greater diversity of tasks, like technical guidance and ideation. This suggests that experience and role context shape not just how often AI is used, but how it is integrated into core work.
- Junior-level employees are more likely than senior employees to use company LLMs for personal tasks. As such, frequency of use may not be a reliable signal for productivity.
- Employees in roles below manager are less likely to use a deliberate strategy when engaging with the LLM, whereas manager and above employees are more likely to do so. They are also more likely to provide clear requests.

What Leaders Can Do Differently

The findings suggest that companies need to shift the focus of their AI efforts from driving adoption to shaping habits. Sophisticated AI use emerges when people learn how to frame problems clearly, guide model reasoning, evaluate outputs critically, and apply AI flexibly across their work. In simple terms, it’s less about the tool itself and more about how professionals think and make decisions with it. The small set of compounding behaviors that matter are observable, teachable, and scalable.

Here's what leaders should focus on.

Develop AI-first best practices.

If you want different outcomes with AI, you have to make different behaviors visible, discussable, and expected. The research revealed specific behaviors that KPMG wanted to encourage, so leaders translated them into practical playbooks, short explainers, and peer-led "champion" networks that emphasize what sophisticated use looks like day-to-day. The goal here is to create a common understanding of "what good looks like" that is reinforced across the company.

Rethink upskilling.

The findings reshaped how KPMG approached development, with a focus on helping people build confidence in how to work with AI effectively in the flow of their job. KPMG invested in hands-on, application-based training that was developed by a cross-functional team. Across offices and virtual classrooms, scenario-based sessions immerse professionals in real client and internal work, with a strong emphasis on advanced collaboration behaviors, such as delegating complex tasks to AI, guiding model reasoning, validating outputs, and refining approaches over time.

Set clear expectations for growth and development.

This work is not about changing talent management systems or processes. It's about being clear on what good work looks like in an AI-enabled world. Using this research, KPMG translated what effective AI-enabled work looks like into practical, role- and task-level expectations, recognizing that quality judgment shows up differently across functions, levels, and delivery contexts. For instance, Audit, Tax, Advisory, and Business Processing Groups operate in very different environments, with different risks, regulations, and delivery models, and AI needs to support those realities. As such, AI-first expectations are tailored by group, whether that's AI-assisted risk assessment in Audit, faster research and scenario planning in Advisory, or more automated, higher-quality work products in Tax.

The intent is to give people and leaders a clearer signal about how AI should support everyday decisions, work quality, and client outcomes.

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AI is changing work rapidly, and it's understandable that leaders are struggling to articulate a clear vision of how their organization is going to adapt. Often, that's because there isn't a clear definition of what "good" looks like. Understanding why some employees are succeeding with AI—and how it's allowing them to do better work—is the first step toward helping everyone learn how to use these tools.

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World Council

Whitepaper:

Navigating the Ethical Landscape of Artificial Intelligence in Credit Unions

Executive Summary

World Council

AI offers credit unions unprecedented opportunities to enhance efficiency, personalize member experiences and improve risk management. However, to realize these benefits in a responsible way, credit unions must use a proactive approach to the significant ethical challenges that AI presents. Credit unions and financial cooperatives have a long history of supporting the community through ethical financial practices. However, ethical use of AI cannot be presupposed, even for those committed to the credit union mission. The nature of this tool requires credit unions to actively implement controls and new practices to ensure it does not harm members.

This report provides a practical roadmap for credit unions to navigate these complexities, ensuring that AI adoption aligns with their member-centric mission and core values of trust, fairness, community support and transparency.

For credit unions specifically, AI presents unique opportunities to:

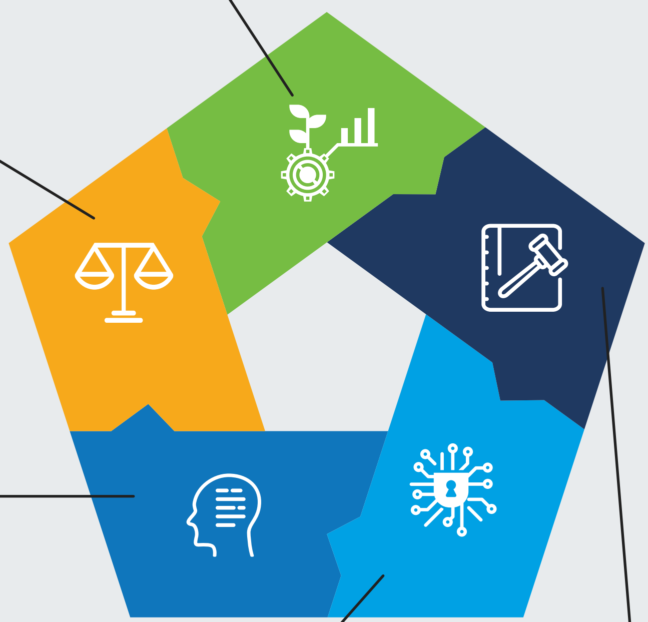
Enhance Member Service:	Provide 24/7 support through intelligent chatbots that understand member needs.
Improve Lending Decisions:	Use AI to make faster, more comprehensive, fairer and inclusive loan decisions.
Strengthen Fraud Protection:	Protect member accounts with real-time transaction monitoring.
Personalize Financial Wellness:	Offer tailored financial advice based on member spending patterns.
Optimize Operations:	Automate routine tasks to free staff for high-value member interactions.

These opportunities help create efficiencies to lower both the cost and barriers of financial services for members but must be approached with an ethical framewok in place, consistent with the credit union ethos.

Key Principles for Ethical AI

The framework for ethical AI in credit unions is built upon five foundational AI Principles from the Organization for Economic Cooperation and Development (OECD).

We begin with these principles because, like the mission of credit unions, the OECD aims to improve people's lives. It is an international organization that works to promote policies that will improve the economic and social well-being of individuals around the world and serves as a forum for governments to share experiences, discuss policy challenges, and coordinate policies to address common issues. Accordingly, the five OECD principles are:



Inclusive Growth, Sustainable Development and Well-being:

AI should serve to reduce inequalities and foster beneficial outcomes.

Human Rights and Democratic Values:

Respect for the rule of law and democratic practices, human rights, non-discrimination, equality, freedom, dignity and privacy are paramount throughout the AI lifecycle.

Transparency and Explainability:

Credit unions must commit to clear disclosure regarding AI systems, providing meaningful and understandable information to members.

Robustness, Security and Safety:

AI systems must be designed to function appropriately and safely under all conditions, preventing unreasonable risks.

Accountability:

Credit unions must establish clear lines of responsibility for the proper functioning of AI systems, ensuring traceability of decisions and data.

Key Ethical Considerations and Takeaways

The report identifies five critical ethical considerations for credit unions deploying AI:

Bias and Fairness:

AI algorithms trained on unrepresentative or biased data can perpetuate discrimination in areas like loan approvals and service offerings.

Takeaway:

Credit unions must actively address data bias, algorithmic bias, human decision bias, sampling bias, measurement bias and stereotyping bias through careful data collection, fair algorithm design, continuous auditing and human oversight. It is complex to achieve fairness due to multiple definitions and context dependence. For example, AI-powered recruitment tools have favored male candidates due to historical data biases, and facial recognition systems often show higher error rates for individuals with darker skin tones.

Transparency and Explainability:

The “black box” nature of some AI systems can erode trust.

Takeaway:

Credit unions need to “open the black box” (or have their third-party vendor do so if they buy their AI) by disclosing how AI models are trained, what data they use and how decisions are made. Explainable AI (XAI) is crucial for providing understandable justifications for AI’s outputs, bridging the gap between technical complexity and user understanding. This includes communicating model confidence and identifying features that influence decisions.

Accountability and Responsibility:

Determining who is answerable when AI systems cause harm or error is complex.

Takeaway:

Humans, not AI, must ultimately take ownership for AI system outputs. Credit unions must establish clear lines of responsibility for design, deployment and oversight, implementing audit trails and redress mechanisms. They must also integrate ethical considerations into the design process, and ongoing monitoring is essential. The “Problem of Many Hands” and gaps in current legal frameworks pose challenges to assigning accountability. Also, credit unions must ensure that datasets, models, and algorithms sourced externally are properly licensed and do not infringe on third-party rights.

Privacy and Data Security:

Because AI relies on vast amounts of data, including sensitive member information, credit unions must implement robust privacy and security measures.

Takeaway:

Credit unions face risks such as the collection of excessive data, inference of sensitive information (privacy by inference – i.e., the deduction of confidential or private data from seemingly non-sensitive information through analysis, correlation, or pattern recognition), challenges in anonymization and misuse of biometric data. Data security concerns include breaches, data poisoning attacks, model extraction attacks and adversarial attacks. Implementing security by design and adhering to data protection regulations are paramount.

Member Autonomy and Control:

AI-driven recommendations and automated decision-making should not unduly influence or manipulate members, and they must retain control over their financial decisions.

Takeaway:

In designing their AI systems and use, credit unions must not impact members' decision-making abilities, control over their data (including where open banking is permitted), and the transparency of AI-driven services. Members must have access to humans and redress mechanisms.

Key Trends

Increasing AI adoption:	Credit unions globally are rapidly exploring and implementing AI for operational optimization, personalized services and strengthened member relationships.
Growing focus on ethical AI:	There is a heightened awareness and emphasis on the ethical implications of AI, driven by regulatory discussions and public scrutiny.
Development of XAI tools:	Tools and techniques for enhancing AI transparency and explainability are continuously evolving to address the "black box" problem.
Evolving regulatory landscape:	Governments and international organizations are actively developing AI-specific regulations and guidelines to address unique challenges related to accountability, privacy and bias.

Recommendations

To responsibly harness the power of AI, credit unions should implement these seven recommendations:

- ✓ **Develop a Comprehensive Ethical AI Framework:**
  Integrate the OECD AI Principles into all stages of AI development and deployment.

- ✓ **Prioritize Data Governance:**
  Implement rigorous policies for data collection, preprocessing and auditing to mitigate bias and ensure fairness. Ensure data is gathered from relevant sources and more specifically, not co-mingled with banking data.

- ✓ **Invest in Transparency and Explainability Tools:**
  Adopt technologies and practices that make AI decision-making processes understandable to both internal stakeholders (e.g., employees, directors) and members.

- ✓ **Establish Clear Accountability Structures:**
  Define roles and responsibilities for AI systems, ensuring human oversight in critical decision-making processes.

- ✓ **Strengthen Data Privacy and Security:**
  Implement robust cybersecurity measures and adhere to all relevant data protection regulations to safeguard sensitive member information.

- ✓ **Foster a Culture of Responsible AI Innovation:**
  Provide ongoing training and promote interdisciplinary collaboration to ensure all personnel understand and uphold ethical AI principles.

- ✓ **Continuously Monitor and Evaluate:**
  Regularly audit AI systems post-deployment to detect emerging biases, ensure fairness and address any issues.

By adhering to these principles and recommendations, credit unions can confidently leverage AI to innovate, enhance member services and uphold the trust that is central to their mission. In short, ethical use of AI and the credit union mission are inextricably linked.

Whitepaper:

Navigating the Ethical Landscape of Artificial Intelligence in Credit Unions

Executive Summary

Paul P. Andrews
Vice President for International Advocacy
World Council of Credit Unions

November 2025

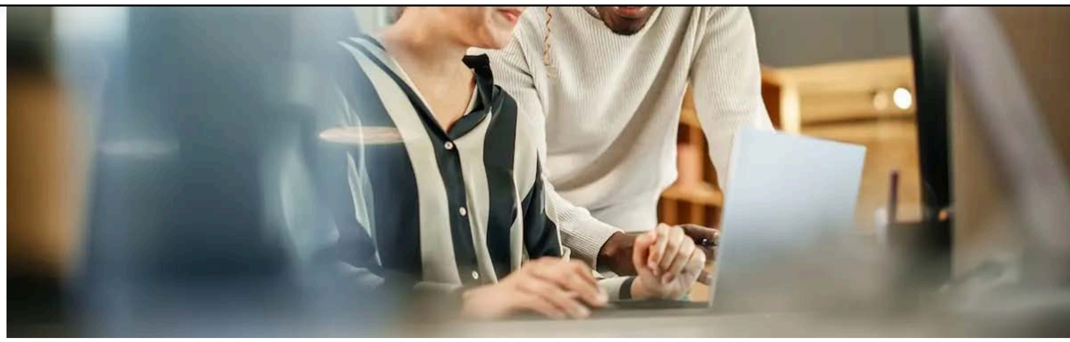
Read the full Whitepaper at the link:
https://www.woccu.org/international_advocacy/resource_center/ethical_ai

World Council

Digital Transformation & AI (https://online.hbs.edu/subjects/digital-transformation-

4 Important Human Skills AI Can’t Replace

By Tim Stobierski on February 3, 2026



ant-replace)

Artificial intelligence (AI) is rapidly changing how organizations operate. As a result, **AI-native (https://online.hbs.edu/blog/post/ai-native)** and **AI-first companies (https://online.hbs.edu/blog/post/ai-first)**—built with AI tools and capabilities at their core—are improving **productivity (https://online.hbs.edu/blog/post/ai-workplace-productivity)**and accelerating **innovation (https://online.hbs.edu/blog/post/types-of-ai-innovation)**in ways that create significant value for businesses and customers.

Yet, machines have yet to replicate every skill humans have.

“The definition that we use is very important,” says Harvard Business School Professor Marco Iansiti in the online course **AI Essentials for Business (https://online.hbs.edu/courses/ai-essentials-for-business)**, which he co-tea HBS Professor Karim Lakhani. “We don't think of AI as something that sur even matches human intelligence. We just think of AI as any activity that computers can perform that humans once performed. And it's fundamentally this replacement effect; replacing something that a human was doing: a task, a simple process.”

While automation concerns are understandable, several critical skills remain uniquely human that AI still struggles to perform effectively and reliably. Developing these capabilities can help you build career resilience and strengthen your value in an AI-enabled workplace.

This guide explores what makes human skills distinct, why AI struggles with them, and which are most important to develop as AI adoption accelerates.

Learn more →(https://online.hbs.edu/c essentials-for-business)

What Are Human Skills?

Human skills are capabilities that rely on distinctly human traits that AI and other digital technologies can't currently replicate or perform well. They often involve the ability to:

- Build, navigate, and sustain human relationships
- Perceive and interpret emotions and understand how they influence be
- Apply ethical reasoning informed by values, context, and lived experier
- Make judgment calls in ambiguous situations without clear right or wro 's
- Think strategically with layered context and long-term implications in mind

Although AI can perform many tasks faster and at a greater scale than humans, it often struggles in situations that demand human judgment, connection, and interpretation. As a result, these skills become a meaningful competitive advantage for individuals seeking to future-proof their careers and for organizations navigating digital disruption

Why Human Skills Matter in the AI Era

AI excels at pattern recognition and performs best when applied to problems with large data sets and clear rules. Human skills become especially important in scenarios involving:

- Limited data for training

framework shows how AI can outperform humans in some tasks, while underperforming in others that appear similar on the surface.

“Some tasks are well within the frontier,” Lakhani says in **AI for Leaders (https://online.hbs.edu/courses/ai-for-leaders)**, which he co-teaches with HBS Professor Iavor Bojinov. “In those cases, AI tends to perform very well—boosting productivity and even quality. But other tasks may fall just outside the frontier. [While] these tasks may seem similar on the surface, AI can struggle with them. And when it does, it's not always obvious to the user.”

As a result, AI is most effective when paired with human oversight.

“The lesson? AI is not a replacement for judgment,” Lakhani says in **AI for** **(https://online.hbs.edu/courses/ai-for-leaders)**. “Knowing where to apply it where not to, is now a critical leadership skill.”

The Line AI Can’t Cross: Skills That Remain Uniquely Human

1. Emotional Intelligence and Human Connection

Generative AI can create text, images, video, and even voice that sounds convincingly human. What it lacks is **emotional intelligence (https://online.hbs.edu/blog/post/emotional-intelligence-in-leadership)**—the ability to experience empathy, build trust, and form genuine human connections.

Humans remain better equipped for roles that involve:

- Establishing and maintaining trust with customers, employees, and sta
- Navigating interpersonal conflict
- Understanding complex or competing motivations behind human behavior

While emotional intelligence doesn’t come naturally to everyone, it can be **intentionally (https://online.hbs.edu/blog/post/emotional-intelligence-skills) developed (https://online.hbs.edu/blog/post/emotional-intelligence-skills)** through self-awareness, empathy, and reflection—something AI can't do.

2. Active Listening and Meaning-Making

AI chatbots may appear to listen and respond thoughtfully, but they don't truly understand meaning. Large language models (LLMs), which power generative AI

just as important as what is.

By strengthening your **active listening and communication skills (https://online.hbs.edu/blog/post/leadership-communication)**, you can interpret meaning in ways AI can't, making better decisions and building stronger relationships.

3. Judgment in Ambiguous Situations

AI performs best when problems have clear parameters and right or wrong answers. It struggles when data is incomplete or unstructured, in conditions that require human judgment to fill in the gaps.

Consider the biotechnology company **Healx (https://healx.ai/)**, which focus redeveloping existing drugs to treat diseases beyond their original approvals. Healx uses a **proprietary AI (https://healx.ai/about/)** platform to predict whether an existing drug may be effective for additional conditions. In-house experts then review those findings to make a final judgment call about which treatments advance to clinical trials. Today, the **company's pipeline (https://healx.ai/pipeline/)** includes seven treatments in various stages of research and development.

Ultimately, making sound decisions in ambiguity requires critical thinking, the ability to weigh trade-offs, assess risks, and apply context where data alone falls short.

4. Human Creativity and Challenging Assumptions

AI can generate creative-looking outputs at remarkable speeds and scale. But these outputs are based on pattern recognition and recombination, not true invention.

Creativity isn't limited to art or storytelling. You can strengthen your **creative problem-solving (https://online.hbs.edu/blog/post/how-to-be-a-more-creative-problem-solver)** abilities by practicing skills such as:

- Empathizing with internal or external stakeholders
- Reframing problems as questions to unlock new solutions
- Challenging default assumptions and existing processes
- Balancing divergent thinking, such as idea generation, with convergent thinking, like focused evaluation

Free Course Flowchart

Which HBS Online Digital Transformation & AI Program

educational goals.

Access Your Free Flowchart →(https://c transforn

The Advantage AI Can't Automate

Humans remain uniquely positioned to outperform AI in situations where emotional intelligence, meaning-making, judgment, and creativity are crucial.

Essentials for Business* (https://online.hbs.edu/courses/ai-essentials-for-business) *and AI for Leaders* (https://online.hbs.edu/courses/ai-for-leaders), *or dive into the Digital Transformation and AI Learning Track* (https://online.hbs.edu/learning-tracks), *which allows you to complete three courses in the subject area to earn an advanced Certificate of Specialization. Not sure where to begin? Download our free flowchart* (https://online.hbs.edu/digital-transformation-flowchart) *to choose the right digital transformation and AI* (https://online.hbs.edu/subjects/digital-transformation-ai)*course for you and your team.

Author:

Tim Stobierski

Topics:

Digital Transformation & AI

MIND MATTERS

AI IS STILL A DELUSION

Following instructions and performing fast, tireless, error-free calculations is not intelligence in any meaningful sense of the word

BY **GARY SMITH** ON JUNE 27, 2024 8 MINUTE READ

The hope and hype of artificial intelligence (AI) began nearly 70 years ago at a 1956 Dartmouth summer workshop organized by the mathematician John McCarthy (1927–2011) "on the basis of the conjecture that every aspect of learning or any other feature of intelligence can be so precisely described that a machine can be made to simulate it."

After a slow start, it began to seem unstoppable

In 1965, Herbert Simon (1916–2001), a Nobel laureate in economics and a winner of the Turing Award ("The Nobel Prize of computing"), predicted that "machines will be capable, within 20 years, of doing any work a man can do." In 1970, computer scientist Marvin Minsky (1927–2016) , another Turing winner, predicted that, "In from three to eight years we will have a machine with the general intelligence of an average human being."

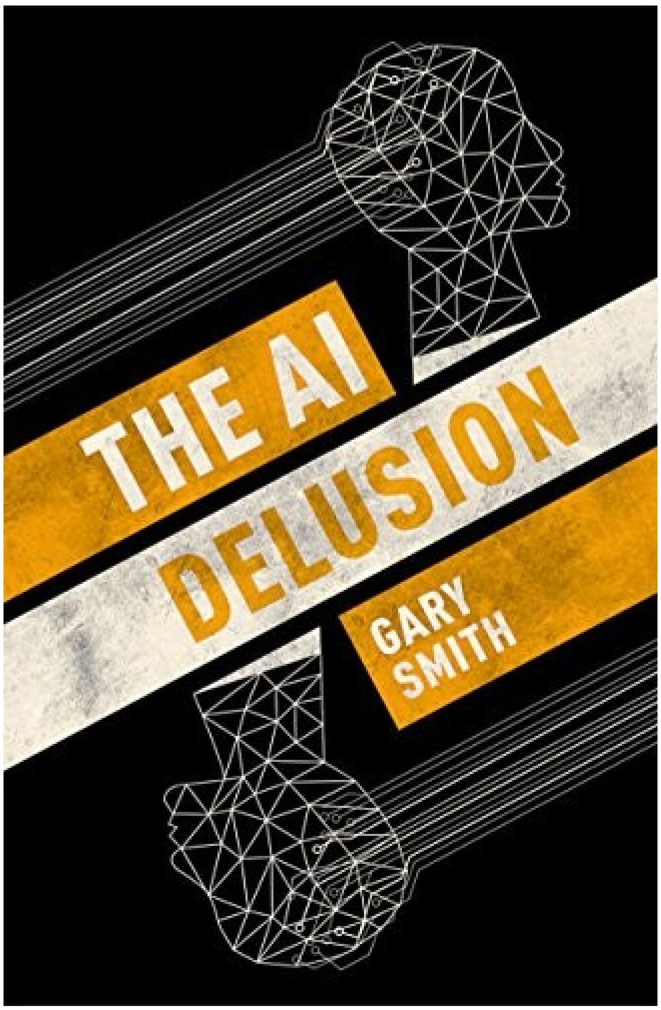
Just three years later, the 1973 Lighthill report commissioned by the U.K. Science Research Council concluded that "in no part of the field have the discoveries made so far produced the major impact that was then promised." Funding shriveled and an AI winter began. There was a resurgence of AI research in the 1980s, driven by the development of expert systems, followed by a second AI winter as the limitations of expert systems became apparent. The current resurgence began in the 1990s, propelled initially by well-publicized computer victories over human opponents.

In 1997, IBM's Deep Blue defeated the reigning world chess champion, Garry Kasparov, in a six-game match. In 2011, IBM's Watson trounced Ken Jennings and Brad Rutter, two of the top *Jeopardy* champions (though Watson had a secret advantage in being able to press its electronic buzzer faster than humans could press their buttons).

In 2017 the word "AI" was selected by the Association of National Advertisers as the Marketing Word of the Year, an accurate reflection of the reality that AI was still far more sizzle than steak.

Taking a closer look

My first book on AI, *The AI Delusion*, was published in 2018 and was deeply skeptical of the claims made for AI. I acknowledged that computers are useful for many, many purposes. In my own life, I use computers essentially every day to do mathematical computations, statistical calculations, and Monte Carlo simulations that, in many cases, would take several lifetimes to do by hand (and would inevitably be riddled with errors).



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However, following instructions and performing fast, tireless, error-free calculations is not intelligence in any meaningful sense of the word. What AI enthusiasts have in mind is, instead, what Turing winner Judea Pearl, has dismissively called *curve fitting:* using statistical patterns to diagnose illnesses, assess job candidates, evaluate loan applications, set prison sentences, pick stocks, and the like. The problem, as Pearl notes, is that correlation is not causation and computer systems are currently unable to distinguish between coincidental and causal patterns.

For example, some "AI" software for evaluating job applicants found that several good programmers in its data base visited a Japanese manga site frequently, so it decided that people who visit this site are likely to be good programmers. The company's chief scientist said that, "Obviously, it's not a causal relationship," but argued that it was still useful because there was a strong statistical correlation. Ouch!

She also said that the company's algorithm looks at dozens of variables, and constantly changes the variables it relies on as correlations come and go, which demonstrates the model's power and flexibility. A more compelling interpretation is that the algorithm captures transitory correlations that are of little value. If these were causal relationships, they would not come and go. They would persist and be useful.

My one-liner for *The AI Delusion* is that the real danger today is not that computers are smarter than us but that we think computers are smarter than us and consequently trust them to make decisions they should not be trusted to make.

In recent years, the hype has intensified but the core problem remains — an inability to distinguish between coincidence and causation. The latest hype centers on ChatGPT and other large language models (LLMs) that do an astonishing job of imitating human conversation. However, not knowing what words mean, they have no way of assessing whether the output they generate is factually correct; for example, ChatGPT continues to insist that the Russians have sent bears into space — though the alleged number of bears varies (5, 27, 32, 56...).

How LLMs (chatbots) flunk logical reasoning

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It is similarly easily demonstrated that, not knowing what words mean, LLMs cannot do logical reasoning. Simply tweak a classic logic puzzle that LLMs have surely trained on. For example, one puzzle involves a collection of coins, balls, or other objects — all but one of which are exactly the same weight. The question is, what is the minimum number of weighings with a balance scale needed to identify the object with the different weight. I have simplified the problem here to make the answer obvious:

> **Gary:** You have a balance scale and two coins, one of which is slightly heavier than the other. What is the minimum number of weighing you can use to identify the heavier coin?

One weighing is clearly enough. Put one coin on each end of the scale and see which is heavier.

Not knowing what words mean, LLMs are prone to generating confident nonsense by putting together words they have encountered relating to these sorts of problems. Here are the responses I got from OpenAI's ChatGPT 3.5, Microsoft's Copilot, and Google's Gemini:

ChatGPT:

To identify the heavier coin using a balance scale and making the minimum number of weighings, we can use a strategy of comparing the coins in groups:

1. **First Weighing:**
   ◦ Divide the two coins into two groups, A and B, with one coin in each group.
   ◦ Weigh group A against group B
   ◦ **Outcome Possibilities:**
   ▪ If the scale balances, then the heavier coin must be the third coin not on the scale.
   ▪ If the scale does not balance, the heavier coin is on the side that goes down.

2. **Second Weighing (if needed):**
   ◦ Take the group (either A or B) that contains the heavier coin from the first weighing.
   ◦ Divide this group into two individual coins and weigh them against each other.
   ◦ **Outcome Possibilities:**
   ▪ If one side of the scale goes down, you have identified the heavier coin.
   ▪ If the scale balances, then the heavier coin must be the one not on the scale.

Copilot:

To identify the heavier coin using the balance scale, you can follow these steps:

1. **Initial Weighing:**
   - Place one coin on each side of the balance scale.
   - If they balance, the third coin (which is not on the scale) is the heavier one.
   - If they don’t balance, proceed to the next step.
2. **Second Weighing:**
   - Take the heavier coin from the first weighing and place it on one side of the scale.
   - Take any other coin (which you know is lighter) and place it on the other side.
   - If they balance, the remaining coin is the heavier one.
   - If they don’t balance, the coin on the scale is the heavier one.

So, you only need **two weighings** to identify the heavier coin.

Gemini:

You can identify the heavier coin with only **one weighing** on the balance scale. Here’s why:

1. Place both coins on one side of the scale.
2. Put a known-weight object (anything will do as long as it has a consistent weight) on the other side.

There are three possible outcomes:

- **The side with the coins dips down:** This means the combined weight of the coins is heavier than the known weight. Since one coin is heavier, that heavier coin must be on the side that dipped.

- **The side with the known weight dips down:** This means the combined weight of the coins is lighter than the known weight. Again, due to the heavier coin, it must be on the opposite side (with the coins) that didn't dip.
- **The scale balances:** This is a less likely scenario, but it still helps identify the heavier coin. In this case, the known weight is equal to the combined weight of the two coins, which means neither coin is heavier than the other (they are both counterfeit or both real).

In all three outcomes, with just one weighing, you can determine which coin is heavier (or identify that neither is).

Yet, the AI-hype continues enriching chip makers, investment banks, consulting firms, and the like—confirming the old maxim, "During a gold rush, sell shovels."

Note: The featured photo is by Wisely Woven on Unsplash

GARY N. SMITH

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Gary N. Smith is the emeritus Fletcher Jones Professor of Economics at Pomona College. His research on stock market anomalies, statistical fallacies, the misuse of data, and the limitations of AI has been widely cited. He is the author of more than 100 research papers and 20 books, most recently, *Standard Deviations: The truth about flawed statistics, AI and big data*, Duckworth, 2024.

QuantumBlack
AI by McKinsey

The state of AI in 2025

Agents, innovation, and transformation

November 2025

Almost all survey respondents say their organizations are using AI, and many have begun to use AI agents. But most are still in the early stages of scaling AI and capturing enterprise-level value.

This article is a collaborative effort by Alex Singla, Alexander Sukharevsky, Bryce Hall, Lareina Yee, and Michael Chui, with Tara Balakrishnan, representing views from QuantumBlack, AI by McKinsey.

Key findings

1. **Most organizations are still in the experimentation or piloting phase:** Nearly two-thirds of respondents say their organizations have not yet begun scaling AI across the enterprise.

2. **High curiosity in AI agents:** Sixty-two percent of survey respondents say their organizations are at least experimenting with AI agents.

3. **Positive leading indicators on impact of AI:** Respondents report use-case level cost and revenue benefits, and 64 percent say that AI is enabling their innovation. However, just 39 percent report EBIT impact at the enterprise level.

4. **High performers use AI to drive growth, innovation, and cost:** Eighty percent of respondents say their companies set efficiency as an objective of their AI initiatives, but the companies seeing the most value from AI often set growth or innovation as additional objectives.

5. **Redesigning workflows is a key success factor:** Half of those AI high performers intend to use AI to transform their businesses, and most are redesigning workflows.

6. **Differing perspectives on employment impact:** Respondents vary in their expectations of AI's impact on the overall workforce size of their organizations in the coming year: 32 percent expect decreases, 43 percent no change, and 13 percent increases.

Three years since the introduction of gen AI tools triggered a new era of artificial intelligence, nearly nine out of ten survey respondents say their organizations are regularly using AI—but the pace of progress remains uneven. While AI tools are now commonplace, most organizations have not yet embedded them deeply enough into their workflows and processes to realize material enterprise-level benefits. The latest McKinsey Global Survey on the state of AI reveals a landscape defined by both wider use—including growing proliferation of agentic AI—and stubborn growing pains, with the transition from pilots to scaled impact remaining a work in progress at most organizations.

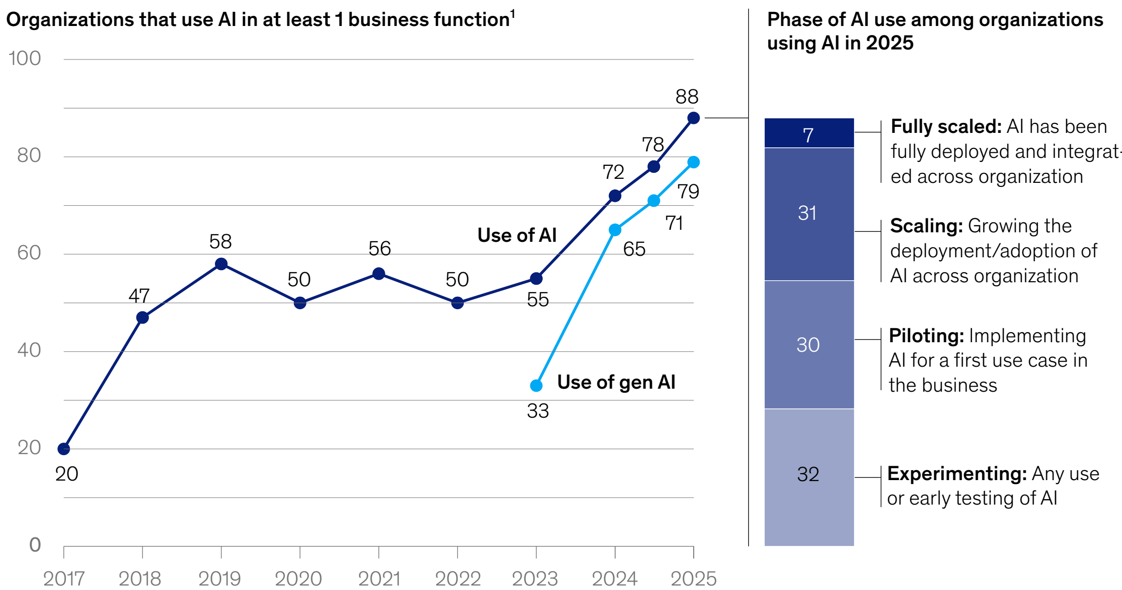
AI use continues to broaden but remains primarily in pilot phases

Our latest survey shows a larger share of respondents reporting AI use by their organizations, though most have yet to scale the technologies. The share of respondents saying their organizations are using AI in at least one business function has increased since our research last year: 88 percent report regular AI use in at least one business function, compared with 78 percent a year ago. But at the enterprise level, the majority are still in the experimenting or piloting stages (Exhibit 1), with approximately one-third reporting that their companies have begun to scale their AI programs.

Exhibit 1

Reported use of AI in at least one business function continues to increase.

Use of AI by respondents' organizations, % of respondents



[1]In 2017, the definition for AI use was using AI in a core part of the organization's business or at scale. In 2018–19, the definition was embedding at least 1 AI capability in business processes or products. From 2020, the definition was that the organization has adopted AI in at least 1 function, and in 2025, the definition was regular use of AI in at least 1 function.
Source: McKinsey Global Surveys on the state of AI, 2017–25

McKinsey & Company

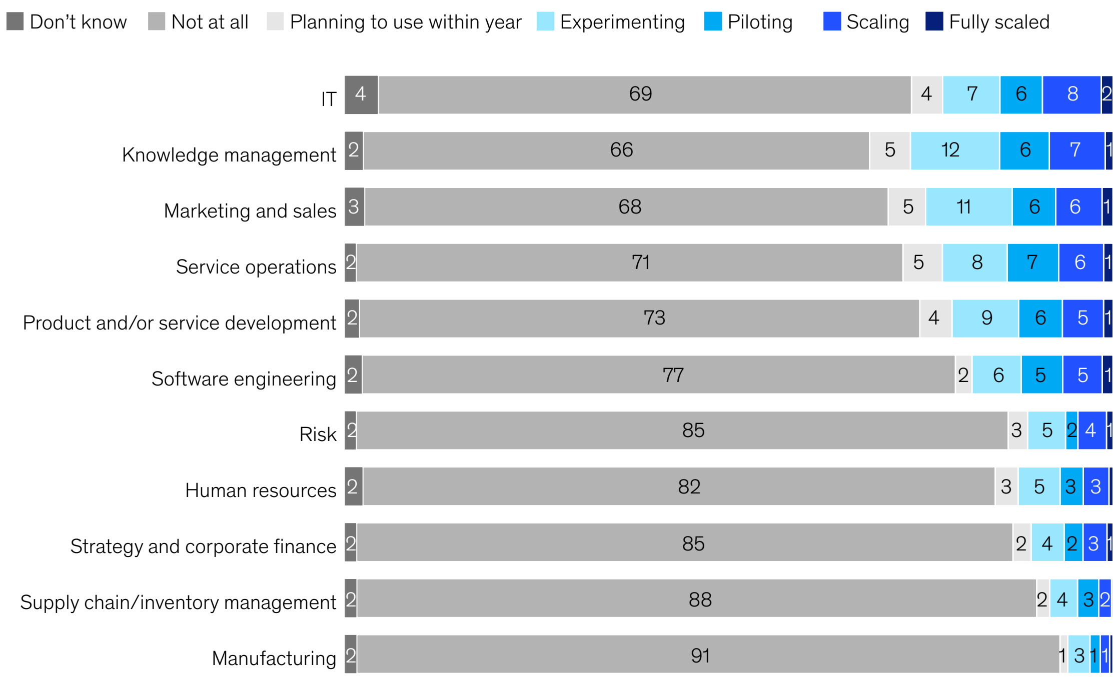
Many organizations are already experimenting with AI agents

Organizations are also beginning to explore opportunities with AI agents—systems based on foundation models capable of acting in the real world, planning and executing multiple steps in a workflow. Twenty-three percent of respondents report their organizations are scaling an agentic AI system somewhere in their enterprises (that is, expanding the deployment and adoption of the technology within a least one business function), and an additional 39 percent say they have begun experimenting with AI agents. But use of agents is not yet widespread: Most of those who are scaling agents say they're only doing so in one or two functions. In any given business function, no more than 10 percent of respondents say their organizations are scaling AI agents (Exhibit 2).

Exhibit 2

No more than 10 percent of respondents report scaling AI agents in any individual function.

Phase of AI agent use at respondents' organizations, by business function,[1] % of respondents (n = 1,933)



Note: Figures may not sum to 100%, because of rounding.
[1]Question was asked only of respondents who reported regular use of AI in the respective functions and was rebased to reflect the total sample.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

McKinsey & Company

Looking at individual business functions, agent use is most commonly reported in IT and knowledge management, where agentic use cases such as service-desk management in IT and deep research in knowledge management have quickly developed. By industry, the use of AI agents is most widely reported in the technology, media and telecommunications, and healthcare sectors (Exhibit 3).

Exhibit 3

Use of AI agents is most often reported by respondents working in technology, media and telecommunications, and healthcare.

AI agent use that has reached the scaling phase,[1] by industry and business function, % of respondents

	Total	Technology	Media and telecom	Healthcare	Insurance	Energy and materials	Advanced manufacturing	Professional services	Travel and logistics	Pharma and medical products	Engineering and construction	Financial institutions	Consumer goods and retail
IT	9	22	12	13	15	10	9	6	6	8	6	3	7
Knowledge management	8	12	7	14	16	6	5	12	6	6	4	4	6
Marketing and sales	7	16	10	6	20	8	5	6	8	5	4	4	7
Service operations	7	21	16	6	2	7	3	6	3	1	3	5	1
Product and/or service development	7	18	3	7	2	6	6	4	6	11	6	3	3
Software engineering	7	24	6	1	0	7	0	3	4	2	2	3	1
Risk, legal, and compliance	5	9	8	6	16	4	0	3	5	1	0	7	3
Strategy and corporate finance	4	6	5	5	0	3	4	5	6	1	4	4	3
Human resources	4	9	7	2	1	5	1	4	0	2	4	4	1
Supply chain/inventory management	2	4	1	3	1	2	3	1	2	4	0	0	3
Manufacturing	2	2	1	4	0	4	3	0	0	0	2	1	2

[1]Includes respondents who answered "scaling" and "fully scaled." Question was asked only of respondents who reported regular use of AI in the respective functions and was rebased to reflect the total sample. In technology, n = 237; insurance, n = 80; healthcare, n = 129; media and telecommunications, n = 93; energy and materi- als, n = 141; advanced manufacturing (includes advanced electronics, aerospace, automotive and assembly, and semiconductors), n = 118; professional services (includes legal services, management consulting, market research, and product research), n = 259; consumer goods and retail, n = 116; travel, logistics, and infrastruc- ture, n = 75; engineering, construction, and building materials, n = 77; banking and other financial institutions, n = 153; pharmaceuticals and medical products, n = 78.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

McKinsey & Company

McKinsey commentary

Michael Chui

Senior fellow

AI agents have been the subject of intense buzz and excitement. Already, about a quarter of our survey respondents report that they have started scaling at least one agentic AI system, but usually only in one or two business functions. Looking across the entire enterprise landscape, the use of agents is not yet widespread. This gap highlights the contrast between the great potential that manifests in a "hype cycle" and the current reality on the ground: For those companies that respondents say have started to use agents in any particular business function, most of them are still in the exploratory stages. And as we recently documented in another article about the lessons we've learned from a year of building agentic AI tools: When it comes to agents, it takes hard work to do it well.

Twenty-three percent of respondents report their organizations are scaling an agentic AI system somewhere in their enterprises.

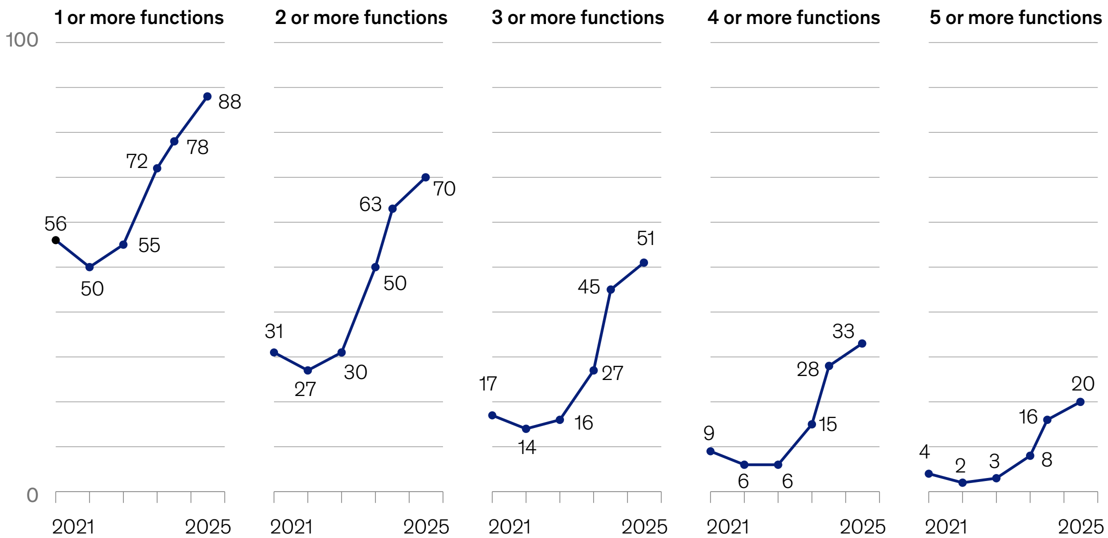
For most organizations, AI use remains in pilot phases

The use of AI overall is broadening within organizations. Respondents increasingly report that their organizations are using AI in more business functions (Exhibit 4). More than two-thirds of respondents now say their organizations are using AI in more than one function, and half report using AI in three or more functions (for a breakdown by industry, see sidebar, “Reported AI use ticks upward in nearly every industry”).

Exhibit 4

Organizations are increasingly using AI in multiple functions.

Business functions at respondents’ organizations that are using AI,[1] % of respondents



[1]In 2021, n = 1,843; in 2022, n = 1,492; in 2023, n = 1,684; in Feb–Mar 2024, n = 1,363; in July 2024, n = 1,491; in June–July 2025, n = 1,993. The survey question asks about 11 functions: HR; IT; manufacturing: marketing and sales; product and/or service development; risk, legal, and compliance; service operations; software engineering; strategy and corporate finance; supply chain/inventory management; and knowledge management.
McKinsey Global Surveys on the state of AI, 2021–25

McKinsey & Company

Sidebar

Reported AI use ticks upward in nearly every industry

In every industry besides the technology sector (which had already exceeded 90 percent reporting AI use), the share of respondents saying that their organization is regularly using AI in at least one business function has meaningfully increased since our previous survey. In last year’s research, respondents working for technology companies reported being ahead of other industries with respect to their use of AI. Now, respondents in media and telecommunications and insurance are just as likely as those in technology to report AI use (exhibit). Throughout eight years of AI research, we have consistently seen IT and marketing and sales as the business functions that respondents most often say are using AI. But our latest findings show that knowledge management is now also one of the functions with the most reported AI use.

Looking at individual use cases within business functions, respondents most often report using AI to capture information as well as processing and delivering it, such as through a conversational interface; in content support for marketing strategy, including drafting, generating ideas, and presenting knowledge for creating marketing strategies; and in contact-center or customer service automation.

Sidebar (continued)

Reported AI use ticks upward in nearly every industry

Exhibit

Respondents working in media and telecommunications, insurance, and technology report the most use of AI.

Business functions in which respondents' organizations are regularly using AI, by industry,[1]
% of respondents

	Total	Media and telecom	Insurance	Technology	Healthcare	Consumer goods and retail	Professional services	Travel and logistics	Energy and materials	Financial institutions	Advanced manufacturing	Engineering and construction	Pharma and medical products
Knowledge management	40	34	64	46	54	28	58	36	33	34	29	39	35
Marketing and sales	39	45	52	49	31	51	46	34	33	35	29	26	46
IT	34	38	55	56	32	32	21	32	39	32	40	25	29
Service operations	33	46	60	45	27	34	32	47	32	34	22	28	21
Product and/or service development	31	32	40	49	33	21	33	34	28	29	30	23	41
Software engineering	26	33	39	58	22	19	13	19	30	22	32	13	19
Human resources	21	28	16	28	22	22	20	9	22	19	18	15	29
Risk, legal, and compliance	17	17	46	18	15	11	15	19	17	47	7	13	9
Strategy and corporate finance	17	17	6	20	17	9	22	22	20	15	16	15	19
Supply chain/inventory management	12	6	4	10	11	22	4	19	19	3	25	12	34
Manufacturing	10	5	0	9	6	13	1	1	21	1	26	14	17
Use in at least 1 business function, %	88	96	95	95	92	91	91	90	89	86	86	84	83

[1]Respondents who said "don't know" or "other" are not shown. In media and telecom, n = 98; insurance, n = 61; technology, n = 249; healthcare, n = 101; consumer goods and retail, n = 129; professional services, n = 291; travel, logistics, and infrastructure, n = 66; energy and materials, n = 191; banking and other financial institutions, n = 152; advanced manufacturing (includes advanced electronics, aerospace, automotive and assembly, and semiconductors), n = 136; engineering, construction, and building materials, n = 90; pharmaceuticals and medical products, n = 77.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

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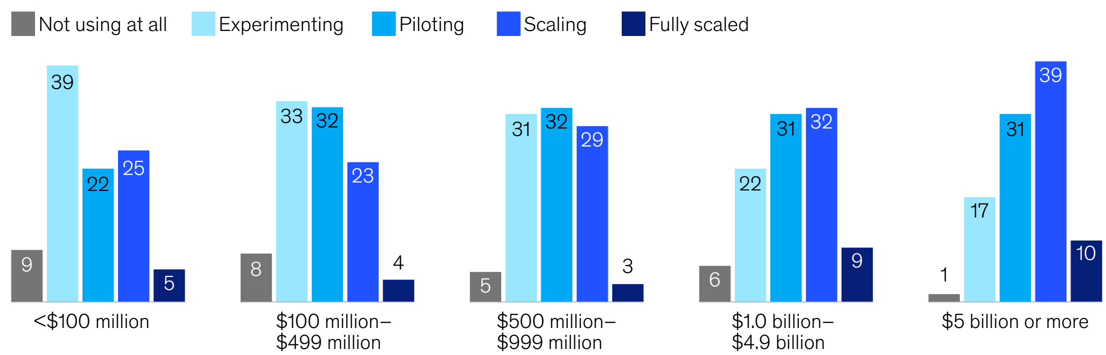
However, many companies—particularly smaller ones—have yet to integrate AI deeply across their workflows. While only one-third of all respondents say they are scaling their AI programs across their organizations, larger companies—both in terms of revenues and the number of employees—are more likely to have reached the scaling phase. Nearly half of respondents from companies with more than $5 billion in revenue have reached the scaling phase, compared with 29 percent of those with less than $100 million in revenues (Exhibit 5).

Exhibit 5

Larger companies lead the way in scaling AI beyond pilots.

Phase of organization's use of AI, by company revenues,[1] % of respondents



Note: Figures may not sum to 100%, because of rounding.
[1]Respondents who said "don't know" are not shown, but represent <2% of the total.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

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While only one-third of all respondents say they are scaling their AI programs across their organizations, larger companies are more likely to have reached the scaling phase.

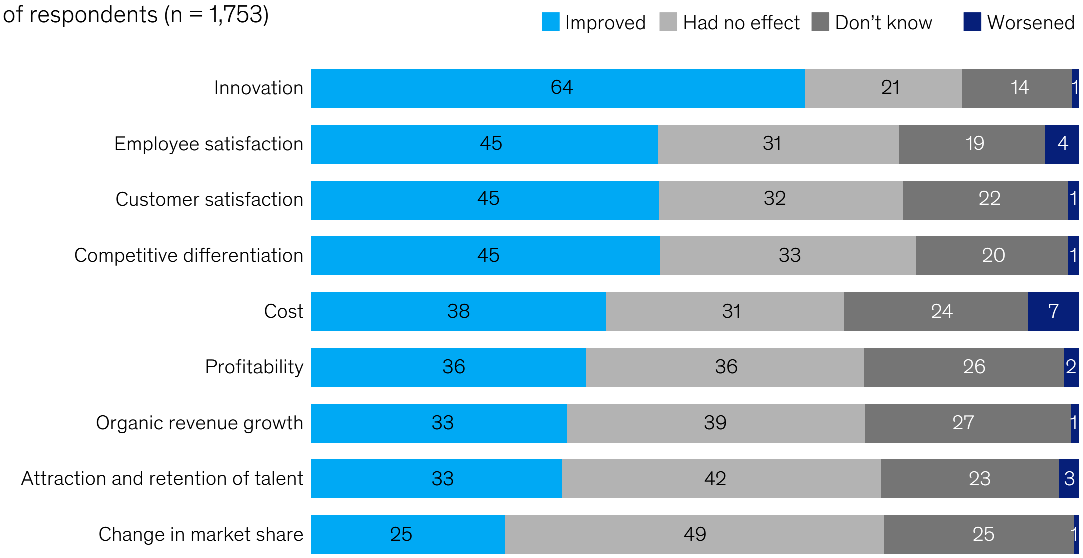
AI as a catalyst for innovation

Responses suggest that for most organizations, the use of AI has not yet significantly affected enterprise-wide EBIT. Thirty-nine percent of respondents attribute any level of EBIT impact to AI, and most of those respondents say that less than 5 percent of their organization's EBIT is attributable to AI use. However, respondents see other company-wide qualitative outcomes: A majority say that their organizations' use of AI has improved innovation, and nearly half report improvement in customer satisfaction and competitive differentiation (Exhibit 6).

Exhibit 6

Respondents most often cite benefits from AI in innovation, employee and customer satisfaction, and competitive differentiation.

Extent to which AI use has affected organizational measures over the past year,[1]
% of respondents (n = 1,753)



Note: Figures may not sum to 100%, because of rounding.
[1]Asked only of respondents who said their organizations regularly use AI in at least 1 business function.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

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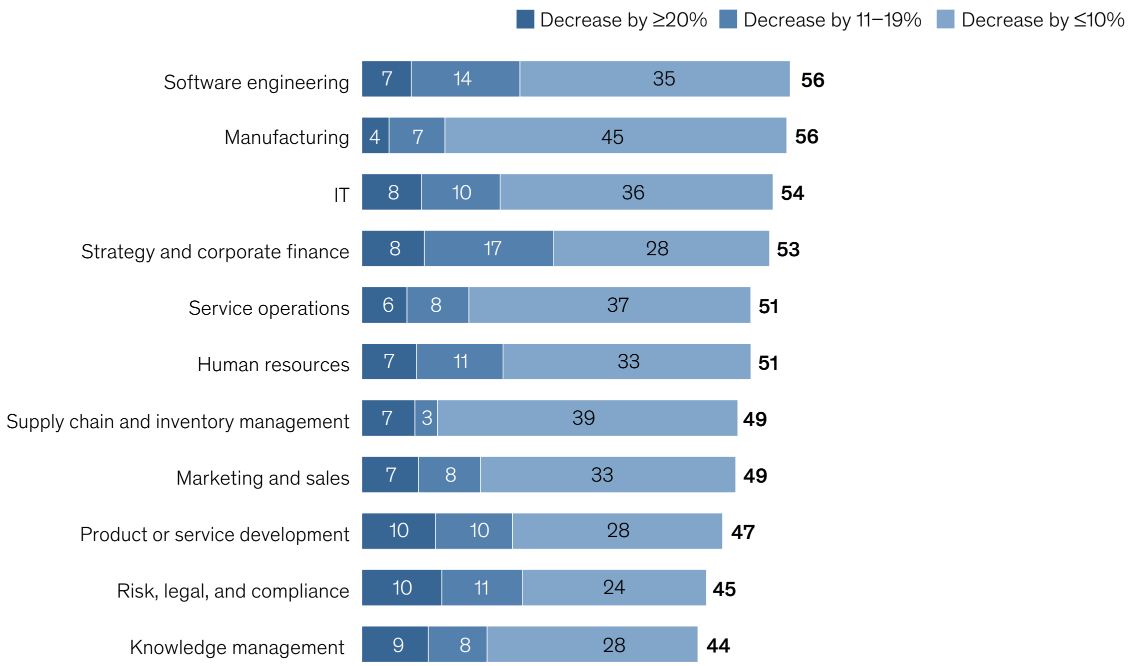
While reported cases of enterprise-wide EBIT impact are limited, many respondents say they are seeing cost benefits from individual AI use cases—especially in software engineering, manufacturing, and IT (Exhibit 7).

Exhibit 7

Respondents most commonly report cost benefits from AI activities in software engineering, manufacturing, and IT.

Cost decrease within business units from AI use, past 12 months, by function,[1] % of respondents



Note: Figures may not sum to totals, because of rounding.
[1]Question was asked only of respondents who said their organizations regularly use AI in a given function. Respondents who said “cost increase,” “no change,” “not applicable,” or “don’t know” are not shown.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

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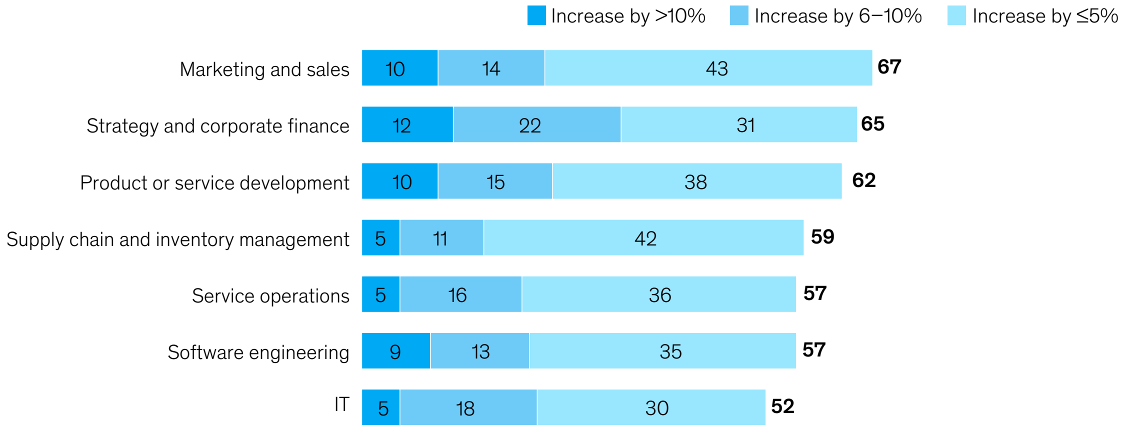
Revenue increases resulting from AI use are most commonly reported in use cases within marketing and sales, strategy and corporate finance, and product and service development, which is consistent with what we've seen over the years we have been conducting the survey (Exhibit 8).

Exhibit 8

Respondents report the greatest revenue benefits from AI in marketing and sales, strategy and corporate finance, and product or service development.

Revenue increase within business units from AI use, past 12 months, by function,[1] % of respondents



Note: Figures may not sum to totals, because of rounding.
[1]Questions were asked only of respondents who said their organizations use AI in a given function. Respondents who said "decreased revenue," "no change," "not applicable," or "don't know" for the effects of AI on revenue are not shown.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

McKinsey & Company

McKinsey commentary

Alex Singla

Senior partner

Last year, we noted that generative AI was no longer a novelty and that enterprise adoption was spreading as companies rewired to help realize value. This year's data confirm that trajectory—AI use is broadening, but scale still lags. We are seeing that while companies may have rolled out AI tools, most have not yet productized use cases, redesigned workflows around AI and agentic capabilities, or built the platforms/guardrails needed to run them at scale. In working with organizations, we find that the largest ones have the scale to invest in AI to advance more quickly. The companies reporting EBIT impact tend to have progressed further in their scaling journeys. All business leaders are seeking to make their companies more efficient, but the real results emerge when leaders are also able to use technology to innovate.

Organizations with ambitious AI agendas are seeing the most benefit

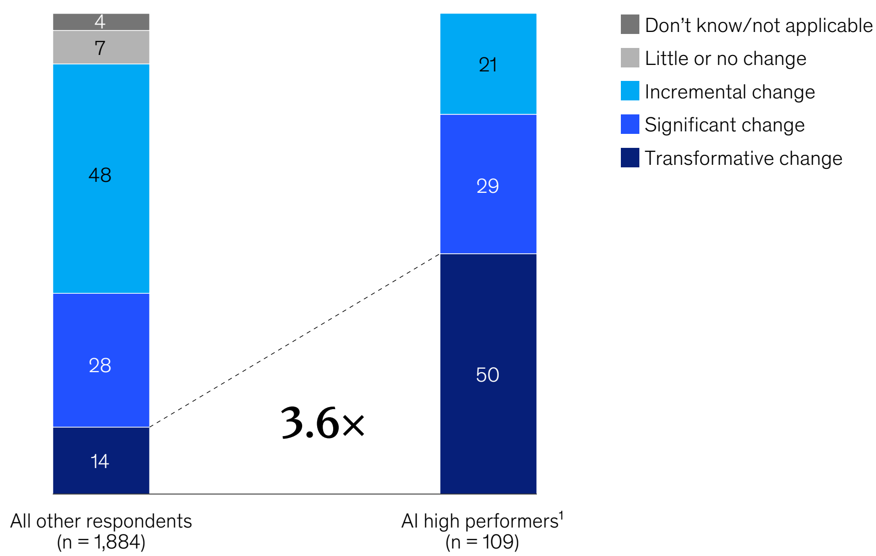
Meaningful enterprise-wide bottom-line impact from the use of AI continues to be rare, though our survey results suggest that thinking big can pay off. Respondents who attribute EBIT impact of 5 percent or more to AI use and say their organization has seen "significant" value from AI use—our definition of AI high performers, representing about 6 percent of respondents—report pushing for transformative innovation via AI, redesigning workflows, scaling faster, implementing best practices for transformation, and investing more.

High performers have bold ambitions to transform their business: AI high performers are more than three times more likely than others are to say their organization intends to use AI to bring about transformative change to their businesses (Exhibit 9).

Exhibit 9

High performers are more likely than others to expect their organizations to use AI for enterprise-wide transformative change.

Extent to which organization intends to use AI to change its business in the next 3 years,
% of respondents



Note: Figures may not sum to 100%, because of rounding.
[1]AI high performers are respondents who reported that more than 5% of their organization's EBIT and "significant value" are attributable to the organization's use of AI.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

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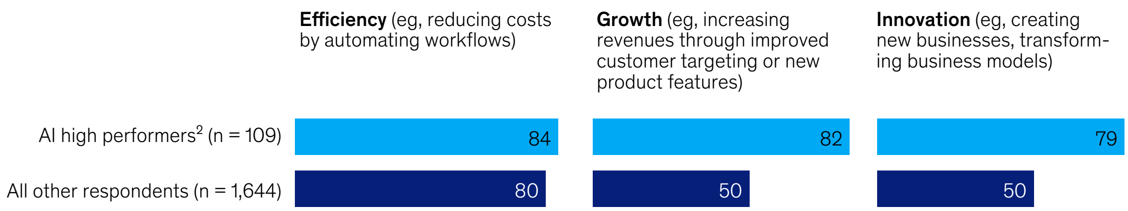
Organizations seeing the greatest impact from AI often aim to achieve more than cost reductions from these technologies. While most respondents report that efficiency gains are an objective of their organizations' AI use, high performers are more likely than others are to say their organizations have also set growth and/or innovation as an objective of their AI efforts (Exhibit 10).

Whether or not they qualify as high performers, respondents who say their organizations are using AI to spur growth and/or innovation are more likely than others are to report achieving a range of qualitative enterprise-level benefits from their AI use—such as improved customer satisfaction, competitive differentiation, profitability, revenue growth, and change in market share.

Exhibit 10

High performers set innovation or growth objectives for AI efforts, in addition to efficiency goals.

Objectives of AI efforts at respondents' organizations,[1] % of respondents



[1]Asked only of respondents who said their organizations regularly use AI in at least 1 business function. Respondents who said "don't know" or "other" are not shown.
[2]AI high performers are respondents who reported that more than 5% of their organization's EBIT and "significant value" are attributable to the organization's use of AI.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

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Respondents who say their organizations are using AI to spur growth and/or innovation are more likely than others are to report achieving a range of qualitative enterprise-level benefits from their AI use.

In addition to high aspirations at the enterprise level, high performers are also nearly three times as likely as others are to say their organizations have fundamentally redesigned individual workflows (Exhibit 11). Indeed, this intentional redesigning of workflows has one of the strongest contributions to achieving meaningful business impact of all the factors tested.[1]

Exhibit 11

High performers are nearly three times as likely as others are to fundamentally redesign their workflows in their deployment of AI.

Respondents who report fundamental redesign of organization's workflows in their deployment of AI,[1]
% of respondents

[1]Question was asked only of respondents whose organizations use AI in at least 1 function.
[2]AI high performers are respondents who reported that more than 5% of their organization's EBIT and "significant value" are attributable to the organization's use of AI. For AI high performers, n = 109; for all others, n = 1,644.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

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[1] To identify which organizational practices differentiate high performers, we conducted a relative weights analysis on 31 variables. This method estimates each variable's unique contribution to explaining high-performance status, accounting for correlations among predictors.

McKinsey commentary

Tara Balakrishnan

Associate partner

What stands out most about the high performers is their level of ambition. Their AI agendas go beyond driving incremental efficiency gains: High performers are setting out to fundamentally reimagine their businesses. This level of ambition becomes a key differentiator and catalyst for change in the organization. When leaders articulate a transformative vision for AI, we see that it galvanizes the organization in terms of alignment, investment, and overall energy. As a result, leading organizations are not just seeing improved automation results; they are redesigning workflows and customer experiences to capture new forms of value.

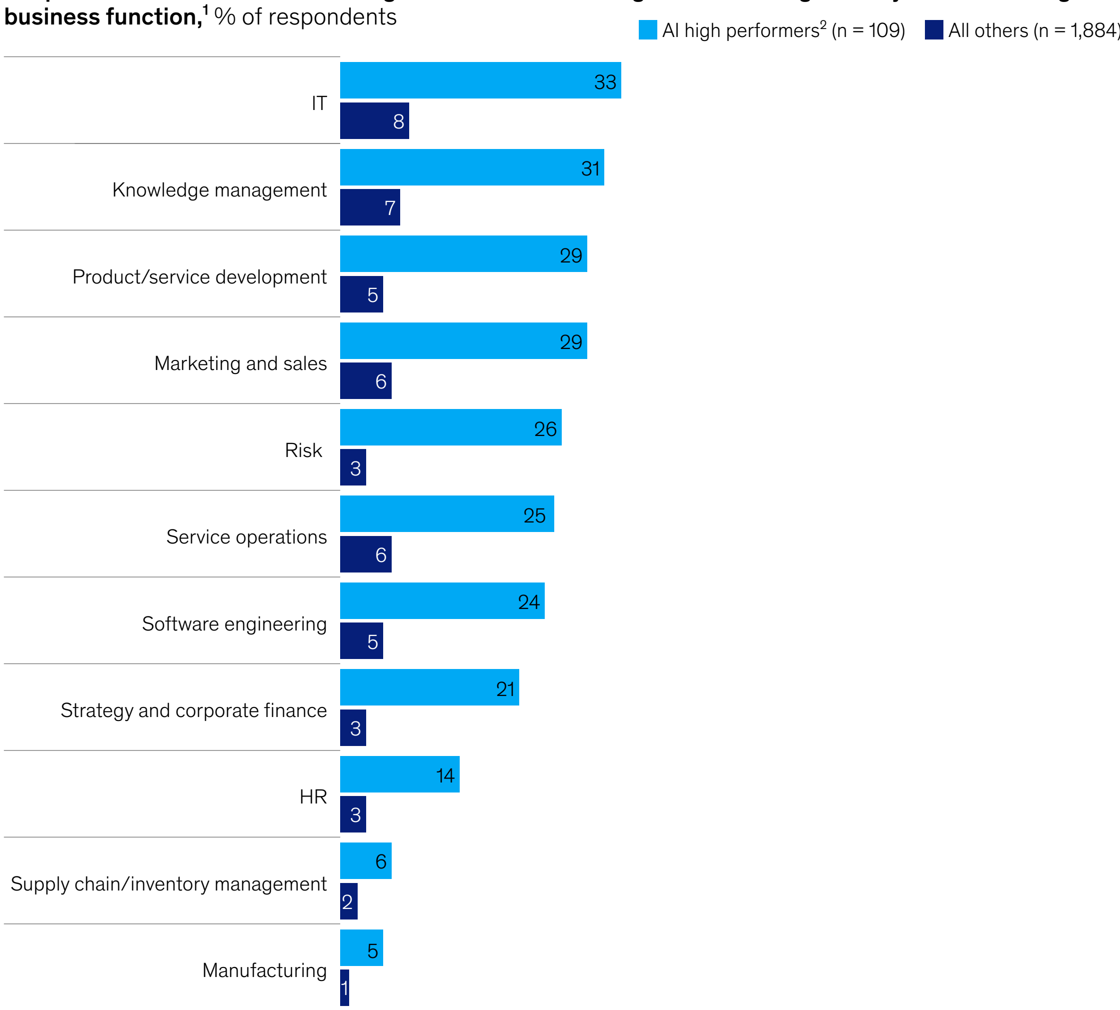
Often, organizations approach AI through a cost-first mindset. While many see leading indicators from efficiency gains, focusing only on cost can limit AI's impact. Positioning AI as an enabler of growth and innovation creates space within the organization to go after the cost and efficiency improvements more effectively. And for many organizations, an efficiency play will not be sufficient to navigate AI disruption. They will need to consider how AI can be leveraged to tell a transformational story to their stakeholders. Doing so also supports change management internally. Employees tend to rally behind a shared vision of opportunity. In our experience, many of the organizations that use AI to inspire growth and innovation are the same ones that find it easier to scale AI use and ultimately realize sustainable productivity improvements.

AI high performers are also regularly using AI in more business functions than their peers. These respondents are much more likely than others are to report use in marketing and sales, strategy and corporate finance, and product and service development, for example. Additionally, high performers have advanced further with their use of AI agents than others have. In most business functions, AI high performers are at least three times more likely than their peers to report that they are scaling their use of agents (Exhibit 12).

Exhibit 12

High performers are much more likely than others are to have taken AI agents to the scaling phase.

Respondents who describe their organization's use of AI agents as 'scaling' or 'fully scaled' in the given business function,[1] % of respondents



[1]The question asked to what extent respondents' organizations are using AI agents (ie, AI systems based on foundation models that act in the real world and are capable of autonomously planning and executing multiple steps in a workflow) in each of the following business functions. Only asked of respondents whose organizations use AI in at least 1 function.
[2]AI high performers are respondents who reported that more than 5% of their organization's EBIT and "significant value" are attributable to the organization's use of AI.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

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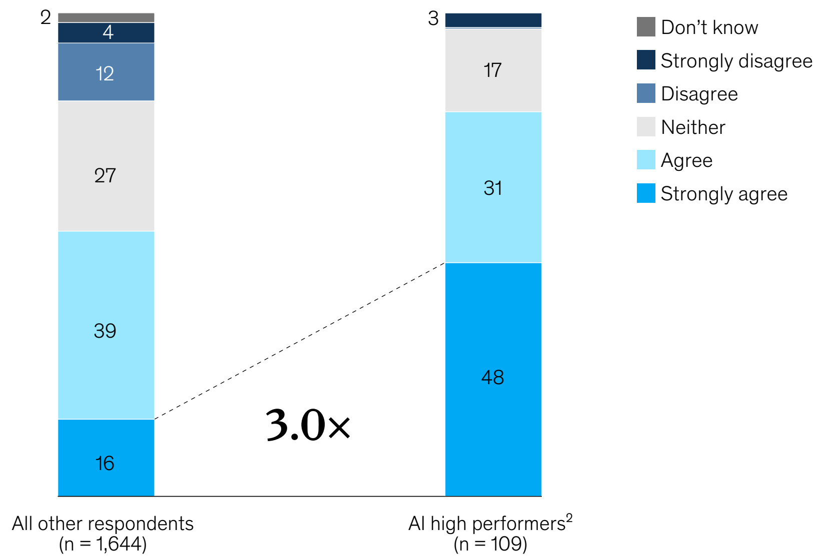
The findings also show that AI high performers' use of AI is more often championed by their leaders. High performers are three times more likely than their peers to strongly agree that senior leaders at their organizations demonstrate ownership of and commitment to their AI initiatives (Exhibit 13). These respondents are also much more likely than others are to say that senior leaders are actively engaged in driving AI adoption, including role modeling the use of AI.

Exhibit 13

High performers tend to have senior leaders who demonstrate strong ownership and commitment to AI initiatives.

Extent of agreement that senior leaders at respondents' organization demonstrate ownership of and commitment to its AI initiatives,[1]
% of respondents



Note: Figures may not sum to 100%, because of rounding.
[1]Question asked to what extent the respondent agreed that senior leaders in their organization demonstrate true ownership of and commitment to its AI initiatives (eg, championing them across the organization over time, role modeling, providing continued funding and engagement in regular budget reprioritization).
[2]AI high performers are respondents who reported that more than 5% of their organization's EBIT and "significant value" are attributable to the organization's use of AI.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

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In addition to having senior leadership ownership and commitment, AI high performers are also more likely to employ a range of practices to realize value from AI use. For example, high performers are more likely than others are to say their organizations have defined processes to determine how and when model outputs need human validation to ensure accuracy (Exhibit 14). This is another one of the top factors we tested to determine those that most distinguished high performers. The full set of management practices align with our broader *Rewired* research, which is based on more than 200 at-scale AI transformations. They span six dimensions essential to capturing value from AI: strategy, talent, operating model, technology, data, and adoption and scaling. All of the management practices we tested correlate positively with value attributable to AI. These practices enable organizations to innovate and capture value from AI at scale.

High performers are more likely than others are to say their organizations have defined processes to determine how and when model outputs need human validation.

Exhibit 14

Organizations seeing the largest returns from AI are more likely than others to follow a range of best practices.

Organizations engaging in each practice,[1] % of respondents

● AI high performers[2] (n = 109) ● All other respondents (n = 1,643)

Highest prevalence

		All other respondents	AI high performers
Strategy	**Human in the loop:** Have defined processes to determine how and when model outputs need human validation to ensure accuracy	23	65
Technology	**Technology infrastructure:** Technology infrastructure and architecture allow implementation of core AI initiatives using the latest technologies	23	60
Strategy	**Clearly defined AI road map:** Have defined a road map with specific AI initiatives and use cases across priority business domains, aligned with our broader AI strategy	31	60
Strategy	**Leadership alignment on value creation:** Top leaders understand how AI can create value for the business	41	60
Adoption and scaling	**Rewiring business processes:** Embeds AI solutions into business processes effectively (eg, changing frontline employees' processes, creating user interfaces)	20	58
Adoption and scaling	**Senior leadership engagement:** Senior leaders are actively engaged in driving AI adoption, including role modeling the use of AI	33	57
Operating model	**Product delivery:** Have an agile product delivery organization or an enterprise-wide agile organization with well-defined agile team delivery processes	20	54
Talent	**Strategic workforce planning:** Have developed a clear workforce plan (for technology and nontechnology roles) that incorporates the anticipated changes from AI	19	54
Data	**Iterative solution development:** Have an established process for building AI solutions and iteratively improving them (eg, guardrails, approach to development)	22	54
Operating model	**Rapid development cycles:** AI efforts progress quickly and are adaptive (ie, characterized by quick decision-making and iterative learning)	24	54

Relative importance

		All other respondents	AI high performers
Operating model	**Product development:** Have an agile product delivery organization or an enterprise-wide agile organization with well-defined agile team delivery processes	20	54
Strategy	**Human in the loop:** Have defined processes to determine how and when model outputs need human validation to ensure accuracy	23	65
Operating model	**Governance:** Have a centralized team that coordinates and links AI efforts across the organization	38	46
Strategy	**Vision and strategy:** Have clearly defined an AI vision and strategy	21	44
Strategy	**Leadership alignment on value creation:** Top leaders understand how AI can create value for our business	41	60
Adoption and scaling	**Rewiring business processes:** Embed AI solutions into business processes effectively (eg, changing frontline employees' processes, creating user interfaces)	20	58
Data	**Data products:** Have created reusable, business-specific data products	21	25
Talent	**AI upskilling:** Have curated learning journeys, tailored by role, to build critical AI skills for technical talent (eg, data scientists, data engineers)	24	34
Talent	**AI talent strategy:** Have created a talent strategy that allows us to effectively recruit, onboard, and integrate AI-related talent	18	47
Data	**Iterative solution development:** Have an established process for building AI solutions and iteratively improving them (eg, guardrails, approach to development)	22	54

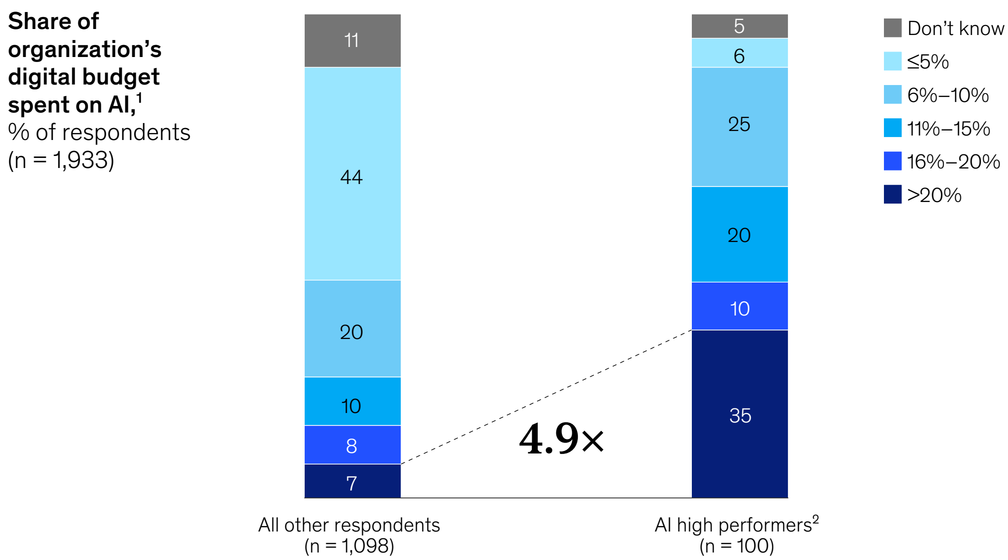
[1]Asked only of respondents who said their organizations regularly use AI in at least 1 business function. To identify which organizational practices differentiate high performers, we conducted a relative weights analysis. This method estimates each variable's unique contribution to explaining high-performance status, accounting for correlations among predictors.
[2]AI high performers are respondents who reported that more than 5% of their organization's EBIT and "significant value" are attributable to the organization's use of AI.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

Having an agile product delivery organization, or an enterprise-wide agile organization with well-defined delivery processes, is also strongly correlated with achieving value. Establishing robust talent strategies and implementing technology and data infrastructure similarly show meaningful contributions to AI success, and practices such as embedding AI into business processes and tracking KPIs for AI solutions further contribute to achieving significant value.

Finally, high-performing organizations are investing more in AI capabilities. More than one-third of high performers say their organizations are committing more than 20 percent of their digital budgets to AI technologies (Exhibit 15). These resources are helping them scale AI technologies across the business: About three-quarters of high performers say their organizations are scaling or have scaled AI, compared with one-third of other organizations.

Exhibit 15

One-third of high performers spend more than 20 percent of their digital budgets on AI.



Note: Figures may not sum to 100%, due to rounding.
[1]The question asked what share of respondents' organization's total enterprise-wide budget for digital technologies is spent on AI-related technologies. Only asked of respondents who said their organizations regularly use AI in at least 1 function and who reported knowledge of their organization's operating budget.
[2]AI high performers are respondents who say their organizations are seeing more than 5% of EBIT from their AI use and report seeing "significant value" as a result of AI.
Source: McKinsey Global Survey on the state of AI, n= 1,993 participants at all levels of the organization, June 25–July 29, 2025

McKinsey & Company

McKinsey commentary

Bryce Hall

Associate partner

Particularly in the context of massive investments in AI and lofty valuations of many AI companies, it makes sense that executives are taking a hard look at *where* AI is actually creating value, and *how* AI leaders are successfully capturing value from their investments. This year's survey suggests that leading organizations successfully implement a set of practices that bridge the interface between AI and human users. In fact, one of the leading practices is effectively determining how and when to incorporate "human in the loop," for example, in the development, testing, and deployment of AI solutions. This is consistent with our real-world experience with companies, too; AI is rarely a stand-alone solution. Instead, companies capture value when they effectively enable employees with real-world domain experience to interact with AI solutions at the right points. The combination of AI solutions alongside human judgment and expertise is what creates real "hybrid intelligence" superpowers and real value capture. AI leaders adopt a set of other practices that point in this same direction, including fully embedding AI solutions into business workflows and having senior leaders actively engaged in driving adoption at scale.

Interestingly, the ten leading management practices highlighted by this year's survey include all six elements of McKinsey's *Rewired* playbook for digital and AI transformations. While each year we test new practices, one evergreen principle holds true: Companies that effectively deliver across six primary elements (strategy, talent, operating model, technology, data, and adoption and scaling) are the ones reporting significant value creation from their AI investments.

Expectations vary on AI's effect on workforce size

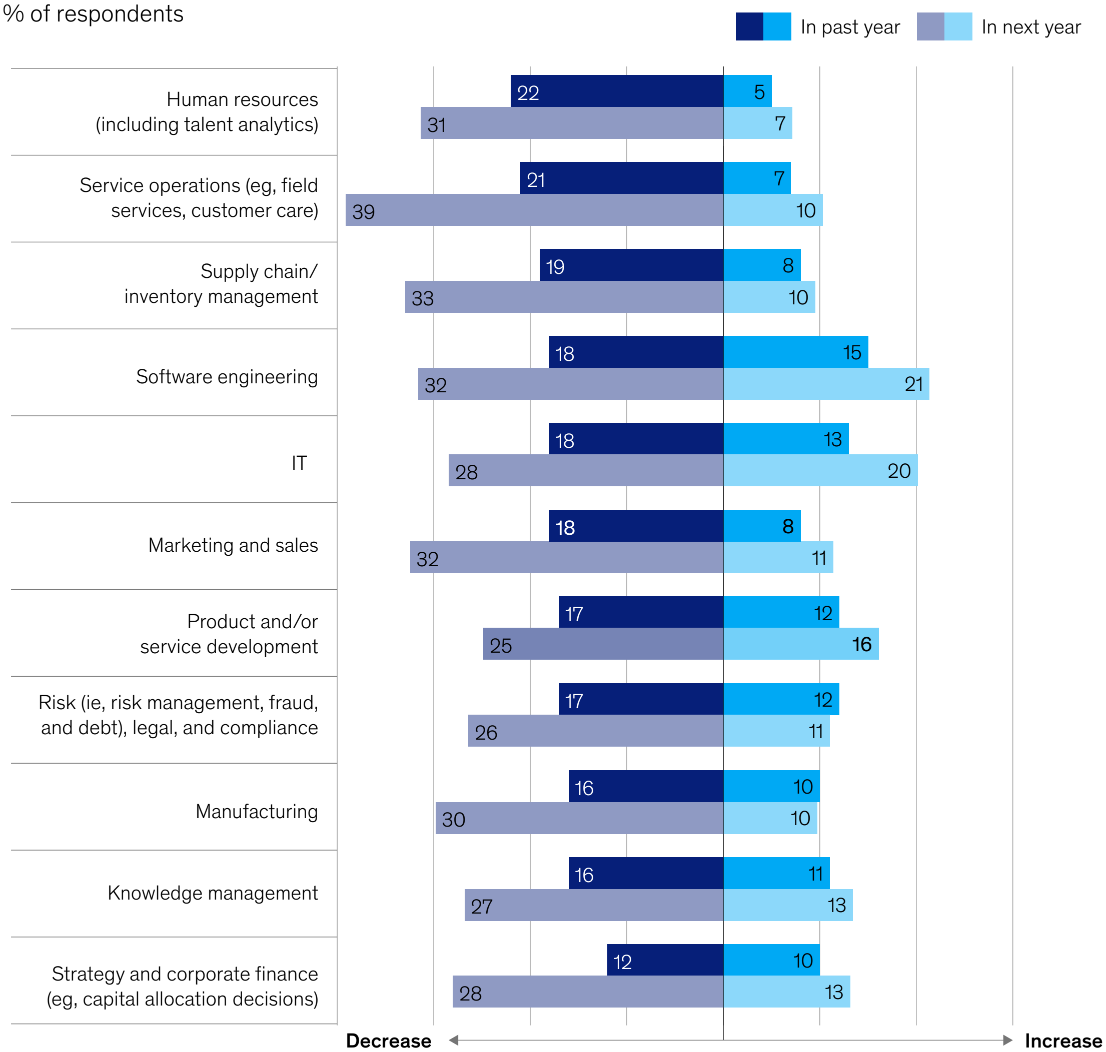
As organizations expand their use of AI, respondents share differing perspectives on how AI might affect their workforce size in the year ahead. Looking at the functions in which organizations are using AI, a plurality of respondents observed little to no change in the number of employees due to their organization's use of AI in the past year. In most functions, fewer than 20 percent of respondents report decreases of 3 percent or more, and smaller shares say their organization's AI use led them to add head count within functions.

However, larger shares of respondents expect changes in the number of employees in these functions in the year ahead (Exhibit 16). Across business functions, a median of 17 percent of respondents report declines in functions' workforce size in the past year as a result of AI use, but a median of 30 percent expect a decrease in the next year.

Exhibit 16

Larger shares of respondents expect AI to affect the workforce size in their organizations' business functions next year than observed changes last year.

Change in number of employees over the past year due to AI in the given business functions,[1]
% of respondents



[1]Question was asked only of respondents who said their organization regularly uses AI in the given business function.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

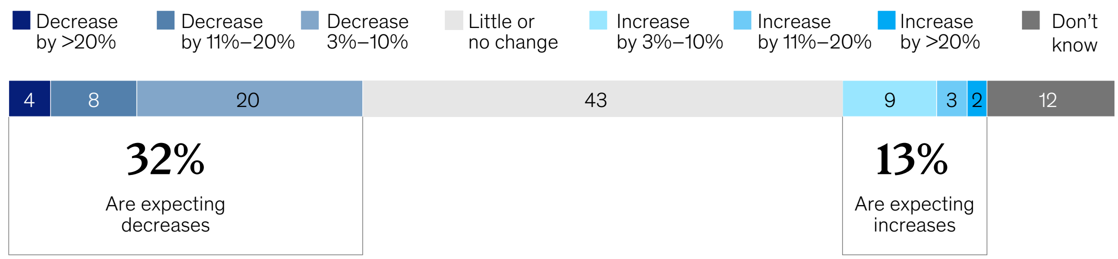
McKinsey & Company

Expectations differ on the impact of AI on the size of respondents' enterprise-wide total workforce. While a plurality of respondents expect to see little or no effect on their organizations' total number of employees in the year ahead, 32 percent predict an overall reduction of 3 percent or more, and 13 percent predict an increase of that magnitude (Exhibit 17). Respondents at larger organizations are more likely than those at smaller ones to expect an enterprise-wide AI-related reduction in workforce size, while AI high performers are more likely than others are to expect a meaningful change, either in the form of workforce reductions or increases.

Exhibit 17

Respondents have differing expectations for AI's impact on their organizations' workforce size in the year ahead.

Expected change in number of employees across the enterprise as a result of AI in the next year,[1]
% of respondents



Note: Figures do not sum to 100%, because of rounding.
[1]Asked only of respondents who said their organization regularly uses AI in at least 1 business function; n = 1,753.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

McKinsey & Company

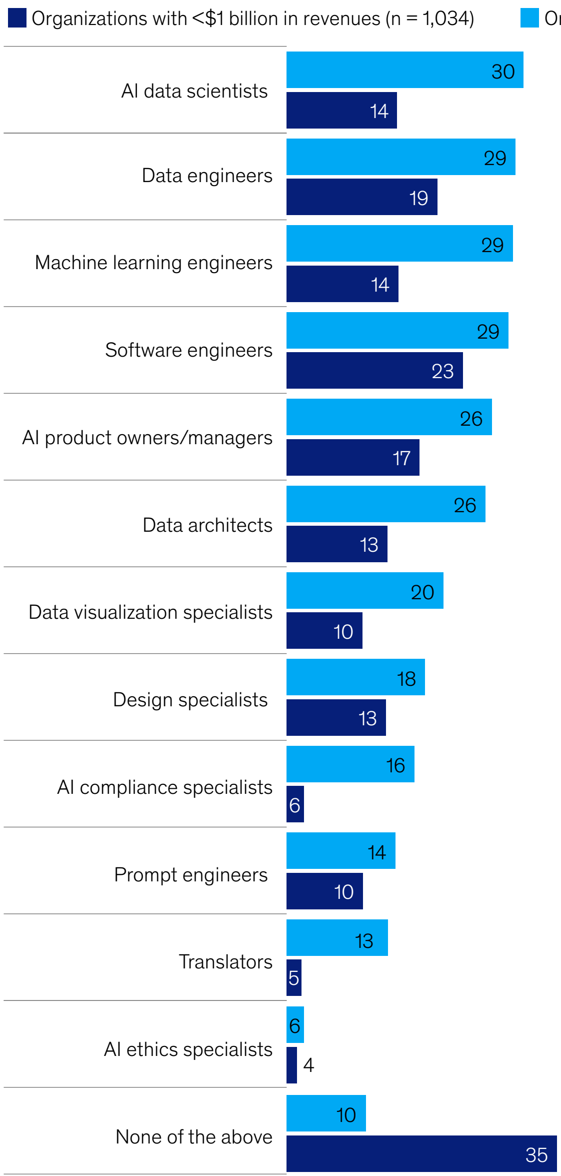
A plurality of respondents expect to see little or no effect on their organizations' total number of employees in the year ahead.

At the same time, most respondents—and an even larger share from larger companies—note that their organizations hired for AI-related roles over the past year (Exhibit 18). While the talent needs differ by company size overall, software engineers and data engineers are the most in demand.

Exhibit 18

Respondents at larger organizations are more likely than peers at smaller organizations to report AI-related hiring in the past year.

Share of organizations that have hired given role within the past year,[1] % of respondents



[1]Asked only of respondents who said their organization regularly uses AI in at least 1 business function; respondents who said "other" or "don't know" are not shown.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

McKinsey & Company

McKinsey commentary

Lareina Yee

Senior partner and McKinsey Global Institute director

As many companies are still in pilot and early production phases of AI use, it is not yet clear what impact AI will have on the number of jobs and nature of work. Still, even in these early days of adoption, we are seeing changes in the skills demanded for a range of jobs. Across positions like claims adjusters, digital marketers, and wealth managers, we are seeing increasing demand for AI skills; typically, this is about incorporating AI into existing roles or workflows. In terms of how AI will affect head count, about a third of respondents say they expect their organization's workforce to decline in size—though interestingly, a small percentage of respondents say they expect their organization's head count to increase, and some report head count increases over the past year across functions as diverse as IT, supply chain, and sales. Some of these jobs will become more critical as AI adoption increases. AI success, for example, requires data readiness and MLOps. We see larger companies in particular hiring for those skills; they are twice as likely to hire roles that integrate, model, and industrialize data.

Efforts to mitigate AI risks are becoming more common as challenges materialize

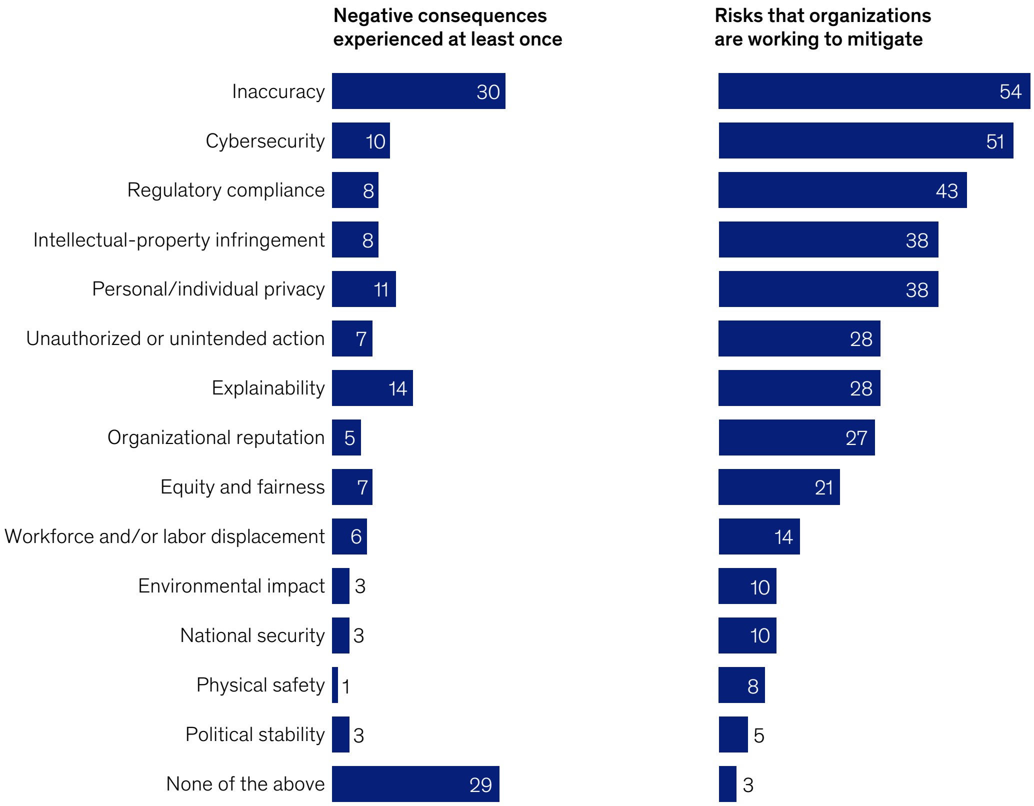
Over the past six years, our research has consistently found that few risks associated with the use of AI are mitigated by most respondents' organizations. In our latest findings, the share of respondents reporting mitigation efforts for risks such as personal and individual privacy, explainability, organizational reputation, and regulatory compliance has grown since we last asked about risks associated with AI overall in 2022. (In 2023 and 2024, we asked specifically about gen AI–related risks.) Back in 2022, respondents reported acting to manage an average of two AI-related risks, compared with four risks today.

We also see that, largely, the risks that organizations are experiencing and are working to mitigate are connected: Respondents are more likely to say their organizations are mitigating each of the risks they have experienced consequences from. Overall, 51 percent of respondents from organizations using AI say their organizations have seen at least one instance of a negative consequence, with nearly one-third of all respondents reporting consequences stemming from AI inaccuracy (Exhibit 19). Inaccuracy is one of two risks that most respondents say their organizations are working to mitigate. However, the second-most-commonly-reported risk—explainability—is not among the most commonly mitigated.

Exhibit 19

Inaccuracy is the AI-related risk that respondents most often say their organizations have experienced and are working to mitigate.

Negative consequences and risk mitigation in the past year,[1] % of respondents (n = 1,753)



[1]Questions were asked only of respondents whose organizations regularly use AI in at least 1 function. Respondents who said "don't know/not applicable" are not shown.
Source: McKinsey Global Survey on the state of AI, 1,993 participants at all levels of the organization, June 25–July 29, 2025

McKinsey & Company

Respondents from AI high performers, who say their organizations have deployed twice as many AI use cases as others have, are more likely than others to report negative consequences—particularly related to intellectual property infringement and regulatory compliance. High performers also try to protect against a larger number of risks.

McKinsey commentary

Alexander Sukharevsky

Senior partner

We know that AI high performers—respondents who say their organizations are deriving higher impact from their use of AI—tend to have more ambitious agendas than their peers. Interestingly, they are also more likely than their peers to report *more*, rather than fewer, negative consequences from AI use. This isn't as counterintuitive as it might seem. After all, because they are more ambitious, AI high performers are likely to be using the technology in mission-critical contexts that require sensitive monitoring. They also report mitigating these risks at a higher rate than others, given that they are aware of them. Their ambition also has considerable upside: It helps explain *why* these organizations tend to outperform—and offers an important lesson to those who are still struggling to realize value from their AI efforts. Approaching AI solely through the lens of efficiency, our survey suggests, is not enough. Achieving measurable results requires leaders to pursue a bold agenda, driven by innovation and transformation. That, we are learning, may be the true pathway to high performance.

While the use of AI is now common, our new survey suggests that its full promise still remains ahead. Most organizations are still navigating the transition from experimentation to scaled deployment, and while they may be capturing value in some parts of the organization, they're not yet realizing enterprise-wide financial impact. The experience of the highest-performing companies suggests a path forward. These organizations stand out for thinking beyond incremental efficiency gains: They treat AI as a catalyst to transform their organizations, redesigning workflows and accelerating innovation. As AI tools, including agents, improve and companies' capabilities mature, the opportunity to embed AI more fully into the enterprise will offer organizations new ways to capture value and create competitive advantage.

About the research

The online survey was in the field from June 25 to July 29, 2025, and garnered responses from 1,993 participants in 105 nations representing the full range of regions, industries, company sizes, functional specialties, and tenures. Thirty-eight percent of respondents say they work for organizations with more than $1 billion in annual revenues. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

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Verb High-Yield Savings Round-Up Estimate

The following information outlines how I arrived at $1,093,5000 in the Verb High-Yield Savings:

- Marketing Campaign #1: August 1-December 31, 2027
  - Drive in $5,000,000 in deposits from 1,000 new members
    - $2,500,000 is secured against a Verb Secured Credit Card
    - $2,500,000 is deposited into their checking account linked to a Verb Debit Card
      - Those 1,0000 members begin using their Verb Debit Card and an average of $45 is transferred per month to their Verb High-Yield Savings. Without knowing exactly what month they establish their account and begin spending, I'll assume 200 new members per month with a total of $135,000 transferred to the Verb High-Yield savings portfolio by December 31, 2027. Below is a breakdown of how I came to this number.
        - August-200 members ($225/per member)
          - By December 31, 2027= $45,000 in Verb High-Yield Savings
        - September-200 members ($180/per member)
          - By December 31, 2027= $36,000 in Verb High-Yield Savings
        - October-200 members ($135/per member)
          - By December 31, 2027= $27,000 in Verb High-Yield Savings
        - November-200 members ($90/per member)
          - By December 31, 2027= $18,000 in Verb High-Yield Savings
        - December-200 members ($45/per member)
          - By December 31, 2027= $9,000 in Verb High-Yield Savings
        - **Total transferred to Verb High-Yield Savings-$135,000**

- Member Outreach Employee Contest: January 1-June 30, 2028
  - Drive in $3,000,000 in deposits from 600 members (600 members=100 members per branch during the 6-month contest period)
    - $1,500,000 is secured against a Verb Secured Credit Card
    - $1,500,000 is deposited into their checking account linked to a Verb Debit Card
      - Those 600 members begin using their Verb Debit Card and an average of $45 is transferred per month. Without knowing exactly what month they establish their account and begin spending, I'll assume 100 new members per month with a total of $256,500 transferred to the Verb High-Yield savings portfolio by December 31, 2028. Below is a breakdown of how I came to this number.
        - January-100 members ($540/per member)
          - By December 31, 2028= $54,000 in Verb High-Yield Savings
        - February-100 members ($495/per member)

- By December 31, 2028= $49,500 in Verb High-Yield Savings
- March-100 members ($450/per member)
  - By December 31, 2028= $45,000 in Verb High-Yield Savings
- April-100 members ($405/per member)
  - By December 31, 2028= $40,500 in Verb High-Yield Savings
- May-100 members ($360/per member)
  - By December 31, 2028= $36,000 in Verb High-Yield Savings
- June-100 members ($315/per member)
  - By December 31, 2028= $31,500 in Verb High-Yield Savings
- **Total transferred to Verb High-Yield Savings-$256,500**

- Marketing Campaign #2: January 1-December 31, 2028
  - Drive in $12,000,000 in deposits from 2,400 new members
    - $6,000,000 is secured against a Verb Secured Credit Card
    - $6,000,000 is deposited into their checking account linked to a Verb Debit Card
      - Those 2,400 members begin using their Verb Debit Card and an average of $45 is transferred per month to their Verb High-Yield Savings. Without knowing exactly what month they establish their account and begin spending, I'll assume 200 new members per month with a total of $702,000 transferred to the Verb High-Yield savings portfolio by December 31, 2028. Below is a breakdown of how I came to this number.
        - January-200 members ($540/per member)
          - By December 31, 2028= $108,000 in Verb High-Yield Savings
        - February-200 members ($495/per member)
          - By December 31, 2028= $99,000 in Verb High-Yield Savings
        - March-200 members ($450/per member)
          - By December 31, 2028= $90,000 in Verb High-Yield Savings
        - April-200 members ($405/per member)
          - By December 31, 2028= $81,000 in Verb High-Yield Savings
        - May-200 members ($360/per member)
          - By December 31, 2028= $72,000 in Verb High-Yield Savings
        - June-200 members ($315/per member)
          - By December 31, 2028= $63,000 in Verb High-Yield Savings
        - July-200 members ($270/per member)
          - By December 31, 2028= $54,000 in Verb High-Yield Savings

- August-200 members ($225/per member)
  - By December 31, 2028= $45,000 in Verb High-Yield Savings
- September-200 members ($180/per member)
  - By December 31, 2028= $36,000 in Verb High-Yield Savings
- October-200 members ($135/per member)
  - By December 31, 2028= $27,000 in Verb High-Yield Savings
- November-200 members ($90/per member)
  - By December 31, 2028= $18,000 in Verb High-Yield Savings
- December-200 members ($45/per member)
  - By December 31, 2028= $9,000 in Verb High-Yield Savings
- **Total transferred to Verb High-Yield Savings-$702,000**