INTELLECTUAL CAPITAL

Insights & Opinions from Financial Services Industry Thought Leaders

Interview with **Kirk Kordeleski**

Quinte Senior Advisor

Former CEO
Bethpage Federal Credit Union

"Successful credit unions are looking outside of their local markets and outsourcing to find talent; automating operations; and digitizing their data."

What's your childhood backstory?

I grew up in Alexandria, Virginia, where my mother's family has lived for many generations. My parents were middle class folks, military and government employees who worked in Washington, D.C. In fact, my great-great grandmother was the first female employee of the U.S. government.

I attended the local high school, TC Williams, and was there during those years when our football team went undefeated and won the state championship. You might recall the movie "Remember the Titans," starring Denzel Washington, that was based on that story. Witnessing first-hand how a shared experience like that can bring a community together has had a significant impact on my life.

Like many in my generation, I was the first child in my family to attend college. We didn't have a lot of money, and I mostly paid my own way through George Mason University, outside of D.C. At that time, it was more of a community school, but today it's a highly respected school for business and economics. I was in a fraternity, and was part of the student government, which gave me an outlet in many ways, to learn leadership. The organizations I joined in high school and college also gave me confidence as a public speaker, and as a leader.

How and why did you pursue a career in financial services?

In college I started out majoring in accounting. The father of a young lady I had been dating was a CPA, and the most professional person I knew. I was impressed with what he had achieved, so I took accounting courses and eventually discovered that it was not my thing. At the time, the school allowed dual majors, and I was able to also study information systems, which I loved. I graduated with a dual degree in accounting and technology.

I had worked as a teller at a credit union while I was attending college. After graduation I was working as a teller at a small credit union that had 12 employees and about $25 million in assets, during the late 1970s when the nation was facing inflation, record oil prices and other economic challenges. The new CEO took a liking to me, partly because I understood technology, and he wanted to automate the disposition of their portfolio of mortgage-backed investments, that were mostly underwater. I was the only person comfortable with using technology to determine the most opportune time to sell them on an online trading system that was available at the time. The project was successful, and we rubbed nickels together to make $47,000 that year and stayed open for business.

When President Reagan deregulated financial institutions, credit unions gained powers to do checking accounts, credit cards and other products, I had the opportunity to design and work on all those projects. I was in the right place at the right time. They needed someone to work on the technology, and I had a little bit of background and could figure it out. During that period, I learned the entire banking and credit union business from the ground-up, by putting all those projects together.

How did your career at Bethpage Federal Credit Union get started?

I worked at that small credit union for around 12 years. I had served on the board of an organization with the CEO of Bethpage, which had assets of around $450 million at the time. He was looking to replace his number two person, and I was one of three candidates for the position. The other two candidates had far more experience than me, but they were unwilling to move to Long Island. I was at a younger point in my career, but I had more flexibility familywise, so I ended up getting the job as Chief Operating Officer. By the time I took over as CEO six years later, in 2000, we had grown Bethpage's assets to $950 million.

You faced some strong headwinds right before you took over as Bethpage's CEO.

Bethpage went through a near death experience in 1997. Grumman Corporation, the largest employer on Long Island, was the primary employee group and it had fueled our success over the years. It was largely risk-free, with well-paid individuals, and the marketing was efficient because Grumman HR asked people who joined the company to sign up with us. It was the credit union model that was prevalent in the '70s and '80s.

That perfect business model ended abruptly when Northrup acquired Grumman and moved operations out of Long Island. Prior to the acquisition, we had 25,000 active, well-paid employees on Long Island, as well as another 15,000 members spread out in Florida and other Southern states that were the engine of our business. Over the course of one year, only 2,500 of those employees had remained as members.

To give you a sense of how the Northrop sale affected the community, the traffic had been so busy in the middle of Long Island at the end of the workday, that Grumman had two different shifts for when employees left their facilities, so they wouldn't overwhelm traffic in the area. Every spot in their parking lot was full. One year later, there wasn't a single car in the parking lot.

What lessons were learned from that crisis?

The Grumman sale taught us that we should never be that vulnerable again. Bethpage didn't act on that goal for the next two years, but we acted on it when I became CEO. When you're in a monopoly and you're basing your entire business on a single large client you're always at risk. For the members, employees, and the organization to thrive and succeed in the long run we needed to diversity our business. We built a strategy to achieve that goal.

Similar to all other credit unions operating as a not-for-profit business, we needed to deliver the best prices in the market, along with high quality service that member / owners deserve. We needed to create a successful business strategy that delivered those things in a highly competitive environment. Our strategy was to create an organization that was as urgent, fluid and flexible as a for-profit institution that has a stock price that's financially pressured by their peers, and by their board. Our goal was to grow assets at 13.5%, double our size every five years, and maintain clear accountabilities for financial performance. To accomplish that, we set out to win on price in five key product categories against every bank on Long Island, and by keeping our expenses down.

What do you consider your greatest accomplishment during your Bethpage tenure?

The secret to the credit union formula is that, by not having to pay taxes and without having outside stockholders, you have more flexibility than for-profit institutions. That's the thing I'm proudest of. We created a systemic financial performance category that ended up mimicking the best things about stock-based companies, within an environment where Bethpage could change, learn, adapt, and attack markets with urgency, and create long-term value for the organization. Based on that approach over the past 22 years, Bethpage has grown from $950 million to $12 billion dollars in assets without any mergers. Over the past seven years since I left Bethpage, they've continued to maintain that financial discipline and culture, and their extraordinary team has taken the credit union to new heights.

What are some of the most significant challenges currently facing credit unions?

One significant challenge that needs greater attention involves the aging demographics of both the boards and senior executives. When opportunities for new leadership come up, it's important for an organization to think strategically about what it needs for the next 10 years, not what it's been comfortable with for the last 10. Many mid-size and large credit unions have been very successful and have provided great value for the members they serve. But very often, that success breeds a level of comfort and self-assurance that can cause them to hire the same type of person that previously led the organization. That can be a mistake.

There are certainly great leaders within credit unions who are adapting and changing and evolving, and they're the right people for those jobs, but it's a new world. The digital data world was magnified during COVID, for example, but that was part of a retail revolution in how technologies are being used by consumers that's been unfolding for a decade, and it's unrelenting. For any organization to simply double down on what they've done in the past is problematic.

Another significant challenge, also related to the retail revolution, involves the use of data. If credit unions expect to compete with large banks and FinTechs, they need to understand how to use member data, and develop the necessary skills to extract and leverage the useful information that data can provide.

The biggest challenge they are facing now is the rapidly rising expense of the employee base, combined with the investments they need to make in new technologies. The math is pretty simple: if credit unions want to maintain their pricing advantage in the marketplace, they must keep costs down. Otherwise, loan rates get pushed up and dividend rates go down to pay for internal operations. So the longer-term solution is to build operational efficiency by automating processes, which you need to accomplish with digital and data capabilities.

Will staffing continue to be a challenge for the foreseeable future?

There are a significant number of openings right now, and the cost of hiring qualified staff has skyrocketed…if you can even recruit them. This week, for example, I learned of two credit unions that were insisting on having new employees work in the office, and they had no applicants for those jobs.

We're going to be in this challenging environment for a long time. The credit unions that are successful are changing their strategy. They're looking outside of their local markets, and outsourcing to find talent, and are also digitizing their data. They're automating processes that are, and have been inefficient for years, but now they can't even afford the people to connect them. Finding outside resources that can understand and automate key operational processes is probably the best investment for an organization today.

How has the credit union industry evolved over the past 25 years, and how has it failed?

For the better, credit unions have evolved into larger communities, with multiple risk categories, and multiple products. They've moved away from the sort of single site monopolies similar the Grumman story, and become multi-community, multi-membership organizations, with professional leadership in finance, marketing, and lending, and with full-service product lines. Yet they've remained deeply rooted in the beliefs of credit unions, the member value equation, the collaborative model, and the cooperative structure. So, the belief system still exists, while the product mix and business acumen have improved dramatically. They've become successful community institutions in many places in the country.

Where the industry has fallen short is that with all the change and diversity and creation of a better business model, there hasn't been as much growth in market share as you would've expected over the past 25 years.

How do credit unions compare with banks, in terms of technological capabilities?

For a better part of their history, credit unions were better at technology than many community banks. They were running on minis and had relational databases that structured all the types of accounts to be connected. Off that technology platform, they were able to be real-time with audio response systems and ATM systems before banks, for a long time. And all of that provided a higher level of service for credit unions. They came along at the right-point on the technology curve, and were able to adapt integrated systems, compared with the disparate systems at banks, that ran batch operations for years. Credit unions had a competitive advantage in technology for a long period of time.

Banks have regained the technology advantage. The digital data revolution over the past decade – with data warehousing – has integrated all the data points for the larger banks, and they've updated their batch systems. Credit unions, on the other hand, now face a new challenge that's evolved out of having a diversity of products. They'll have a consumer system, a small business system, a commercial system, a mortgage system, servicing systems, and collection and accounting systems. As a result, their data is fragmented. Bringing that data together, automation of those connection points, and application of the tangible value of that data for competitive positioning, are essential capabilities in the current marketplace.

How much of an impact will inflation have on credit unions?

We're facing some ugly inflation and that's got some challenges, but for financial institutions, increasing inflation can mean higher returns on loans. That environment can be good for credit unions. And historically, credit unions actually perform as well as they do in up cycles, or even better, during down cycles, for two reasons: there are no outside stockholders knocking on their door on a quarterly basis. They don't need to cut their expenses as much, so they can better manage through downturns and grab market opportunities, and they have less risk on their balance sheets.

Even though credit unions haven't gained enough market share, I believe they will continue to gain both public awareness, brand positioning and market share over time. I'm very optimistic because so many institutions have reached a size where they have the talent, the capacity, the capabilities, the product mix, and price points that are better than their competitions.

I also believe that the economic outlook favours credit unions. There is a large amount of savings that was accumulated during COVID. The demand for housing by millennials who are fully employed will continue, housing prices will soften, and rising interest rates will provide better margins. The economy that may go down a bit, but with so many people fully employed, loan losses will not expand significantly, and the asset quality of cars and homes and commercial property will remain stable.

This is a healthy environment for credit unions to grow.

Is there some sort of stigma associated with the notion of credit unions, compared with banks?

There are several issues involved in market perceptions of credit unions, starting with not having the word “bank” in the name of the institution, which is confusing to some people. Federal credit unions are legally required to have the words “credit union” in their branding. More importantly, the business niche for credit unions is middle income and lower income consumers, which is a huge market segment that needs to be served. There will always be some degree of class consciousness involved in how credit unions are perceived.

What’s your current business venture?

As I started getting closer to 65, I wanted to do a couple of things with the remaining years of my career. I was approached by OM Financial Group, a firm that provides executive benefits, which has been a passion of mine, to help them provide Supplemental Employee Retirement Plans (SERPs) for credit union leaders. Because credit unions do not have stock as a way to recruit, retain and reward executives, they need other financial options.

For a long time, the industry had a particular type of bonus program called 457(f), that provided some retirement income. A credit union’s compensation was linked closely to its asset growth. As assets grew, base and annual incentive compensation grew, and defined benefit retirement programs eventually went off the shelf, leaving a gap in the ability to have a successful retirement. The firm that I work with invented and introduced a whole life insurance based split-dollar insurance SERP. There's some complexity to it, but essentially the credit union lends the executive some money (they get paid back with interest), to buy a life insurance policy which compounds over the length of time that the executive works there, so they're able to withdraw that money tax-free for their retirement for 20 years.

The underlying benefit is that credit union executives get rewarded for their work, which I think is the toughest job in retail banking. My current position gives me an opportunity to talk to boards, to sometimes speak at conferences, and talk to credit union executives about how split-dollar SERPs can help in a meaningful way to change their lives. From an industry standpoint, as the Boomer generation executives retire, SERPs enable credit unions to be competitive with banks in recruiting and retaining the next generation of management talent.

Is there an individual, book, expression that has been an enduring source of personal inspiration in your life?

The reason I care so much about the credit union industry is because it’s a cooperative structure that can really change people's lives by being fair and working hard to provide the right resources at the right time. It may sound hokey, but that has been the inspiration in my career and something that still moves me close to tears each time I see it happen.

In terms of an individual who inspired me, I often think of an aunt of mine who grew up on a tobacco farm in North Carolina. She was the first person in her family to attend college, she became a teacher, and was really the strength of our family. She was very soft-spoken, was fair and honest, and made the best fried chicken I’ve ever eaten.

Any advice for recent graduates considering a credit union career?

I think financial services is one of the most interesting and exciting technology and business environments you’ll find. The whole world of cryptocurrencies and digital assets is evolving. Applications of blockchain theories are emerging. There’s immense growth in FinTechs. Investment in digital platforms and recasting of business models based on data analytics, machine learning and artificial intelligence is just getting started.

On the credit union side, if you believe in giving back to the community, being active in not-for-profits, connecting the dots between the underserved and better served communities, and about making families financially stronger, there is absolutely no better career path.

You've received several awards and recognitions. Which is most meaningful to you?

During my tenure at Bethpage, a number of organizations gave me awards, and I often participated on their boards. What mattered most to us was making the community stronger. We spent a lot of time and energy, particularly in underserved areas and helping kids with talent get access to the arts, in ways they might not have access to otherwise. Those things were meaningful. I was chairman of the Long Island Business Association for six years, which is the second biggest business organization in New York. In that position, I met a lot of influential, successful people, and we were really the first credit union ever to be in that position. That mattered a great deal to me as well.

Will you share any personal insights?

Until six months ago, I was an avid runner for thirty years, but the toll on my body has increased. Now, with a few nagging injuries I don't run, so I'm about to take up biking with some enthusiasm. I've been traveling a great deal for my job, at conferences and sometimes entertaining. Entertaining means eating and eating without exercise is problematic.

I also love the arts, and I collect art a little bit. I'm very fond of music in all its forms, and that's the glory of living in New York. You have the opportunity to enjoy everything from Broadway, to classical, to the opera, and to even attend a rock concert by "The Who," which I did last week.

Kirk Kordeleski served as President and Chief Executive Officer of Bethpage Federal Credit Union, the largest community credit union in the Northeast, for 15 years. During his tenure, Bethpage was awarded the largest federal charter in the country and doubled its size every five years, growing from $950M to $6B.

Among his achievements as CEO, Kordeleski helped create large-scale collaborations in both technology and back-room operations, the first such collaborations in the industry. Prior to taking the CEO position at Bethpage, he was the credit union's EVP for seven years. Before joining Bethpage, Kirk served as a Director on the Executive Team of Bank Fund Staff FCU for seven years.

Kirk has started up two consulting firms, acted as senior managing partner at an industry leading professional services firm, was instrumental in starting up a blockchain ID CUSO and founded a marketplace lending Fintech. The consulting firms specialized in credit union strategy, digital transformation, CUSOs and data analytics.

Kirk has also held numerous community leadership positions, including Chairman of Long Island's top business association, Friends of the Arts, and a board position on the United Way, to name just a few. In his spare time, he enjoys music, collects art and is transitioning from running to biking.