ANALYSIS OF IMPACT ON MEMBERSHIP FIGURES DUE TO BRANCH CLOSURES
OF CREDIT UNION ONE

SUBMITTED BY

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EXECUTIVE SUMMARY

The purpose of this research project was to analyze the membership of the branches of Credit Union ONE that were closed over the past three years, determining what has happened to these members.

A literature review of journals and trade publications was completed that spoke to the effects of the economy on financial institutions, the effects of the internet and electronic banking systems, and the future of brick and mortar establishments.

Secondary data was extracted using an electronic data mining process of historical credit union files on member statistics before the branches were closed and after the closures so that comparisons could be statistically calculated.

The most important data collected revealed that although remote services are on the rise, a large percentage of members still want to be able to come to the traditional branch to conduct certain transactions. Members want both the remote services and the branch accessibility.

Conclusions made by the researcher were: 1) the branches that were closed were not needed, 2) the vast majority of members that closed their accounts were non-productive members, and 3) over 73% of the members were retained from the three branches that closed which shows loyalty by credit union members.
A recommendation was made to continue to evaluate the current branches to cut and grow where needed. Also recommended was marketing in several targeted areas where the opportunity for growth is greatest.
ANALYSIS OF IMPACT ON MEMBERSHIP

FIGURES DUE TO BRANCH CLOSURES OF CREDIT UNION ONE

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Chapter 1: The Problem Defined

Background Statement

Research for this study took place at the headquarters of Credit Union ONE, a financial institution located in Ferndale, Michigan where it began back in 1938.

A state chartered credit union, Credit Union ONE grew steadily over the past seventy years and became one of the largest credit unions within the state. Currently, Credit Union ONE has nineteen branches; seventeen located in the metropolitan Detroit area, one in Grand Rapids and one in Traverse City. At year-end 2008, Credit Union ONE had $739 million in assets. The membership of Credit Union ONE is very diverse, as the field of membership is open, which means that anyone can join. At the end of 2008 membership was over 117,000 (Credit Union ONE 2008, Annual Report).

Four hundred individuals are employed at Credit Union ONE serving the membership.

The CEO of Credit Union ONE has expressed concern over the closure of branches in the past few years and the impact that it has had in terms of overall membership of the credit union. The regional economy has experienced a downturn in most industries and financial institutions have had their share of shrinkage as well. Closures as well as consolidations and mergers have been the norm over the past several years.

Problem Statement

Although branches have been closed at Credit Union ONE, it appears that the membership numbers remain the same.

Purpose of Study:

The purpose of this research project was to analyze the membership of the branches that were closed over the past three years, determining what has happened to these members.
Research Questions

This research paper answered the following questions about the behavior of the members of Credit Union ONE and whether or not closure of branches had any impact on these members.

1. Where are the members from the closed branches of Credit Union ONE currently conducting their business?

2. Based on the research, what does this say about customer loyalty?

3. Was it even necessary to have the branches that were closed?

Definition of Terms

For the purpose of this paper, the following terms are defined:

**Member** – Individual who maintains an active account and transacts business with Credit Union ONE.

**Transaction** – May be completed in person, by mail or through electronic services.

**Branches** – Facilities that service members; refers to three specific locations that were closed – Farmington Hills, Rochester, and Bloomfield.

Limitations of Study

One limitation of this study was the data collected was from a single facility, Credit Union ONE; and therefore had to be measured against other institutional information nationally.

Another limitation was if a member closed their account with Credit Union ONE, it was not possible to track where they were conducting their business afterwards.

Lastly, if members’ accounts were not coded with their branch name before the branch was closed, it was difficult to tell what branch they were originally from (for tracking purposes).
Chapter 2: Literature Review

The literature available on the topic of this paper is vast in some areas and sparse in others; therefore the researcher has considered all types of financial institutions for the purpose of this literature review in order to have optimum resources available for use. No differentiation was made between the types of institutions that were discussed, as all were considered equal in this research. The majority of sources reviewed were trade publications and financial journals.

In the past few years economic conditions have suffered throughout the United States, more in some parts of the country than others. This stands to reason that depending on how distressed economically an area is will affect the number of institutions that will be closed or merged into other more viable institutions. Conversely, according to Amos (1992) areas with strong economies will thrive financially and will see fewer closings.

Mendonca and Nakache (1996) focused on a discussion about creating services that would allow customers to conduct transactions more remotely and would not require a visit to a traditional brick and mortar location to complete business. The authors felt that with the increase of automated teller machines (ATM’s) and online banking that branch banking would start to decline and eventually become non-existent. However, many sources disagree with this, and feel that there are always going to be those who choose to go to the branch offices in person; online services will just enhance the experience.

“The goal for banks’ senior management is to turn today’s “all things to all people” branch networks into highly differentiated systems for distributing multiple products” (Mendonca & Nakache, 1996, p. 139). Knowing the customer base is essential in creating the channels of distribution that will be a winning combination for the organization. According to
Anderson, Hosten, Latimore and Malhotra (1996) the needs and wants of the customers, and what the cost will be to provide services has to be determined, as well as a plan to direct customers appropriately to the right channels once put in place. Those institutions that are able to accomplish this successfully will succeed, but those who fail cannot maintain constant growth and will be susceptible to closure (Mendonca & Nakache, 1996).

The development or redevelopment of a strategy to best serve the customers’ needs and generate growth for the financial institution will include evaluation of current branches, which according to Bekier, Flur and Singham (2000) determine where branches need to be cut, and others grown.

Bekier et al. (2000) found that branches could be closed, with the majority of the customers being retained if care was taken to properly analyze what types of transactions were occurring the most at a particular branch and by what type of customer; and offering alternatives that would allow customers to still have the convenience needed, even if the branch was no longer available. “With thoughtful migration levers like this, banks can actually retain ninety-nine percent of their valuable customers from a closed branch” (p. 85).

In an article by Dahl (2009) the focus was on how to determine whether or not to close a branch and what goes into the decision. Consideration was given to what the financial condition of the branch looked like, how many customers used the branch, the prospect for a larger customer base at that particular location, and what kind of products were most used. A thorough evaluation of the location of branch was conducted, assessing propinquity to employment, shopping and neighborhoods and growth opportunities. Before a final decision was made to close or relocate a branch, an evaluation of remote services was made to determine if the customers could be served through this channel. If the answer was favorable, then the decision
was made. Although the decision is never an easy one to make, a financial institution can save a significant amount of money depending on the particulars of the branch and the handling of the customers and assets.

Another article from the Credit Union Journal (CUJ, 2009) stated that financial institutions need to periodically look at the branch network and determine if operations are occurring at optimal capacity, or if there are gaps in the performance that need to be addressed. If operations are not able to be ramped up to a level that is acceptable, then the institution should consider closing those branches that do not hold muster. Caution should be taken about how closing a branch might affect the entire branch network, as the closure could have little or no effect on customers and financial performance, or could be extremely detrimental to the entire financial institution and its’ viability. Some branches are found to be too large for the target market that the institution is trying to serve. In order to reduce costs and maximize profits, a shift to a more efficient type of branch may be indicated. Therefore, a thorough review is necessary to determine if a plan of action is needed.

According to an excerpt from the Credit Union Executives Society (CUES, 2009) Complete Guide to Credit Union Facilities, in 1998 the forecast was that bank branches would be a thing of the past within ten years, but that has not happened. What has taken place is that larger, older style branches have seen a decline in physical visits by customers, and an increase in remote activities; such as online bill pay, online applications and deposits, and account maintenance. The decline has led to more smaller-type branches popping up in all sorts of venues, such as hospitals, department stores, and universities. This study goes on to say that although branches may change in location and design, there will always be a need for branches; as customers want both the physical and remote accessibility at their finger tips. In order for
financial institutions to stay even or ahead of the curve, there will be a need to stay on top of the latest trends, have the most educated staff members, and always be evaluating where they are economically versus where they want to be.

A commentary by Mark Sievewright (2008) reviewed seven trends that the author said financial institutions should be equipped for given the statistics that traditional financial transactions (inside branches) by 2010 will have dropped over the past ten years to forty percent. The trends include: Growth – branch growth will continue but at a much slower rate, however the rate of remote services growth will increase dramatically; Customers – because banking behavior will be different, employees will need to be tech savvy and customer service focused; Look and Feel – branches will need to be different, both in the look and ability to meet the need of the customer, with the majority of the space in the branch used for customer needs, with little space dedicated to behind-the-scenes work; Younger Customers – will not frequent the branch often, as this customer will be mostly interested in what can be offered in the way of remote services, but when coming into a branch will expect to see that the branch offers the latest in technology; Beyond-the Branch Capabilities – technological advances will be made in great strides for all areas of life, customers want financial institutions to keep up with the changes; Myriad Advances – the latest in remote services will be the standard for all financial institutions, as well as branches on social media websites, with some representatives time dedicated solely to this purpose. This is what can be expected in the next decade for financial institutions that wish to stay viable.

Writing about the future of the branch, Stein (2009) interviewed different banking executives across the country to see how financial institutions are dealing with the current economic crisis and what strategies are being put into place to help better manage the change.
these organizations may be faced with. Some of the common topics that came out of the interviews included: using metrics to track sales performance goals and the effectiveness of employees to achieve the target goals set for themselves and the branch, and giving employees sales tools that will allow them to be able to effectively sell the benefits of the financial institution to customers. Stein stated that branch closures in 2009 were projected to be down approximately thirty percent over 2008, not because of increased branch transactions but because real estate prices have dropped and financial institutions cannot afford to sell existing branches at the going rate. However, once the economy starts to turn around and real estate prices rise, the expectation is that branch closures will increase dramatically. For the time being though, bank managers are struggling to make current branches more profitable and productive. Many are working with just what they have – doing more with less, while others are investing in technological advances. More self-service features will become available at branches, such as personal teller machines (PTM’s) to assist customers by video. Branch functions will stay the same – new account openings, mortgages, loan, certificates of deposit, and credit card applications. However, employee responsibilities will change dramatically. Now all employees will be expected to be able to sell all product types. Customers can go to one person who can take care of every transaction, instead of having to be shuffled from one employee to another. Training will be paramount as this is a major culture shift and most banking staff have never had that type of training. The wave of the future points to relationship banking, where not only do banks have customers’ checking and savings accounts, but also their mortgage, investment accounts, credit card, and online bill payment accounts. Once a customer is tied in to a financial institution from several different aspects, the harder for customers to sever the relationship and move to someone else.
A branch plan is needed to grow, according to Jooss (2008), but surprisingly not all financial institutions have one. The plan needs to be in place as part of the strategic plan to guide the development and growth of the institution. When developing a branch plan five levels of information need to be looked at. The first area is membership data, when detailed will be visible as to where your customers are located, where they business is conducted, and how much business is with your organization. The second area is demography, which tells population and growth information, basically the potential for new growth. Third, is competition, which indicates where other financial institutions are located. Fourth is economic development, basically what is going on in the business community that surrounds the organization. Lastly, fifth is financial forecasting, which is basically taking all of the things discussed above and forecasting what the impact will be on loans and deposits to the bottom line. Once a plan is in place, then the branch network can be assessed, determining if the network is market efficient and productive. If it is not, then steps must be taken to determine what needs to be done to correct what is not right, or if closure of a branch is warranted.

Just recently the first internet-based credit union was launched, according to Polaniecki (2009) which will serve customers completely without any physical branches. Representatives of the credit union will work from company cars via smart phones and laptop computers. Customers will work through a call center and remote applications. Even membership will be completed electronically, which will include a remote deposit capture for the first transaction. A virtual branch appeals to those who are totally comfortable with remote capabilities and have no desire to visit a branch in person. This is a big step for financial institutions in general.

Gamble (2009) debated the pros and cons of shared branching networks in credit unions. This practice allows credit unions to serve each others’ customers, offering convenience and
cost-savings from having to build a branch to service customers in outlying areas or to close branches due to excess capacity. However, Gamble cautions that although shared branching may be a great way to retain customers and offer a welcome service to customers, use should only be as a temporary measure. Monitoring is critical if shared branching is in place, as once the credit union has outgrown the usefulness of being able to serve both the credit unions’ customers and other credit unions’ customers as well, then the decision should be made to pull out of the network.

Channel distribution should mirror the customers’ opinions of the organization suggested Bielski (2001). Financial institutions must consistently monitor all of the touch points that connect the customers to the organization. The organization must be able to serve equally as well the customer that is tech-phobic and the customer that is strictly only on the web. With mergers and acquisitions so predominant, financial institutions must stay within the forefront of what customers want and be able to deliver, or the customers will go to someone who can.

When looking at tough economic times, according to Swedberg (2008) trust is important to customers now more than ever. Customers want a financial institution that keeps its promises. Importance is on having strong business strategy that will guide the organization. The strategy needs to be clear; who is the organization, what are they trying to do, and what the contribution to the community will be. Customers feel more secure transacting business with an organization that they feel they know and can identify with.

In 2009, Ledin contemplated the new customer growth factor versus the attrition factor in financial institutions. Ledins’ study indicated that it is cheaper to bump up growth by reducing attrition than to add growth by attracting new customers.
A study conducted by DeYoung, Klier and McMillen (2004) focused on banking in the 1990’s, looking at how regulations and technology have changed the locations of bank headquarters and branches as well as where customers complete business transactions. The authors found that large financial institutions moved headquarter facilities from small towns into major metropolitan areas, while branches were distributed further out into the suburbs and rural areas. From this indication, the authors surmised that financial institutions have become less geographically centralized in relation to the distance between branches and headquarters. Further the study revealed that even with all the changes that have been made to branch networks during the time period specified, customer behavior has not changed much at all.

Managing branch customers according to Stone and Lees (2004), is not rocket science and some financial institutions are doing a good job, while others are struggling to achieve the balance between what works for the organization and meets the needs of the customer. A good mix of remote delivery channels along with branches that can still give personalized service is what customers are looking for, while profitability and efficiency is a concern for financial institutions that must foster the relationships and drive growth at the same time.

Looking at growth, consolidation, and the strategy of U.S. bank branching trends between 2001 and 2003, Hirtle and Metli (2004) concluded that the very largest of financial institutions grew slowly during this time period while branches in the mid-range grew at a faster pace. The trend for the large organizations was to work within the current network of branches improving productivity from within. However, the mid-range branch strategy was to expand quickly through mergers, acquisitions and new growth markets. What has transpired is a general trend for fewer financial institutions with very large branch networks. The trend has pros and cons for the customer; larger institutions usually charge higher fees, however larger institutions also have
the capacity to be able to offer more convenience to customers in the way of avoiding fees by using one of the many branches in the network.

Studies conducted by Haytko and Simmers (2009) on the effects of customers using ATM’s or online services versus transactions completed by staff members at a physical branch location rendered three key points for discussion. The authors determined that transactions completed by staff members were more important to males than to females. Different types of transactions rated higher in importance to certain groups of individuals, so no one product or service could be singled out as the most important. Finally, the authors concluded that physical branches staffed with employees to service customers will always be needed; remote services will never totally replace brick and mortar branches.

A survey from Coinstar (Anonymous, 2008) garnered some rather interesting facts about what customers want from financial institutions. When surveyed, two of five customers wanted a branch environment that resembled a café or apparel store, where personalized one-on-one assistance would be given. Another two of three want to be known by name, and would rather stand in line to be waited on by a person rather than to use an ATM. Overall, customers want to have one stop shopping; to go and not only take care of all banking needs, but also other miscellaneous errands as well.

When financial institutions are considering how best to invest into distribution channels for customers, research should be studied on what channels are most used, according to Britt (2006). The author called upon a study that was recently completed on consumer channel preferences. Study results indicated that most customers have began using alternative methods for transactions, such as ATM’s, voice response, on-line banking and other methods for transacting business. However, seventy-five percent surveyed said that they use a branch
location for business at least once a month, and many of those are what would be considered high-net-worth customers. Since a majority of customers are using both remote as well as in-branch channels for transactions, it is imperative that the investment should be all inclusive when it comes to channel distribution.

Delivering customer wants while at the same time keeping transactions safe is not an easy task for financial institutions. Bank Systems and Technology (2007) said that institutions will be faced with trying to maintain safety and compliance of remote applications and making the process seem seamless to the customer. Banks will need to stay ahead of the curve in meeting customer expectations with time being of the essence. Competition for the business will be based in some part by response time. Combining competition with the need to keep costs down, maintaining efficiency and increasing growth will not be simple to achieve, however can be done by knowing the customers of the institution and tracking banking behaviors.

In this time of operational belt tightening, Ferguson and Hlavinka (2007) suggested that customer relationship programs would not only be beneficial to financial institutions but necessary to be able to compete for the business. A study was completed on relationship programs such as loyalty or reward programs and how organizations have used programs to establish trust in the brand and to bolster multi-product relationships. A successful customer relationship program will include three things: 1) a focus on the customer behavior patterns, 2) will be beneficial not only for the customer, but for institution growth as well, and 3) will keep the customer relationship at the forefront at all times.

A study completed by Carlson and Mitchener (2009) looked at competition within the banking industry and bank survivorship during the Great Depression. During this study the authors reviewed financial reports and documents that showed how small banks in this time
period fared in relation to large banking systems. The outcome of the study showed that smaller banks became more efficient in operations in order to be able to withstand the competition of the larger banking systems. The authors suggested that this behavior made smaller banks more resilient to the effects of the depression. Further, the authors implied that this same behavior pattern if applied today with current economic conditions would render the same outcome.
Chapter 3: Methodology

Data Collection Method

The data collected to analyze the impact on membership figures due to branch closures of Credit Union ONE was electronically mined out of the historical data files of the credit union using COGNOS, knowledge-management software. Computer equipment used to extract the data was housed at the headquarters of Credit Union ONE, located at 400 E. Nine Mile Road, in Ferndale, Michigan.

The researcher asked for as much data as possible to be gathered on members of three branches of Credit Union ONE in Michigan that were closed between 2007 and 2010. Those branches were the Rochester, Bloomfield, and Farmington Hills offices. Gathering of the data was conducted to facilitate analysis to determine what happened to the members of the branch offices of Credit Union ONE since the time of closure. Due to strict confidentiality requirements of financial institutions rules and regulations, all data collected was presented with the removal of identifiers and all suggested recommendations were written so as not to identify any specific individual.

Data Analysis Method

Once the data was collected, it was initially divided by branch locations. Next, the data was divided further into many different segments such as; age of member, gender, type of account holder, current/former member, branch currently transacting business at, and use of on-line services.

Data was analyzed using statistical methods to calculate percentages and ratios from the data that was collected in order to make conclusions and recommendations from the findings.
The researcher presented the data utilizing summary statistics, percentages, and comparison data presented in both narrative and numerical format. Tables and/or figures were also utilized in the analysis.
Chapter 4: Data Analysis

The purpose of this research project was to determine what impact on membership figures was observed due to branch closures of Credit Union ONE. Three branches chosen for the project were: Bloomfield, Farmington Hills, and Rochester. The researcher analyzed variables such as current/former member, gender, age, where member transacted business after branch closure, types of services account holders use, and the use of on-line services.

Member Count

The Bloomfield branch at time of closure had 2,498 members, and when the research was completed, 1,837 accounts remained open for a percentage of 73.5, while 661 accounts had been closed for a percentage of 26.5.

Membership figures at the Farmington Hills branch were at 4,710 accounts when the branch was opened, and after closure 3,364 remained members and 1,346 members closed their accounts for 71% and 29% respectively.

Research indicated that total membership at the Rochester branch was 2,789 accounts at the time of branch closure, and after closure 2,100 remained members for 73% while 689 members closed their accounts for 27%.

Overall, the percentages remain rather consistent, with a total of 9,997 members between the three branches when the branches were all open, and after the closure of the three branches 7,301 or 73% accounts remained open and 2,696 or 27% of accounts were closed.

Figure 1 represents the data analysis.
Gender

The researcher reviewed gender of the members of Credit Union ONE to try and determine if there was any correlation between gender of those that remained members and those that closed their accounts when the branches were closed.

The data analysis determined that all three branches were approximately 44% female, 41% male and 15% undetermined for those members that kept their accounts with Credit Union ONE. Consistent with those figures, of those that closed their accounts, 41% were female, 41% were male and 18% were undetermined. Research did not seem to reveal any relationship.

Figure 2 shows the close relationship in the data reviewed.
Analysis of the age range of members was conducted by the researcher to determine if a particular age group left the membership or had increased in numbers since the closure of the branches.

The membership was broken down into seven age ranges for analysis: 1 to 19 years, 19 to 24 years, 25 to 34 years, 35 to 44 years, 45 to 54 years, 55 to 64 years, and over 64 years of age.

Review determined that of the Bloomfield Branch members that kept an account with Credit Union ONE 61% were 45 years and older. Of those that closed their accounts 57% were in the 35 to 64 years age range.

The data from Farmington Hills revealed that 53% of the remaining members were in the 45 and older range, while 55% that closed their accounts fell into the 35 to 64 years of age.
Rochester branch members with open accounts had 51% of their members in the 35 to 64 years age range, and of those that closed their accounts they had 50% in the 35 to 64 year range.

Overall, looking at the three branches combined, 54% in the 35 to 64 year range kept their accounts open, and also 54% in the 35 to 64 year range closed their accounts upon branch closure.

Figure 3 illustrates the specific age ranges compared with the membership figures.

Figure 3 – Age of Members

<table>
<thead>
<tr>
<th>Branch Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Next, the research focused on if the members that kept their accounts open after the branch closures used a branch location or something other for their transactions.</td>
</tr>
<tr>
<td>Of the 7,301 members that had open accounts after the three branches that closed, 4,106 members or 56% used a branch for transactions, and 3,195 or 44% of the members used some other form of transactions.</td>
</tr>
</tbody>
</table>
Breaking the analysis further down by branch, the researcher found that the Bloomfield branch had out of 1,837 current members, 1,114 members or 61% that transacted business at a branch while 723 members or 39% did not.

Reviewing statistics of the 3,364 members of the Farmington Hills branch that remained members after the branch closure showed that 1,826 members or 54% used a branch and 1,538 or 46% of the membership used a different type of transaction.

Of the 2,100 Rochester remaining branch members 1,166 or 55.5% of the membership accessed a branch for transactions, and 934 or 44.5% of those members used some other form of transaction.

Analysis of the data revealed at all three branches, branch use and non-branch use was almost the same hovering around 54%, with the Bloomfield Hills branch use slightly higher.

Research indicated that of those members who closed their accounts, approximately 93% of the 2,696 members or 2,516 were not branch users.

Figure 4 graphically illustrates the findings of members and branch usage.

Figure 4 – Branch Usage
Transference to Other Branches

When branch locations are closed, members must conduct their business at another branch, switch to online services, or make the decision to close their accounts and leave the financial institution all together. Research was conducted to determine once the three branches were closed, where members from these branches conducted their business at, or if they chose to leave the credit union instead.

According to the data on file, of the 7,301 members that stayed with Credit Union ONE after the closures, 76% of those members conducted their business at three branches; West Bloomfield 47%, Troy 20% and North Oakland 9%, with the remaining 24% split amongst the many Credit Union ONE branches.

Researcher further indicated that 76% of the 1,837 Bloomfield Branch members that remained members after the closure were split between four branches; North Oakland 26%, Berkley 20%, West Bloomfield 16% and Troy 14%, with the other 24% split amongst the other branches.

Farmington Hills members were a different case altogether, as 93% of their 3,364 members transferred their business to the West Bloomfield branch, and 7% of the membership was divided between the other branches.

Analysis of the 2,100 remaining Rochester branch members revealed that 74% of these members conducted their transactions at three branches; Troy 57%, North Oakland 9% and Ferndale 8%, with the remaining 26% spread over the other Credit Union ONE branches.

The researcher noted that the same few branches; Troy, North Oakland, and West Bloomfield were most often the branch that members chose to do their business at.
Figure 5 details where the members from the three branches have been conducting their business at, compared with an overall picture.

Figure 5 – Transference to Other Branches

![Transference to Other Branches](chart.png)

Shared Branching

Shared Branching is a network of credit unions across the world that actually share their participating branches with each other. A member of a participating credit union can use any other participating credit union's branch. At the time of research, this was a fairly new concept for Credit Union ONE.

Analysis of data available showed that of the total 9,997 members before the time of the branch closures 9,942 or 94.5% of the membership did not participate in shared branch transactions, while 5.5% or 555 members did perform shared branch transactions.

Of the 2,696 members that closed their accounts less than 1% of those members participated in shared branching. Further, the research showed that of the 7,301 members who kept their accounts with the credit union after the branch closures, 6,757 members or 92.5%
did not participate while 544 or 7.5% of the membership did participate in shared branch transactions.

Breaking down the numbers of the individual branches, analysis of the current 1,837 Bloomfield branch members revealed that 4.5% or 83 members used shared branching services and 95.58% of the membership or 1,754 did not.

Farmington Hills member percentages were much the same, as out of a total of 3,364 members, 3,035 or 90% of their members were not users of the shared branching network while 10% or 329 members took advantage of the service.

Consistent with the other two branches, research showed that of the current 2,100 Rochester branch members 94% or 1,968 members were not users of shared branching and 6% or 132 members were.

The researcher accredited the low percentages of members participating in shared branching to the newness of the service at Credit Union ONE.

Figure 6 details the information from the research evaluated on shared branching.

Figure 6 – Shared Branching
Home Banking Services

Home banking services includes many different features that a member might use. The services range from paying a bill online, to transferring funds between accounts, to printing a statement or even applying for a loan online.

Of the total 9,997 members from the three branches before the closure approximately 6,615 or 66% of the membership did not use home banking services, while the other 34% or 3,382 members took advantage of this product.

Research showed that of the 2,696 members that closed their accounts after the closure only 3% or 93 members used home banking and 2,603 or 97% of the membership were not home banking users.

Bloomfield branch members still maintaining membership that used the product were approximately 809 members for 44%, and those that did not use the product were 56% or 1,028 members out of 1,837 members.

Use of home banking services for Farmington Hills members was at 1,506 and 1,858 members that did not use the product, for 55% and 45% of the membership respectively.

Much the same as the previous two statistics, the Rochester branch figures showed that out of 2,100 members, 54% or 1,126 members did not use home banking while 46% or 974 members accessed the product for their use.

The analysis of the data showed that home banking use came in at just over 50% for the members of the three branches. This figure is up significantly from the 34% that was recorded before the closure.

The data on home banking services has been presented in Figure 7 for easier review.
Automated Teller Machine (ATM) Usage

Research of another electronic service, ATM usage was evaluated. Analysis was completed to determine what the behavior of these members in regards to their ATM usage was like, and if they used Credit Union ONE ATM locations or used ATM locations other than Credit Union ONE.

Research showed that ATM transactions conducted at Credit Union ONE terminals by the Bloomfield Hills membership were down approximately 33% from 12,989 to 8,741 looking at the time period before the branch closure to the present time. Analysis of the same time period considering use of ATM terminals other than Credit Union ONE showed an increase in usage of 5% from 18,833 to 19,798 transactions.

A similar trend was observed by the researcher with the Farmington Hills membership, as data indicated that transactions performed at Credit Union ATMs was down 36%, a decrease in transactions from 27,139 to 17,404 from the period before branch closures to the present time.
Also observed was a decrease in ATM usage other than Credit Union ONE by these members of 4%, from 42,026 to 40,238 transactions.

The highest change in transaction usage of Credit Union ONE ATM locations was in the Rochester membership, with a decrease in transactions of 40%, from 18,532 transactions to 11,185 transactions. This branch showed an increase of 7% usage of ATMs other than Credit Union ONE for the same timeframe, from 21,276 to 22,676 transactions.

Computing all the data revealed an overall decrease in the three branches of Credit Union ONE ATM transactions of 36%, with transactions going down from 58,660 to 37,330. A 1% increase was calculated in the transactional use of other ATM locations, increasing from 82,135 to 82,712 transactions.

Figure 8 provides a visual aid to the consistent numbers of ATM usage observed by the researcher.

Figure 8 – ATM Usage
Members with Checking Accounts

In evaluating services that members of these accounts participated in, checking accounts were thought to be of high importance. Research of this product was analyzed to determine if original members of the three branches were checking account users, how many members that left the credit union upon branch closure were checking account holders, and what the behavior of the members that remained after the branch closures was in regards to checking account use.

The original 2,498 Bloomfield Hills members had 44% of their membership, or 1,098 members with checking accounts, while 56% of their members, or 1,400 members did not have checking accounts. Of the 661 members that closed their accounts when the branch closed, less than 1% or 3 members had checking accounts, and 658 members or 99% of those that left did not have checking accounts. The remaining 1,837 members of this branch are comprised of 1,095 members or 60% with checking accounts and 742 members or 40% without.

Farmington Hills members showed quite a similar scenario as original membership of 4,710 members before their branch was closed, only 39% or 1,819 members had a checking account and 2,891 members or 61% did not. When the branch closed 1,346 accounts were closed, of which 1,331 members or 99% did not have a checking account and only 15 members or 1% did have a checking account. Data revealed that of the 3,364 members that remained Credit Union ONE members after the branch closure, approximately 54% of the membership or 1,804 have checking accounts, while 1,560 members or 46% do not.

The Rochester branch had a membership of 2,789 at the time of branch closure, and research indicated that of those members, approximately 1,131 or 41% of the membership had checking accounts and 59% or 1,658 of the members did not have a checking account. Only 1% of the members that left Credit Union ONE when the branch was closed, 4 members of the 689
total had checking accounts, while 685 or 99% of those that left membership had checking accounts. Research showed that after the closure of the branch, 2,100 members remained from the Rochester branch, and of those members 1,127 or 54% had a checking account and 46% or 973 members did not have a checking account.

Data analysis overall of the three branches showed a very similar pattern. Before the branch closures, of the total 9,997 members, 40% of the members or 4,048 had a checking account product and 60% or 5,949 members did not. Of the 2,696 members that left the credit union 1% or 22 members had a checking account and 99% or 2,674 members did not, and of those individuals that remained members, 4,026 or 55% of members had checking accounts and 45% or 3,275 members did not.

The consistency in these statistics concerning members with checking accounts will be evident in Figure 9.

Figure 9 – Members with Checking Account
Members with Savings Balances

Analysis of savings products was conducted to determine productivity of these member groups. Research was gathered with respect to comparisons of what the membership looked like before the closure, how productive the members were that left the credit union, and what those that stayed with Credit Union ONE looked like. For this part of the paper, members were categorized into three sections: Under $1,500, $1,500 to $5,000, and over $5,000.

Before the closure, Bloomfield Hills 2,498 members had 68% of their members or 1,713 in the under $1,500 category, 361 members or 15% with $1,500 to $5,000 and 424 members or 17% with over $5,000. The 661 members that left the membership had 605 members or 91% with under $1,500, 32 members or 5% in the $1,500 to $5,000 category, and 24 members or 4% with over $5,000. Research of the members that remained with Credit Union ONE indicated that of the 1,837 members 1,108 members or 60% were in the Under $1,500 category, 329 or 18% of the membership were had $1,500 to $5,000 balances, and 22% or 400 members had over $5,000 in savings balances.

Farmington Hills originally had 4,710 members that were broken down into the following percentages: 3,427 members or 73% had balances under $1,500, while 13% or 608 members had between $1,500 and $5,000 in savings, and 14% or 675 had over $5,000 in savings balances. They also had 1,346 members had closed their accounts when the branch closed. The group that closed their accounts had 94% or 1,256 members with less than $1,500 in savings, 3% or 48 members with between $1,500 and $5,000 in balances, and 3% or 42 members with over $5,000 in savings balances. Review of the remaining 3,364 members revealed that 2,171 or 65% of the
membership had balances under $1,500, 16% of the membership or 560 had between $1,500 and $5,000, while 19% or 633 members had over $5,000 in savings balances.

The researcher observed that out of the 2,789 individuals that were members before the Rochester branch of Credit Union ONE closed, 1,984 or 71% of those members had balances of less than $1,500 in a savings product, 13% or 382 members had between $1,500 and $5,000 balances, and 423 members or 16% had over $5,000 in savings balances. Upon closure of the branch, 689 members closed their accounts, and of that group, 89% or 616 members had balances of less than $1,500 in a savings account, 6% or 38 members had between $1,500 and $5,000, and 35 members or 5% had over $5,000 in savings. Of the 2,100 members that kept their accounts with Credit Union ONE after the branch closed 1,368 members or 65% had a balance of less than $1,500, 16% or 344 members had between $1,500 and $5,000 in a savings account, while 19% of the membership or 388 members had a savings account balance of over $5,000.

Data analysis of the three branches combined revealed that before the branches were closed, of the 9,997 total members 72% or 7,124 had under $1,500 in a savings account, 13% of the membership or 1,351 had between $1,500 and $5,000 in balances, and 15% had over $5,000 in savings balances. Of the 2,696 members that closed their Credit Union ONE accounts 2,477 members or 92% of that group had less than $1,500 in a savings account, while 118 members or 4% had between $1,500 and $5,000, and 3% or 101 members had over $5,000 in savings balances. Overall, the remaining 7,301 members have 4,647 members or 64% with less than $1,500 in savings balances, 1,233 members or 16% with between $1,500 and $5,000 in a savings account, and 1,421 or 20% of the membership with over $5,000 in a savings product. Figure 10 details the analysis of members with savings balances.
Lending is very important to Credit Union ONE, especially automobile, or auto loans. Data was analyzed in regards to the branches we have been discussing to determine if these members had auto loans, and of the members that left the credit union what percentage were productive in this area.

Research was started with the Bloomfield branch which before the branch closure had approximately 2,498 members of which 92% or 2,305 members did not have an auto loan and 8% of the membership or 193 members did. Further research indicated that of the 661 individuals that closed their accounts 3 members or less than 1% had auto loans, and 658 or over 99% did not have auto loans. From the 1,837 members that remained members of Credit Union ONE after the closure, 190 or 10.34% had an auto loan, while 89.66% or 1,647 members did not have an auto loan.

Analysis of the Farmington Hills membership revealed that from the 4,710 members that existed before the branch closure 4,333 or 92% of the membership did not have an auto loan and
8% or 377 members had an auto loan. Out of the group of 1,346 members that closed their accounts after the branch was closed less than 1% or 7 members had an auto loan and 1,339 members or over 99% did not have auto loans. Review of the 3,364 members that remained after the branch was closed showed that 370 members or approximately 11% of the membership had an auto loan, while 89% or 2,994 members did not have an auto loan.

Data reviewed on the Rochester branch members revealed that from the original 2,789 individuals that were members before the Rochester branch was closed 2,526 or 91% of the membership did not have an auto loan and 9% or 263 members had an auto loan. Of the 689 individuals that left Credit Union ONE when the branch was closed, 5 members or 1% had an auto loan, and 684 or 99% did not have an auto loan. Analysis of the members remaining after the branch closure indicated that 258 members or 12% had an auto loan, while 88% of the membership or 1,842 members did not have an auto loan.

Overall, the researcher observed that of the 9,997 members that were reviewed, 9,164 or 92% of the membership of the branches that closed did not have an auto loan and 8% or 833 of the members had an auto loan. Review of the 2,696 members that left Credit Union ONE after the branch closures indicated that 15 members or 1% of those members had an auto loan and 99% or 2,681 members did not have an auto loan. Further review of the 7,301 members that remained members showed 11% of the membership or 818 members had an auto loan, while 89% or 6,483 members had no auto loan.

Figure 11 displays the prevalence of auto loans at the branches discussed in this section.
In Chapter 4 the researcher went into great detail to describe many of the aspects of membership of Credit Union ONE and why those specific aspects were chosen for inclusion in this project. Those various aspects were compared individually and overall between the three branches of Credit Union ONE that were closed. Comparisons of membership figures before the branch closures were reviewed, as well as comparisons of the membership figures of those that closed their accounts, and comparisons of the membership figures of those members that remained after the branch closures. The researcher used the information described in Chapter 4 to ultimately determine the impact on membership figures due to branch closures of Credit Union ONE.
Chapter 5: Summary, Conclusions and Recommendations

Summary

Poor economic conditions have affected the general public and businesses alike. Financial institutions have not been immune to the effects of the downturn. Over the past few years, Credit Union ONE has closed several branches, opened a few others and even relocated a couple of branches. The purpose of this research project was to analyze three branches of Credit Union ONE to determine the impact on membership figures due to their closure. The locations chosen for the project were Bloomfield, Farmington Hills, and Rochester. All three branches are located in southeastern Michigan. This was based on the importance of these areas in comparison to the locations of the overall membership of Credit Union ONE. Data was extracted from the files of the credit union, with many different variables considered and evaluated in the research section of this paper.

In Chapter 2, the researcher provided the reader with several different articles that dealt with topics associated with the research project. From the literature review and the data analysis, the researcher concluded that the development or redevelopment of a strategy to best serve the customers’ needs and generate growth for the financial institution would include evaluation of current branches, which according to Bekier, Flur and Singham (2000) determine where branches need to be cut, and others grown.

Along those same lines, an article from Bekier et al. (2000) found that branches could be closed, with the majority of the customers being retained if care was taken to properly analyze what types of transactions were occurring the most at a particular branch and by what type of customer; and offering alternatives that would allow customers to still have the convenience needed, even if the branch was no longer available. “With thoughtful migration levers like
this, banks can actually retain ninety-nine percent of their valuable customers from a closed branch” (p. 85). These articles supported the theory of the researcher, that most members would not leave the credit union if a branch was closed, they would just switch their business to another branch.

The importance of knowing your members and how they choose to conduct their business became very apparent, as an article by Bielski (2001) suggested that channel distribution should mirror the customers’ opinions of the organization. Financial institutions must consistently monitor all of the touch points that connect the customers to the organization. The organization must be able to serve equally as well the customer that is tech-phobic and the customer that is strictly only on the web. When financial institutions are considering how best to invest into distribution channels for customers, research should be studied on what channels are most used, according to Britt (2006). The study went on to say that since a majority of customers are using both remote as well as in-branch channels for transactions, it is imperative that the investment should be all inclusive when it comes to channel distribution.

The literature also pointed to research from Mendonca and Nakache (1996) that focused on a discussion about creating services that would allow customers to conduct transactions more remotely and would not require a visit to a traditional brick and mortar location to complete business. The authors felt that with the increase of automated teller machines (ATM’s) and online banking that branch banking would start to decline and eventually become non-existent. However, many sources disagree with this, and feel that there are always going to be those who choose to go to the branch offices in person; online services will just enhance the experience.

The methodology used to complete the research was the electronic mining of secondary data out of the historical files of the credit union. The extracted data was divided in different
segments and analyzed using statistical methods to calculate percentages and ratios from the data that was collected in order to make conclusions and recommendations from the findings.

Conclusions

This research project focused on answering three questions:

1. Where are the members from the closed branches of Credit Union ONE currently conducting their business?
2. Based on the research, what does this say about customer loyalty?
3. Was it even necessary to have the branches that were closed?

In Chapter 4, the research showed that 76% of the members that remained after the branches were closed conducted their business transactions at three locations, all within very close proximity to the branches that they previously conducted business. The researcher concluded from this percentage that these members basically just transferred their business to the branch next closest to their homes/businesses.

Further, data indicated that of 9,997 original members, 7,301 members remained after the branches were closed, for a retention percentage of 73%. The researcher stated that this percentage is high enough to conclude that the members of this credit union are loyal customers and will stay as long as their needs are being met.

The researcher evaluated not only the members that stayed but also those members that chose to leave the credit union when the branches were closed. By looking at the statistics of the members, it was determined of those that closed their accounts most were non-productive members. The majority of these members had low funds in their savings and checking accounts, few had automobile loans, and most did not use automated services. The researcher concluded
from the data that these members simply used their accounts for check cashing, and check writing purposes.

Looking at all of the research gathered and analyzed, the researcher felt confident in concluding that the branches that were closed were not necessary, as most of the members that closed accounts were non-productive, and most of the productive members moved to other branches and continued to conduct business with Credit Union ONE.

Recommendations

Overall Credit Union ONE fared rather well in regards to closing branches and still retaining members, however there were several areas that opportunity existed. Recommendations in eight areas were identified: target marketing, focus groups, Credit Union ONE branch locations, shared branching, remote services, ATM usage, checking accounts, and auto loans.

1) Target Marketing. It was recommended that target marketing to the 19-34 year old age range would be beneficial, as this age group showed the most opportunity to market specific products to. Student packages, electronic based applications, first time auto loans and home mortgages would be products this group would find interest in.

2) Focus Groups. This researcher concluded that it would be helpful to have focus groups to determine channel distribution, such as which type of products and services were most valued by the members and at which locations electronic services were used more than at other locations. By analyzing the information gathered from the focus groups, some branches might need to have more electronic services accessible from their branch than some other branches.

3) Credit Union ONE Branch Locations. Recommendation was made to look at existing branch locations of Credit Union ONE to determine where most of the transactions were taking
place, and if there were any branches that overlapped in servicing the members of a particular area. From the analysis it was evident that a branch needed to be cut or grown.

4) Shared Branching. According to the research reported in Chapter 4, the opportunity was great in the area of shared branching. Being able to service credit unions’ members other than Credit Union ONEs’ not only added to the bottom line, but also brought individuals from other credit unions into Credit Union ONE that may not have ever had the need to do so. The researcher felt that although the benefits of shared branching were great, there was also a need to be careful not to become so busy servicing other institutions’ members that Credit Union ONE members were not being serviced properly.

5) Remote Services. A recommendation was made to focus on training members to better utilize remote services, such as home banking. When the statistics in Chapter 4 were evaluated, it was evident that there was a definite need for more information distribution in this area which would promote convenience and ease for the members, and would free up some of the employee time to be able to assist members in other areas.

6) ATM Usage. ATM usage statistics showed that the percentages of members that used Credit Union ONE ATM’s were very low. The researcher recommended that the ATM placement and usage be evaluated, with some machines possibly being moved to higher traffic areas, others being permanently removed. ATM’s should have more value added features such as different language options, free coin counting for Credit Union ONE members, and different denominations of bills available.

7) Checking Accounts. With just 55% of members that remained after branch closures having checking accounts, it was recommended that a promotion to increase checking accounts would be beneficial. Again value added benefits such as rewards, low fees and other perks such
as free checks was promoted to members, along with target marketing to designated segments of the membership.

8) Auto Loans. Review of the members with auto loans showed that of the members that were researched in this project only 11% had an auto loan. The researcher concluded that this left a tremendous opportunity to increase auto loan growth by use of a great auto loan rate, special rates for youth, a first time auto buyer discount, or a multiple loan product discount. Target marketed promotions for specific areas would drive the numbers and be easy to track the goal that was set.

If the recommendations by the researcher are implemented the credit union will see continued and improved success and should be more competitive in the marketplace. However, the researcher has just scratched the surface as to the various analyses that could be undertaken and recommendations that could be made. Therefore, more research would be recommended so that the credit union could operate and grow at its full potential.
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