Subject: Response to Article on SECU in CU Times September 30, 2024

Thought that the September 30, 2024 CU Times article on SECU's upcoming Board election was mostly accurate. However, I would want to make one major correction to provide the complete story to SECU members, SECU employees, and CEO Leigh Brady and to offer a couple of comments on a way forward without credit-scored rate setting on loans.

First, the article correction:

There was a runoff of $5 billion in deposits from SECU during 2022-2023 (beginning around March 2022 and running through August 2023). SECU employs fiscal year-end reporting to members for GAAP audit purposes. The fiscal year runs from July 1 through June 30. In a 2024 fiscal year-end summary Ms. Brady noted that deposits finally recovered with a growth of $1+ billion during the period July 1, 2023 through June 30, 2024. I don't and didn't dispute that. It is also true that deposit balances plummeted by $5 billion between March 2022 and August 2023 which is what I was commenting on in reviewing the 2024 fiscal year promo. I take responsibility for not clearly enough identifying that I was talking about actions taken before the current fiscal year.

My comments focused on the negative impacts that the Board and Management strategy had on liquidity and borrowings when they failed to raise deposit rates in step with the Federal Reserve Bank (Fed) rate increases. Had they done so they could have retained (and possibly even grown) deposits instead of letting them run out the door during March 2022 through August 2023.

(You can easily confirm the decline in deposit balances by reviewing the Financial Performance Reports (FPR's) on the NCUA website which track quarterly financial trends. Please check this out for yourself. SECU's Charter number is 66310 and the website is www.ncua.gov).

My concerns were that because of this misguided strategy SECU had to borrow (and still owes) $5 billion from the Federal Reserve Bank (Fed) to provide operational liquidity. And that the interest paid to the Fed for this loan ($160 million+ through June 30, 2024 and still growing) could have been paid to members in the form of higher deposit interest rates.

Additionally, SECU had record net incomes for fiscal years 2022 and 2023 which when combined totaled over $1.1 billion. Had roughly half of the total ($500 million) instead been used to pay reasonable interest rates to members during 2022/2023 deposits would likely have remained at SECU (or possibly even grown); there would been no need to borrow from the Fed for liquidity purposes; and SECU members would have benefited by being paid the interest rather than the Fed.

Isn't that what a credit union should do? Isn't that what SECU has always done? Why wasn't it done this time? I should have made this clearer in my musings. The Board and Management are responsible for their strategies, actions and lack of actions. Better direction and management leads to better outcomes for SECU members and employees. Would also take this opportunity to clarify that Leigh Brady was not CEO until June 2023 so the legacy Board members and the former CEO (Jim Hayes) were clearly responsible for this major strategic gaff.

Final thought. I strongly disagree with Leigh that risk-based, credit-scored loan pricing is necessary for the survival of SECU. This is the next huge gaff that will corrupt the legacy of service to all members. One low loan rate for all worked for 85 years and will continue to work today. The loss of $60 million per year from Local Government Credit Union and $10 million per year from Latino Community Credit Union and possibly some debit or credit card interchange income does not justify the use of credit score pricing. SECU can and should return to the basics of fairly managing and balancing loan and deposit rates to serve all members equally.

Respectfully,

Mike Lord
Former SECU President/CEO (5 years) and CFO (30 years)
SECU employee (46 years)