Fall 2015

Perspectives

The Official Magazine of the Cornerstone Credit Union League

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Collaboration:

MAXIMUM PARTICIPATION FOR MAXIMUM EFFECT

The focus of your league is to support Cornerstone credit unions as a valuable partner. In that endeavor, we make available solutions-oriented products and services from Credit Union Resources and our strategic business partners.

CO-OP Financial Services, Catalyst Corporate, Diebold, CU Solutions Group, Digital Benefit Advisors, LEVEL5, INTECH, JMFA, SerTech, CU Members Mortgage, Harland Clarke, and CUNA Mutual Group are just some of the organizations with whom we collaborate. Our strategic partners provide real value to credit unions and continually support the credit union system.

CUNA Mutual Group is one partner with whom we've maintained a decades-long relationship of collaboration. Their value isn't only measured in the wealth of insurance products, lending solutions, and marketing programs; they work closely with state leagues and the national credit union movement.

CUNA Mutual Group sponsors a number of Cornerstone events, supports the efforts of the Cornerstone Credit Union Foundation, and contributes to the Southwest CUNA Management School Scholarship Fund. They also support Credit Union National Association in virtually every major initiative to protect and promote the credit union movement throughout the U.S.

Additionally, CUNA Mutual Group closely monitors state regulatory agencies and legislative initiatives to ensure that the laws and regulations enable credit unions to promote the financial wellbeing of their members.

We are a grassroots movement of *people helping people*. Our corporate relationships are integral to our continued growth and success. Through collaborative efforts with our partners, we are able to provide credit unions meaningful products and services that help increase productivity and improve overall bottom lines.

> *"Individually, we are one drop. Together, we are an ocean."*
> —Ryunosuke Satoro

If you are not taking advantage of the partnerships we have forged on your behalf, I encourage you to learn more about these companies and explore how they can bring greater value to your organization. Learn more at **curesources.coop**.

Richard E. Ensweiler, CEO

Capitalizing on Four Key CU Areas for Long-Term Success

It's been ten years since *Perspectives* magazine (previously *Lonestar Perspectives*) has been in existence—years that have seen the credit union movement change and evolve under regulatory and compliance pressures while demanding to be heard among lawmakers, expanding outreach to our communities, and increasing memberships nationwide.

As we embark on our forward trajectory over the next ten years, we're casting a wider net around innovation while narrowing our focus on the resulting products and service solutions that most directly help our credit unions attain their missions.

Specifically, the Cornerstone Credit Union League will be emphasizing four key solutions areas:

- Boosting financial performance by implementing tools that encourage and support growth and soundness;
- Developing human capital by providing learning and growth opportunities;
- Refining operational effectiveness by streamlining processes for achievement; and
- Maximizing the CU member experience by creating those all-important value propositions.

Organizations need innovation to move forward, and in today's financial industry, competition has never been fiercer, nor differentiation more challenging. Yet, credit unions have proven they are survivors in good economies and in bad. We continue to set goals, implement unique strategies, and achieve favorable results. We do this as individual cooperatives and as a movement.

Henry Ford once said, "If everyone is moving forward together, then success takes care of itself." That's what credit unions have done for more than a hundred years in America, and what a more powerful credit union movement will allow us to do in the future.

"The great thing in this world is not as much where we stand as in what direction we are moving."

—Oliver Wendell Holmes

The communities you serve have specific problems they need help solving, and they look to you, their financial partners, to help them do that. Often, that seems harder rather than easier, when overly restrictive compliance measures are the order of every day. So we must be watchful for usable innovation, hire and challenge the brightest minds, be receptive to change, and take the occasional strategic chance where the outcome may not be set in stone. Indeed, failures are portals to discovery.

As you read through these pages, I hope you'll consider the ways your credit union can take advantage of advances in technology for your product and service lines. And we hope you'll let us know how those resources are working for you, because we are always striving to better serve your needs.

Kenny Harrington
Chairman, Cornerstone Credit Union League

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Your Business, Our Focus, Expert Solutions

Bob Rehm, CUDE, Vice President Sales and Service, Credit Union Resources

In this issue of *Perspectives*, you will find several articles focused on products and services that help credit unions achieve their missions. That's really at the heart of what we do at Credit Union Resources. We provide product solutions in all four of the broad areas of credit union operations:

- **Financial Performance –** achieving your bottom line
- **Operational Effectiveness –** refining your credit union's processes
- **Member Value –** maximizing your member's experience
- **People –** developing your credit union's human capital

Inside these four strategic categories, Resources represents carefully selected, exceptional companies that provide services such as insurance, employee benefits, shared branching, payment systems, ATM technology, retail discount programs, loan generation programs, checking account programs, and many more ways to better serve your members and grow your credit union.

From our own professional consultants, we offer services in human resources, staffing, marketing, research, financial audit, technical audit, strategic planning, and shared compliance, to name a few.

Check out the illustration that accompanies this article, as it can serve as a quick reference of all our solutions—solutions made for your credit union. For example, in the category of Member Value, you will see student loans as a service we offer. This issue contains an article from our preferred business partner, CU Student Choice. Your members need a choice that's good for them and good for your credit union when it comes time to borrowing for college.

In the category of Operational Effectiveness, Diebold writes about the transformation of branches as the means to deliver multiple points of access and enhance the member experience. And in the strategic category of Financial Performance, LEVEL5 offers up its new program, fxAMP, to help credit unions manage their fixed-asset ratios under the new rules. Of course, these are just a few examples of our excellent partners.

Introducing Digital Benefit Advisors

Also in this issue, Resources welcomes Digital Benefit Advisors as our newest preferred business partner. Digital Benefit Advisors delivers a powerful new approach to employee benefits by combining the commitment of experienced, local market advisors with the sophisticated technology and resources of a respected national firm. Employers receive access to a broader variety of carriers, dynamic tools, proprietary products, and the ability to effectively navigate the complexities of healthcare reform.

Your Business, Our Focus, Expert Solutions

As you prepare for 2016, please keep Credit Union Resources in mind as a means to supporting your strategic objectives. We can help, because you're why we exist—to serve you and help your credit union achieve its goals.

To learn more about consulting services, business partners, and other services providers, please contact Bob Rehm at brehm@curesources.coop or (469) 385-6425.

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Accounting for Repossessed Vehicles

Cheryl Ehmann, Assistant Vice President, Staff Analyst, Credit Union Resources

As you may know, accounting for repossessed vehicles has changed in the last few years to be in compliance with Generally Accepted Accounting Principles. The accounting for these assets is now basically the same as the accounting for foreclosed real property.

When the vehicle is repossessed, it should be written down to fair market value and reclassified as an "other" asset (G/L #790 series). It may still be left on the share and loan subsidiary system for tracking purposes, but it needs to be reflected on the balance sheet as an "other" asset.

The initial write-down to market value is posted to Allowance for Loan Losses. This creates some headaches, as most data processing systems do not allow for partial charge-offs. The best way to handle this depends on your individual situation. Some credit unions opt to charge off the entire loan, then re-establish the loan at fair market value. Some credit unions do not do a charge-off on the system at all, but rather record entries strictly on the general ledger side. Just be sure to meet the primary objectives—recognize the long term asset at fair market value and be able to track what the member owes the credit union.

Another issue that arises when the initial write-down is posted is that of credit bureau reporting. If the system allows a partial charge-off, the charge-off may be reported to the credit bureau at that time for the amount of the write-down, which will probably not be the entire loss incurred by the credit union. The remainder of the loss will be posted to a different account instead of being recognized as a charge-off, and may not be properly reported to the credit bureau. Ideally, the repossession would be reported initially, and the charge-off would be reported at the time of the sale of the collateral. You will need to work with your data processor to determine how best to accomplish this.

When the vehicle is sold, the credit union may realize a loss. If this is the case, the loss will be shown as a Non-Operating Loss on Disposition of Assets (G/L #400 series).

There may also be a gain. In this situation, you will need to decide if it is a true gain (that is, you have sold the vehicle for more than what the member owes you) or a gain on paper only (that is, you have sold the vehicle for more than the net book value of the asset).

If you have sold the vehicle for more than what the member owes you, then the surplus must be given back to the member, as required by the Texas Business and Commerce Code.

If you have sold the vehicle for more than the net book value of the asset, but for less than what the member owes you, you may credit Allowance for Loan Losses for the amount of the initial write-down, then post the rest to Non-Operating Gain on Disposition of Assets (G/L #400 series).

Any costs associated with the repossessed vehicle, such as repossession fees, repairs, etc., must be posted to expense instead of being added to the asset account balance. This can cause some accounting nightmares, because contractually the member still owes you for these expenses (based on the wording of most loan contracts), but it cannot be added to the account. These fees should be taken into consideration when determining if any gain is a true gain or merely a gain on paper.

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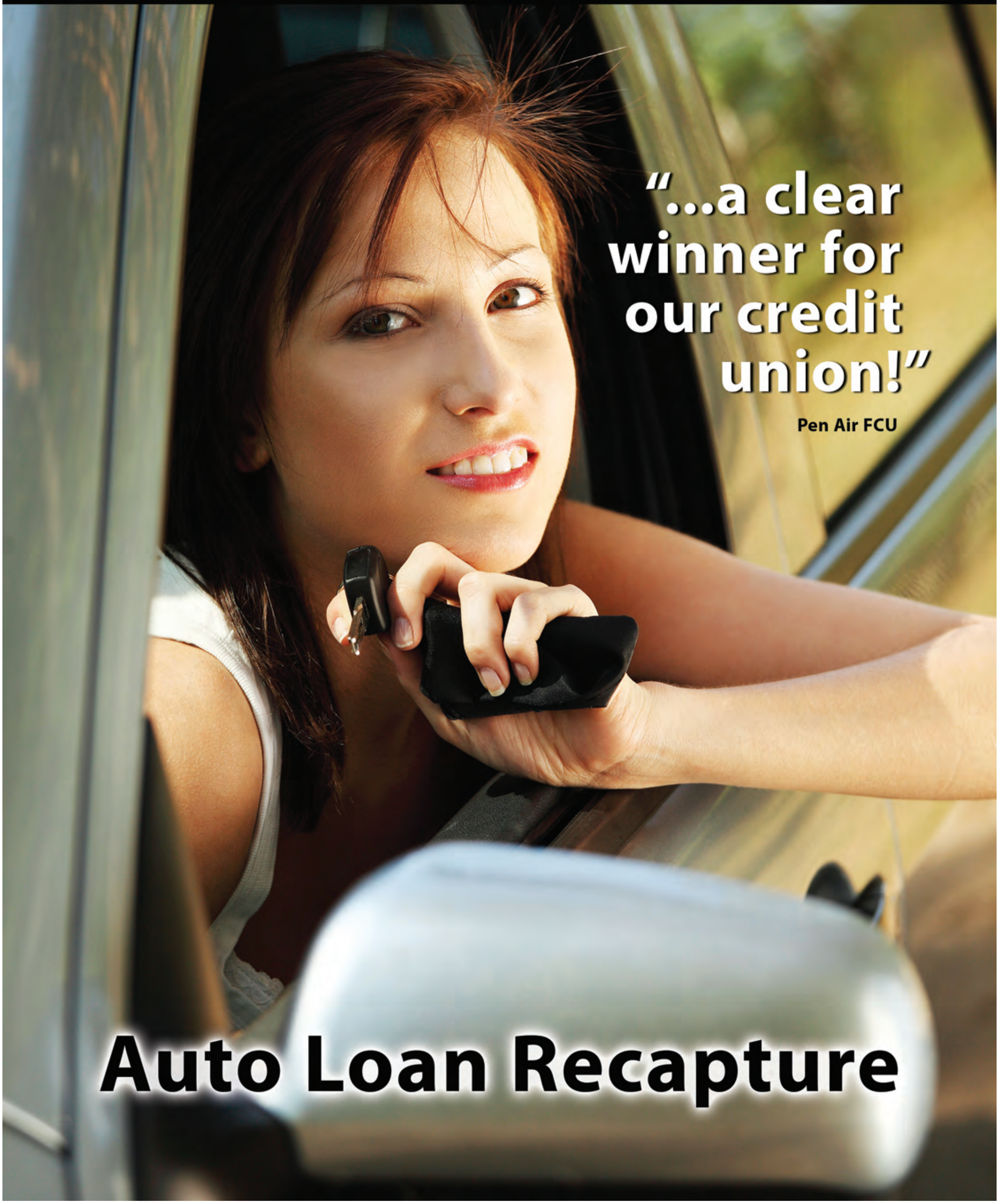

Changes to the 5 Percent Fixed-Asset Rule are Beneficial for Growth

John Hyche and Brian Abner, LEVEL5

The Federal Credit Union Ownership of Fixed Assets Rule has been approved by the National Credit Union Administration. The amendment of this regulation will have a profound impact on fixed asset management for credit unions. Although the change applies specifically to federal credit unions, it is anticipated that state regulators will adopt this supervisory process as well.

The NCUA states, "[the] Board has determined that oversight of FCU investments in fixed assets would be effectively achieved through the supervisory process, and evaluated on a case-by-case basis."

By now, everyone should be well versed on what lifting the five percent rule will generally do for FCUs. Let's take a look at the new rule's regulatory nuances:

1. The shift from a regulatory limit to supervisory oversight: NCUA has cited guidance will reflect current supervisory expectations that require FCUs to demonstrate appropriate due diligence along with ongoing board and management oversight. The NCUA will be issuing an update about supervisory guidance to examiners and FCUs.
2. The NCUA guidance will focus on evaluating FCUs' quality of earnings and capital relative to projected performance under both baseline (expected) and stressed scenarios.
3. If the NCUA determines that a FCU has elevated fixed assets, examiners will maintain close oversight to ensure the FCU conducts prudent planning and analysis with respect to fixed-asset acquisition, can afford any such acquisition, and properly manages ongoing risk to its earnings and capital.
4. The guidance will ensure examiners effectively identify a risk to safety and soundness due to excessive investment in fixed assets. FCUs that fail to comply with the requirements of the final rule may be subject to commensurate supervisory action.
5. Partial occupancy clause. The NCUA board has approved the requirement for a FCU to partially occupy any premises acquired for future expansion, regardless of whether the premises are improved or unimproved property, within six years from the date of the FCU's acquisition of those premises.
6. The NCUA board also approved the provision for existing waivers of the five percent aggregate limit on fixed assets to berendered moot as of Oct. 2, 2015, the effective date of the final rule.

Under the new guidelines, prudent fixed-asset management will become part of the examiner's oversight. Credit unions will be expected to maintain safety and soundness if they choose to increase their fixed-asset investment. The fixed-asset management that was in the original draft of the rule is not required; however, regulators will expect the credit union's senior management and board to manage fixed assets, ensuring the CU's earnings and capital are not put at risk.

The NCUA remains cautious, stating, "Fixed assets not only hold member funds in non-income producing assets, but they also typically involve a material increase in FCU operating expenses, such as depreciation, maintenance, and other related expenses." The NCUA also stated, "The board emphasizes, however, that the NCUA's supervisory expectations remain high."

So having a management process in place is still warranted by credit unions going forward. Even though the new rule provides more potential freedom, the senior management and board have a fiduciary duty to the credit union's safety and soundness against undue risk affecting earnings and capital. The good news is LEVEL5 has been providing this analytical service to our clients for more than 12 years.

And now LEVEL5 has developed FxAMP, a fixed-asset management plan to help credit unions develop appropriate guidelines for fixed-asset investment. FxAMP helps FCUs take advantage of the new fixed-asset flexibility while maintaining standards for prudent financial management and safety. To learn more, visit **http:/ecom.level5.com**.

Let Learning Catalyze *Your Uniqueness*

Howard Bufe, Assistant Vice President
Credit Union Resources

Nobody can make you successful but you. Not your parents, your friends or family, and not your boss. Only you, and you do it by gaining knowledge, accepting change, implementing what you've learned, and seeking new growth. But all the seminars, classes, books, and audios are wasted if you're unclear that learning isn't just attending, listening, or reading. It's change, and if you haven't changed, you haven't learned.

Years ago a gentleman shared with me some wise advice. "Howard, I'm a millionaire for the third time," he said. "I made the first million, made some bad decisions, and lost it. I made the second million, took on a partner, and he was instrumental in me losing it. I've now made a million for the third time. I don't tell you this for you to be in awe that I've made a million dollars for the third time. My goal is for you to walk away having learned at least one critical thing. People can take your possessions and your money, but nobody can take your knowledge. The more knowledge you have, the richer your life will be."

And just as importantly, knowledge can't be power until it's put into action. What have you learned today that you can act on?

Be Curious

"What I know doesn't impress me; what I don't know excites me."

~ Jean-Jacques Rousseau

Success, growth, and change are not destinations. They are journeys. As you travel your path, be curious. Get excited about the things you don't know. That's the way to uniqueness.

The late University of Alabama coach Bear Bryant remarked, "Over the years, I've learned a lot about coaching staffs, and one piece of advice I would pass along to a young head coach—or a corporate executive or even a bank president—is this: Don't make them in your image. Don't even try. My assistants don't look alike, think alike, or have the same personalities. And I sure don't want them thinking like I do. You don't strive for sameness, you strive for balance."

Fail Often

"Not failure, but low aim, is a crime."

~ James Russell Lowell

Football coaches Tom Landry, Chuck Noll, and Bill Walsh together won nine of the 16 Super Bowls in the years 1974 to 1989. They are widely considered among the best coaches the game has produced. What is less well known, but a matter of record, is that these three coaches also share the distinction of having three of the worst first-season records of any head coaches in NFL history. They could not have succeeded so well without having learned from their failures and putting that knowledge into action.

Be Accountable

"There are two primary choices in life: to accept conditions as they exist, or accept the responsibility for changing them."

~ Denis Waitley

Accept that you are totally responsible and accountable for your success in life. Not society, not culture, not government, not family, and not your boss. It is the starting point of all greatness and all personal success. Until you've claimed total and unconditional responsibility for everything that happens, you'll never be serious about success. To the contrary, the irresponsible person is a leaf blowing in the wind with zero hope of steering itself in a meaningful direction.

Make a decision today to take the initiative to gain knowledge, accept change, implement what you've learned, and grow your uniqueness and value. The simple truth is, if you want more, you have to provide more value.

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10 Things to Consider for ACA Readiness

Jason Sandler, Principal, Digital Benefit Advisors

Ready…Set…*Go!*

All the changes, deadlines, and requirements coming in the new healthcare reform landscape based on the Affordable Care Act, or ACA, can seem overwhelming. Getting organized is often the hardest part. Here are 10 things to consider that should help you stay ahead of the curve.

1. Are you offering benefits to employees working less than 30 hours?

Describe any single employee or group of employees not eligible for coverage based on the 30-hour workweek limitation. If you are offering benefits, review any repercussions they might face based on their ability to qualify for a federal subsidy and coverage on the public exchange.

2. Who currently enrolls in coverage and who declines?

Determine who uses the benefits and who uses the most popular benefits? Will any of those individuals have to change options in 2016? Create a detailed list for each employee, including age, marital status, family size, gender, and salary, and indicate the plan selected and type of coverage (i.e., single, family, or reason for employee declines coverage). Compile data available from the carrier or third-party administrator, along with any other commonly known information. Consider deductibles and out-of-pocket limits.

3. Do you combine multiple organizational entities for the sake of providing benefits?

If so, determine the pros and cons of ACA impact. Separation by an FEIN number isn't the only answer.

4. How do you structure premium contributions?

Do you contribute the same amount, by plan, for each employee participating? Do you vary contributions in any way? Remember, what you think is valuable isn't always the case with your employees.

5. Determine your credit union's philosophy for providing employee benefits.

Whether you want to attract and retain talent and/or wish to minimize costs, be certain you provide plenty of choice with decision support.

6. What do my employees expect?

Make certain employee expectations align with the choices the credit union is providing. Employee needs are different. Offer choices and allow them to engage in the decision-making process, particularly when it's a benefit to which they contribute directly.

7. Align with a partner that can advise about all benefit options available in your marketplace.

This includes both private and public marketplace options. It's important to partner with a qualified benefit advisor who has access to the private insurance market and private exchange marketplaces, and is certified to represent the products available in the public marketplace.

8. Identify other employees for which you do not currently offer benefits.

Determine whether assisting those groups by providing professional advisor services would improve production and stability of this workforce. Offer them guidance to coverage via all avenues. Do they qualify for a subsidy available on public exchanges?

9. Develop and implement a good communication plan.

Educate employees about their responsibilities and options in 2016. Reiterate their value as employees and the commitment you make to providing their benefits

10. Identify, explore, and implement tracking options.

Tracking of employer and employee information is required by ERISA and ACA; however, the onus is on the employer to solicit advice from its qualified benefits advisor.

Dealing with Employee Issues

Susan Looney, Senior Vice President, Credit Union Resources

Dealing with a "problem employee" is a frustrating task for every manager. Many times, managers see the symptoms of problems, but have a hard time identifying what's spurring them. Two things are key: understanding a problem's origin allows a manager to determine the appropriate remedies, and dealing with the problem promptly is crucial to preventing escalation.

The following are some simple questions for getting to the root of a problem:

What exactly is the problem?

- Identify the specific problem behavior that needs to change;
- Identify what the employee is or is not doing, not the result it causes. For example, if loan applications are not processed within 24 hours, that is a result. Identify what the employee is or is not doing to cause loan applications to be processed slowly.

Does the employee know what to do? If not:

- Work on the employee's understanding of procedures and expectations;
- Talk to the employee and listen to his/her needs;
- Observe the employee in his/her work environment;
- Train or retrain the employee in proper procedures;
- Provide a role model for the employee;
- Let the employee practice, and reinforce proper behavior.

Does the employee have the *ability* to do the task? If not:

- Consider whether there might be an easier way to accomplish the task;
- Consider changing the job requirements;
- Consider transfer or termination.

Is the employee receiving frequent and specific feedback? If not:

- Tell the employee specifically what he or she is doing incorrectly;
- Praise small successes immediately;
- Give feedback often.

Are work-related obstacles preventing the employee from doing the task?* If not:

- Evaluate the credit union's facilities and equipment;
- Talk to the employee;
- Listen to the employee's concerns;
- Remove or change the obstacles so that it no longer affects performance.

**Note: Consider this question carefully. If there are indeed obstacles and they are not removed or changed, performance problems will persist no matter what other action you take.*

Could the employee do the task, but choose not to? Consider the following:

The consequences for not doing the task correctly are more positive than the consequences for doing the task correctly.

- Analyze why this is happening;
- Change the consequences;
- Reward appropriate behavior.

The consequences for doing the task correctly are negative.

- Analyze why this is happening;
- Remove negative consequences;
- Reward appropriate behavior.

The consequences for doing the task correctly are no different that the consequences for not doing the task correctly.

- Analyze why this is so;
- Establish positive consequences for appropriate behavior;
- Establish negative consequences for inappropriate behavior.

The employee has a problem, either work-related or personal, that is causing a pattern of declining performance.

- Takes steps to amend the performance.

Use these questions as a checklist when dealing with an employee issue. When you determine the real issues and why it is occurring, you are in a better place to help your employee.

Employees are Our Greatest Asset – Fostering a Growth Mindset

Greg Robertson, League Representative, Cornerstone Credit Union League

Salman Khan, a Bengali American teacher and entrepreneur whose online Kahn Academy channel on YouTube has attracted more than 2.2 million subscribers, wrote:

"Researchers have known for some time that the brain is like a muscle; that the more you use it the more it grows. They have found that neural connections form and deepen most when we make mistakes doing difficult tasks rather than repeatedly having success with easy ones. What this means is that our intelligence is not fixed; and the best way we can grow our intelligence is to embrace tasks where we might struggle and fail."

In her book Mindsets, Carol Dweck, PhD, Professor of Psychology at Stanford University, suggests there are two types of mentalities. Persons who believe intelligence and talents are innate are considered to be of a fixed mindset. Fixed-mindset persons believe, with little variation, that our talents are genetically gifted (or not) and regardless of the circumstances cannot be substantially changed. Persons who believe that intelligence and talents manifest themselves as a result of hard work, dedication, and failure are identified as part of the growth mindset.

I do believe people possess the ability to pull themselves up by their boot straps. With training, education, and perseverance, individuals can improve their circumstances and become hugely successful. I also believe that inherited traits in certain individuals lead to propensities for success that everyone else doesn't necessarily possess. Persons such as Albert Einstein and Kareem Abdul-Jabbar come to mind.

Regardless of the hours we spend training our mind, I would venture to guess the general theory of relativity would not be the outcome. Also, from a physical standpoint, and unlike Kareem, we don't all grow to 7'4" tall with the ability to stand flat-footed and dunk a basketball. I do hope this observation does not classify me as a fixed-mindset individual.

Dr. Dweck writes that personal change from a fixed mindset to one of growth can be achieved through the learning and internalization of key concepts:

- Effort is not a signal of deficiency, but of commitment.
- Being a learner requires being open to the vulnerability of not knowing.
- Frustration and confusion are natural stages in learning.
- Reflection is an important part of the learning journey.

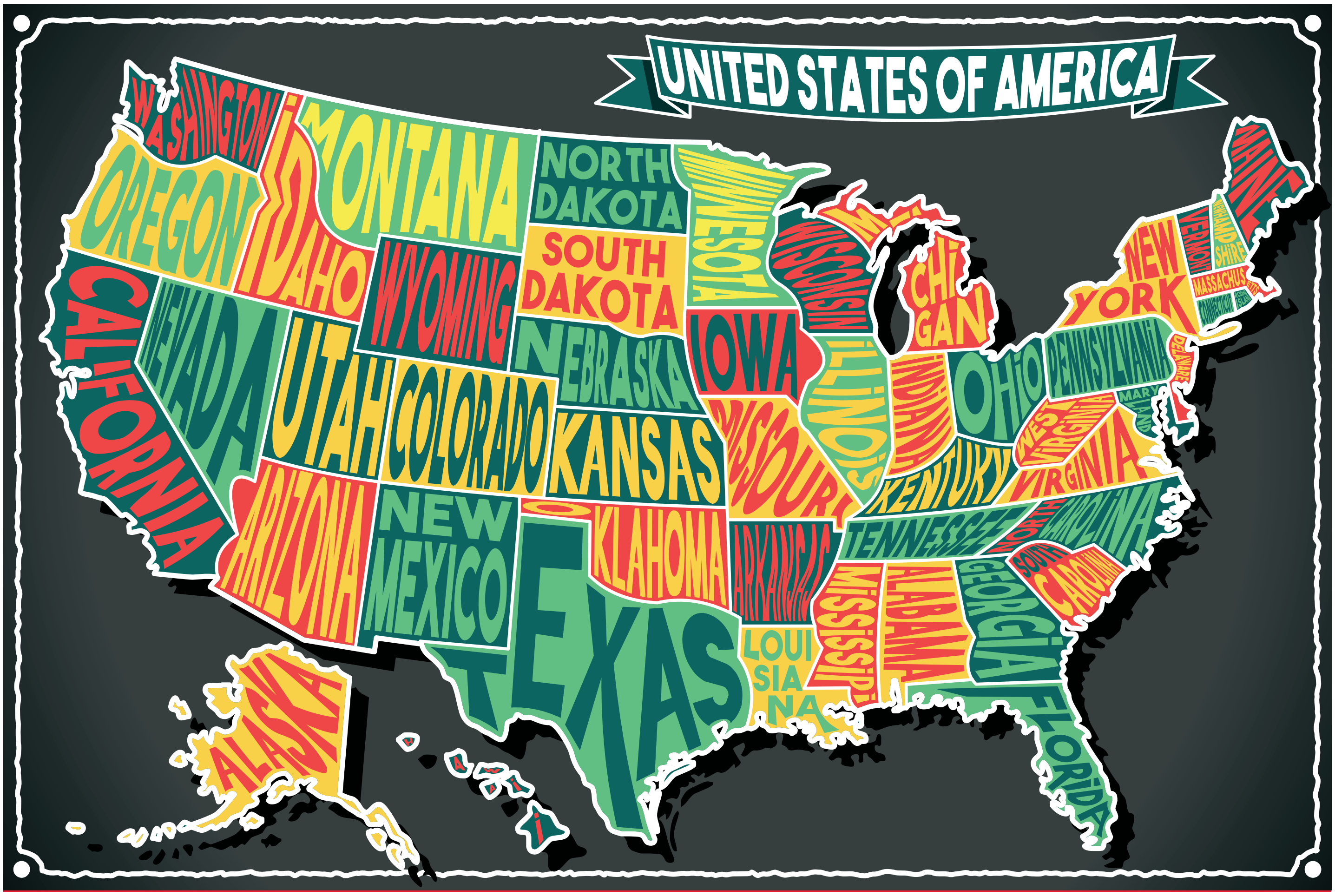
Regardless of which side of the street you reside, if you are an employer with a true understanding that your employees are your most valuable asset (and you should, because they provide service to your members and sell your products and services), it is to the benefit of the organization to cultivate a growth mindset at your credit union. Don't believe me? Research the statistics related to the cost of employee turnover. Better yet, if your credit union is experiencing high turnover, measure the cost to your organization.

Jon Donne wrote, "No man is an island, entire unto itself." You can't go it alone. I challenge you. Advance personal development. Invest in education. Challenge abilities. Solicit opinions. Embrace and discuss the merits of ideas with an open mind. Share your personal experiences. Eliminate the status quo. Understand that some level of failure, unless egregious, is acceptable and can promote personal growth.

What vision do you possess for your credit union? What changes must you make to create a growth mindset for yourself and your organization? Take action now, and let your brain grow.

> *"There are no great limits to growth because there are no limits of human intelligence, imagination and wonder."*
>
> **—Ronald Reagan**

Your Cornerstone league representative is available to serve the needs of your credit union. We provide organizational training in a number of areas. To view training opportunities and learn more about your league representative, visit www.cornerstoneleague.coop/league_representatives.html.



State of Your State

Nate Webb, President, Oklahoma Credit Union Association

Your league places a great deal of emphasis on state advocacy. The reason is simple. Travel across the United States, and you quickly notice a wide diversity of culture and customs. Not just food, accents, and clothing, but also the laws by which folks in different states live their lives. In some states, you can drive faster, legally carry a gun on your hip, or even smoke marijuana in public.

So, if our 50 states are truly united, why the huge disparity in laws and regulations? It boils down to 28 simple words.

"The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

The Tenth Amendment to the U.S. Constitution, the final amendment to the Bill of Rights, clearly gives state government authority over myriad important issues. So how does this all affect credit unions? Good question.

To be sure the federal government has vast authority over banking regulations, and since the financial collapse of 2008 and the advent of Dodd-Frank, it seems Washington is cranking out new laws and regulations quicker than McDonald's flips burgers. But credit unions focusing exclusively on federal issues do so at their own risk.

After all, credit unions are still businesses operating in their respective states and, as such, are subject to the laws and regulations created by their state legislatures, regardless of charter.

For example, laws impacting a credit union's lien interests are made on the state level. The same holds true for laws and regulations related to imminent domain, insurance, third-party lending, and certain mortgage regulations. They all fall under the jurisdiction of the states and all have a profound impact on a credit union's day-to-day operations.

> **The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.**

Legislators in your state have influence over workers' comp costs, legal liability, and even payroll. (The federal government only dictates the very bottom of the pay scale. States are free to set the minimum wage anywhere above.)

As unlikely as it might sound, the regulation of firearms is a growing concern. Although the U.S. Constitution guarantees the right to bear arms, it's up to the states to decide exactly what that means. Your legislature could, conceivably, give the okay to openly carry a gun anywhere, including your lobby. This scenario might seem outlandish, but some sort of gun related legislation rears its head in just about every legislative session. It's become a very real concern for financial institutions (especially in states where there resides enough private firepower to take down a South American dictator).

These are just a few of the reasons state advocacy is vitally important. There are those in the credit union movement who think someone else will take care of state-level issues. That's flawed thinking and one of the reasons bad laws get made.

Cornerstone understands the importance of state advocacy and has a team of experienced professionals fighting every day to protect the interests of credit unions at state capitols. But your commitment and active involvement are crucial to a successful advocacy strategy. It's incumbent on every credit union professional to get involved, not just in Washington but in their respective states.

Develop relationships with your legislators, respond to calls for action, and donate to your PAC. These are all important components of state-level advocacy. In other words, roll up your sleeves and pay attention to what's happening in your own back yard. It really does make a difference.

Look Inside

Inside every young adult is
a vision of the person
they dream to become...
engineer,
teacher,
business icon,
scientist.

Inside every credit union is
the means to help fulfill
that potential.

Empower your members for life with fair-value higher education financing and straight-forward advice.

Start today.

Credit Union
StudentChoice

Giving students the credit they deserve

www.studentchoice.org
800-541-1500
info@studentchoice.org

Build Younger Relationships through Private Student Lending

CU Student Choice

Student lending offers credit unions a chance to build early trust with a demographic that is getting tired of banks. And once that relationship is in place, the numbers can really add up. The numbers are downright scary.

According to CUNA's 2014/15 National Member and Non-Member Survey, the average age of credit union members is now 48.5. The survey also reports that only 35 percent of credit union members are in their peak borrowing years (ages 25-44), down from a whopping 51 percent in 1989. Despite all the discussion about growing membership among young adults, just 7 percent of members fall into the 18-24 age range, down from 9 percent in 2013.

While these statistics are troubling, what should cause even greater angst for credit union lenders and marketers is how Millennials view the future of banking. According to the Millennial Disruption Index, a three-year study based on a comprehensive survey of more than 10,000 people born between 1981 and 2000, banking is the industry that faces the highest risk of disruption.

Per the study:

- 71 percent of Millennials would rather go to the dentist than listen to what banks are saying.
- 53 percent don't think their bank offers anything different than other banks.
- 73 percent would be more excited about a new offering in financial services from Google, Amazon, Apple, PayPal, or Square than from their own bank.
- 33 percent believe they won't need a bank in five years. Ouch.

Making Relationships a Reality

At conferences and industry events, stats like those are tossed around like grenades. Credit unions are inundated with ideas and strategies for building meaningful relationships with young adults, but the numbers from CUNA's survey indicate that results may be lacking.

What about offering a product we know for a fact is needed by millions of college-age kids every year? Helping families navigate the confusing maze of college cost options, while also offering a fair-value private student loan to those who need to fill educational funding gaps, is proving to be a powerful connection source for many credit unions.

Now that many of those credit unions have more than five years' experience offering this type of loan solution, it's clear that not only can this asset class perform extremely well (with annualized charge-off ratios of less than 0.70 percent), but these borrowers are bringing real relationships and true member value to credit unions.

	500 or less student loan borrowers			1500 or more student loan borrowers		
Product	Credit Union A	Credit Union B	Credit Union C	Credit Union D	Credit Union E	Credit Union F
Checking	49%	60%	46%	71%	77%	31%
Credit Card	18%	10%	40%	33%	23%	4%
Auto Loan	9%	10%	11%	10%	12%	4%
Add'l Savings (MM, CD, IRA)	4%	7%	n/a	8%	4%	0.50%
Mortgage / HEL	1%	n/a	3%	n/a	1%	0.50%
Other Consumer Loan	0.50%	n/a	n/a	1%	n/a	2%

Six credit unions ranging in assets from $250 million to $5 billion, all offering a private student lending program through Credit Union Student Choice, recently analyzed their student lending borrowers. The numbers paint a positive picture.

Average checking account penetration was nearly 56 percent, while more than 21 percent had a credit card. Another strong indicator? More than 9 percent had an auto loan with the credit union. According to one lender, total deposit balances for their student loan borrowers was more than $4.6 million while total loan balances (outside of their student loans) were approximately $3.7 million.

Although credit unions are still working to track the sequencing of account relationships to determine when loan and deposit accounts were opened in relation to the student loan, it's clear these young adults are not simply indirect borrowers. They present credit unions with a genuine opportunity to deliver a lifetime of financial services, an idea not lost on other lenders.

In announcing its expanded student loan consolidation program in September, Citizens Bank referenced the importance of offering a student lending product to attract young, college-educated borrowers who will eventually need a mortgage, car loan, and other financial products.

The time to engage this important segment of future borrowers is during the most critical stage of their young financial lives—financing higher education. Through the delivery of fair-value loans and corresponding education, credit unions can help while also earning loyalty that translates to productive, long-term member relationships for years to come.

BIG Opportunities for Small Credit Unions

Lorri Gaither, Vice President Small Credit Union Development Department

Small credit unions face daunting challenges these days. With limited resources, they must be exceptionally creative in finding ways to keep up with new regulations, grow their institutions, and remain financially sound. That sounds like a big task—and it is, but small credit unions also have lots of opportunities to move forward and thrive. How can your credit union move ahead?

Embrace the Power of Networking

Some of the best ideas have resulted from a casual conversation with peers at a CEO breakfast, a chapter meeting dinner, or a small credit union group meeting in your local chapter area. Discussing common challenges and opportunities opens the door to valuable guidance and insight from your peers.

Though face-to-face events generally provide the most effective networking opportunities, social media avenues, such as the Cornerstone Small Credit Unions Facebook group, also provides a great networking tool.

Make Training a Priority

Time and expense typically are the biggest barriers to obtaining training for staff and directors; however, it's essential that small credit unions find affordable training opportunities as compliance regulations continue to evolve and our business environment becomes more technologically advanced.

Cornerstone offers low-cost training events, including the Small Credit Union Conference and local workshops, which provide training specifically to meet the needs of credit unions under $50M in assets.

Depending on asset size, other training discounts may be available. For instance, credit unions under $10M in assets can receive a complimentary registration to each of Cornerstone's six major conferences; credit unions under $20M in assets receive discounted pricing when ordering archived webinars from the League's CU Network Webinars. Also, check with your local chapters to see if they offer discount pricing for small credit unions to attend chapter meetings.

And don't forget, Cornerstone Credit Union Foundation offers grants to assist your credit union in funding your credit union's training needs. See if you qualify.

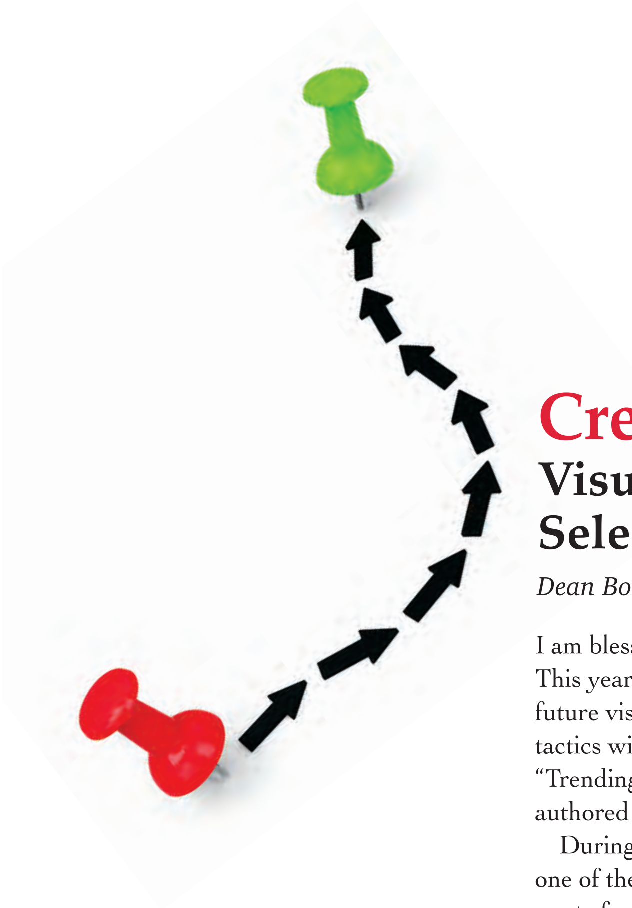
Be Open to Collaboration

Through collaboration, small credit unions can benefit from other's expertise and/or achieve a better economy of scale. For instance, small credit unions may be able to save on travel expenses for an audit by partnering with another local credit union and scheduling their audits at the same time.

Another example of collaboration is Cornerstone's Credit Union Mentor Program where one credit union offers expertise to another credit union. Mentor credit unions have offered to provide mentoring on everything from collections to compliance to lending. There is no cost to participate; however, interested credit unions must register for the program, and both parties must sign an agreement that neither will approach the other for a merger during the contract period.

As Henry Ford quoted, "Coming together is a beginning; keeping together is progress; working together is success."

The Small Credit Union Development Department is served by Lorri Gaither and Kati Buchanan. Please visit the "Small CU Resources" webpage under the "Services" tab of Cornerstone's website to learn more about available resources for small credit unions.



Create Member Value

Visualize Your Future, Select Your Niche, and Chart a Path

Dean Borland, Vice President, Credit Union Resources

I am blessed to work with credit union leaders and volunteers to formulate strategic plans. This year, the focus of many of our strategic planning events has been to create a long-term future vision and set strategic objectives and priorities upon which short-term strategies and tactics will be developed. Much of the future vision discussion is based on observations from "Trending: Credit Unions in 2025," a report commissioned by Credit Union Resources and authored by Ben Rogers and Manpreet Nat, researchers at the Filene Research Institute.

During a recent planning session, volunteers and senior staff were discussing member value, one of the four perspectives of the Balanced Scorecard. The conversation was stimulated by a quote from the Filene report, "Every credit union should have the hard discussion about whether to remain independent in its niche, seek acquisitions, or be acquired."

The idea of serving a niche can be a difficult thing for credit unions to embrace. After all, credit unions have spent decades trying to be all things to all members. Unfortunately, "all things to all members" is becoming increasingly difficult to achieve, from both the standpoints of affordability and capacity.

As a case in point, many credit unions continue to support telephone audio response systems while attempting to build robust internet and mobile delivery channels. Clearly, there are member segments that prefer each, but continuing to support dated technology can strain a credit union's ability to fund innovation. At some point, most successful credit unions will be forced to choose their target niche and build a value model exclusively for the target demographic.

In this planning session, the discussion about niche evolved into an observation that the credit union may have two primary niche segments: members who have money (net savers) and members who don't have money (net borrowers). Both segments are essential for credit union viability—savers to provide funds to lend, and borrowers to whom the credit union can loan money and generate profitability for financial soundness and growth.

Planners believe these two segments are likely to be very different generationally. Their preferences are likely to be different, leading to formation of assumptions about each segment's habits and preferences for products, features, and delivery channels.

But, the niche discussion is not as easy as savers and borrowers. Generational preferences exist that will likely drive not only delivery channels, but the features and pricing models for credit union products and services. In this planning event, leaders observed that Baby Boomer and even Gen X members are accustomed to and take advantage of bundling programs that provide rewards for users of multiple products and services. But Gen Y, the consumers who will dominate the financial services landscape over the next five to ten years, has already demonstrated a preference for using peer feedback and social media research to find the "best" deals.

Credit unions attempting to create member value across multiple generations will likely need to use sophisticated data analytics to develop products, services, and marketing processes to identify and appeal to very different consumer preferences. Successful member value creation will be challenging, requiring financial capacity to fund innovation and technical competencies to make sound business decisions. Hence, the Filene observation, "Every credit union should have the hard discussion about whether to remain independent in its niche, seek acquisitions, or be acquired."

Branch Transformation: Four Ways to Turn Pain Points into Touchpoints

Raja Bose, Diebold Advisory Services

Pain Point 1: Everyone's going digital!

Touchpoint: (Almost) everyone is still using their brick-and-mortar branch.

How many TV channels does the average North American viewer have access to? Almost 200, according to a 2013 Nielsen report. The same holds true when it comes to banking: Consumers have never met a banking channel they didn't like.

The Federal Reserve reported in 2014 that the most common method of interacting with a financial institution (FI) is still a face-to-face transaction. The board found that 82 percent of consumers with a bank account had visited a branch and spoken with a teller within the previous year. Meanwhile, just 30 percent of respondents had utilized mobile banking. Just 30 percent.

Of course, that number is growing—and fast. Yet branch banking clearly remains a vital linchpin in a successful bank transformation strategy. FIs must be able to objectively and thoughtfully plan their transformations in a way that humors the subjective desires of an evolving consumer base.

Pain Point 2: Our tellers are bogged down carrying out simple transactions for our consumers.

Touchpoint: Automation at the branch level enables freedom of choice and creates a positive experience.

Automation and more robust analytics are driving FIs into a new landscape of consumer interactions, featuring richer, more predictive information. As that evolution begins, "choice" becomes the keyword. Swiss bank UBS recently rolled out more than 400 tailored, self-service units across its branch network. These new terminals offer cashless transactions such as bill pay and asset overviews.

Consumers who enter these branches are now faced with new options, new choices—and a sense of freedom. They're not tied to the teller line for more complex transactions, yet there's a real person available should they require more assistance.

We've seen deposit automation technology eliminate up to 90 percent of teller transactions, freeing both employees and consumers from the traditional in-branch banking boundaries.

Pain Point 3: Tellers are expensive. Do we even need them anymore?

Touchpoint: Tellers are still a vital connection between FIs and consumers.

Studies show that 63 percent of Millennials who want to complete a complex transaction choose to do so at a brick-and-mortar branch location. Millennials!

Many consumers still feel most comfortable conducting their banking business with a real person, face to face. Forward-thinking FIs are capitalizing on their built-in investment (their people) by transforming staff from tellers to advisors (skipping right past the "seller" part).

The Diebold Advisory Services Team recently helped one FI right-size its branch footprint with in-branch technology and a new staffing model. Those tweaks resulted in a 29 percent increase in sales productivity. "Universal bankers" can now move beyond transactional exchanges to provide far more compelling consumer experiences that resonate long after the visit is over.

Pain Point 4: Things are moving so fast, and there's no clear "right" direction.

Touchpoint: Successful branch transformation requires a long-term strategy, not a short-term audit of foot traffic.

Online and mobile outlets are nimble and fast. Every day they come up with new ways to encroach on FI's traditional revenue streams. Yet speeding headlong into a solution that feels "right" right now is most likely the wrong approach. Gartner analysis states that the banking and investment services industry in North America spends more on technology than any other industry in any region worldwide.

In other words, a deep breath and some deep thought are required. Whether it's transitioning to a hub-and-spoke branch model, incorporating the sleek, modern whitespaces of an Apple store, or sprinkling every last inch of your branch with automation pixie dust, there are many, many enticing approaches to branch transformation.

Partnering with an end-to-end solutions provider can take the guess-work out of the process. The first step in any services partnership involves a thorough inspection of current-state systems unique to the bank in question, before any recommendations can be made. How does that compare to your current branch transformation strategy?

For Compliance Geeks Only: The Compliance Hounds

Barri Hamilton, Director of Compliance, Cornerstone Credit Union League

1 Information security? Cybersecurity? NCUA? Oh my!

The Cornerstone Compliance Hounds are receiving more and more questions on information security. Last year, NCUA published an excellent article detailing the requirements of information security policies and identifying seven elements for revising their policies.

2 General Policy Objectives

This is perhaps the simplest section to develop in a credit union's information security policy because the scope and applicability is already defined by federal regulations.

3 Risk-Management Criteria and Expectations

The board of directors should outline what constitutes "acceptable" risk and by what process or authority a credit union accepts the remaining unmitigated risk. This helps prevent unnecessary acceptance of institutional risk by those lacking clearly delegated authority. The great latitude found in this section makes it the most difficult to develop.

4 Governance Roles and Responsibilities

This most important section is the lifeblood of a credit union's information security program as it outlines the roles for its development and maintenance. An effective policy document defines the roles of the board of directors, senior management, a steering committee, and other key individuals for the day-to-day management of the program.

5 Summary of Security Strategies and Control Mechanisms

This section provides a set of information security policies. It outlines at a high level a credit union's security strategies and selected controls to mitigate any foreseeable and identified risks in operations, along with the managerial responsibility of those controls. The development and selection of various controls should occur after a risk assessment. Credit unions should also use various recognized information security control standards. This section should outline controls for the reasonably foreseeable risk scenarios of the future.

6 Testing and Reporting Requirements

This section addresses the frequency and nature of testing required to determine the controls' effectiveness, along with any reporting requirements. At a minimum, NCUA regulations expect a comprehensive annual report to the board of directors about the effectiveness of a credit union's information security program.

7 Incident Response

A response policy is a key part of a credit union's information security policy and program, and the cornerstone of an incident response program, mandated in Appendix B of Part 748. The policy addresses a credit union's commitment, strategy, roles, and responsibilities in response to natural disasters or security breaches to ensure operations will be resumed as planned.

8 Consequences of Non-Adherence

This section outlines the consequence of non-adherence to the information security policy. Management should transparently state the legal and administrative avenues available to them to ensure the policy is adhered to and enforced.

The Cornerstone Compliance Hounds are receiving more and more questions on information security.

These seven components of the information security policy provide the strategic foundation for standards and procedures. Procedures should be implemented for every control of the policy and should address how the control is deployed and managed on a day-to-day basis, including who is responsible for the management and maintenance. Also, effectively segregating policy from procedures simplifies the ongoing maintenance of the information security policy documents, as a policy necessitates board of directors' approval while procedures are subject to managerial approval only.

Heirs Apparent: Leadership Succession Planning

The Key for Ensuring Your Credit Union's Future

John A. Vardallas, Senior Faculty Strategist/ Project Evaluator for SCMS

Strategic succession planning is a proactive future-based practice that all credit union leadership should engage in to ensure the future of your credit union. With the wave of current and near-future CEO retirements that are expected in the next five years, senior credit union leaders and boards should be prepared to avoid the leadership gap.

A good number of Boomer-age CEOs will be leaving the workforce, and credit unions can find themselves in a reactive situation if a proper succession planning process has not been adopted. Only about 60 percent of credit unions have a formal written succession plan in place.

Many credit unions are responding to the departure of a CEO by looking outside the organization for a new leader. But they soon may be looking again, according to studies by the Center for Creative Leadership, which found that 66 percent of those hired from the outside usually fail within their first 18 months. Why? Because they don't know the culture or business philosophy and are the wrong leadership personality profile.

Proper succession planning should help credit unions cultivate new credit union leadership. We need to grow our own leaders by developing our own people. It starts with a "talent development" culture and where staff training is considered an investment and not an expense.

Credit union board and management have an obligation to the members to continue the credit union for future generations. Your succession plan should cultivate predictability, versus chaos, in reducing the anxiety and fear of preparing for retirements and unexpected departures of leadership.

Credit unions should consider a six-step approach to succession planning:

1. Forecast business and leadership needs.
2. Generate a list of desired leadership competencies and attributes.
3. Assess internal talent and identify gaps.
4. Provide training and professional development opportunities.
5. Hold people accountable for their own career development.
6. Review governance policy annually for emergency succession planning.

Credit union CEOs should always be developing leadership by mentoring, training, and coaching potential leaders; encouraging and allowing for job rotations; fostering professional development; and exposing people to growth opportunities. By monitoring internal and external equity, staying competitive with compensation packages, and being aware of the job market, you might keep good talent from bolting for minimal monetary gains and prevent executive poaching.

Board tips for designing a succession plan include:

- Take stock. How is the credit union performing? What are its strengths and weaknesses? Is it going in the right direction? Should you be looking for a candidate to keep the credit union on course or change direction?
- Draft a list of possible successors to the CEO both internally and externally.
- Appoint a committee to oversee the succession process.
- Increase the credit union's bench strength via development of senior staff and exposure to the board.
- Determine the talents, traits, and right-culture fit needed for your new CEO.
- Conduct thorough background checks.
- If looking outside the credit union for future leaders, consider using executive search firms.
- Create a timeline and limit the succession time frame. Waiting too long leaves the credit union vulnerable to missed opportunities in the financial services marketplace.

The key to effective credit union succession planning and ensuring your credit unions future lies in making it part of your credit union's overall strategic business planning process. Your top leadership must embrace and plan for change. Choose your leaders for the future—not the past. Today's credit union leaders should be preparing for tomorrow's members.

Think of your succession plan as your credit union's "leadership will." What legacy will you leave?

John A. Vardallas, CUDE, is CEO/founder of TheAmericanBoomeR.com in Madison, WI. He is a professional speaker, business consultant, author, blogger, and futuristic strategic planner to the credit union system, and a senior faculty strategist and project evaluator for SCMS. For more, visit theamericanboomer.com.

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This year's meeting will feature:

- Opening general session speaker Ken Schmidt, former director of communication for Harley-Davidson Motor Company, will cover "Thrive among the Thorns: Untapped Growth Opportunities for Financial Services"
- More than **18 educational sessions**
- Continental breakfast three mornings
- **NEW** Lunch options available for on-site convenience
- **CREATIVE** Guest Program
- **NEW** CU Talks on closing day with a variety of prominent speakers
- **NEW** Industry Insights roundtable discussions
- Tote bag and water bottle
- Dedicated time in the Expo hall with valuable vendors
- "Putting Fore a Purpose" golf tournament, Monday, April 4; the exclusive Oak Tree Country Club
- Various refreshment breaks
- A chance to win a cash prize at the end of the closing general session (must be present to win)
- Variety of hotels located around the Convention Center, close to Bricktown in Oklahoma City

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ANNUAL MEETING&EXPO

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events.cornerstoneleague.coop/am/

2016 TRAINING & EVENTS CALENDAR

JANUARY	No events scheduled.			
FEBRUARY	9-10	IRA Seminars	Houston	$325
	11	Compliance Review Seminar	Houston	$325
	16-17	Mortgage Lending Seminars	Dallas	$325
	18	CEO Roundtable	Dallas	NC
	23-24	Bankruptcy & Collections Seminars	Dallas	$325
MARCH	1	CEO Roundtable	OKC	NC
	3-4	FOCUS Summit	Dallas	$250
	8-9	SCMS Mid-Year	Dallas	N/A
	17	CEO Roundtable	Little Rock	NC
	21-22	Oklahoma GAC	OKC	$150
	24	Compliance Review Seminar	OKC	$325
APRIL	4	Annual Meeting Golf Tournament	OKC	$175
	5-7	Cornerstone Annual Meeting & Expo	OKC	$245
	20-21	Lending Seminars	Dallas	$325
	26-27	Spring Orientation	Dallas	NC
MAY	3	Compliance Review Seminar	Dallas	$325
	4-5	IRA Seminars	Dallas	$325
	12-13	Principles & Philosophy Conference	Dallas	$749
	18-20	Southwest Lending Conference	OKC	$549
	24-25	Mortgage Lending Seminars	OKC	$325
	25-26	Bankruptcy & Collections Seminars	Little Rock	$325
JUNE	14	CEO Roundtable	Corpus Christi	NC
	16	CEO Roundtable	Houston	NC
	22-24	Volunteers Forum	San Antonio	$649
JULY	10-20	SCMS	Fort Worth	$3,599
	16	Small Credit Union Conference	Dallas	$149
	25-26	Women's Leadership Conference	Dallas	TBD
AUGUST	4-5	Young Professionals Conference	DFW	$325
	8-10	Compliance & Audit Conference	Galveston	$549
	8-10	HR Conference	Galveston	$549
	23-24	Mortgage Lending Seminars	Little Rock	$325
	24-25	Bankruptcy & Collections Seminars	OKC	$325
SEPTEMBER	8-10	Leadership Conference & Expo	San Antonio	$729
	13	CEO Roundtable	Midland/Odessa	NC
	22-23	SWACHA Bootcamp	Dallas	$495
	21-22	Manager's Roundtable	Branson	$325
	27-28	Fall Orientation	Dallas	NC
	29	Credit Union House Fundraiser	OKC	NC
OCTOBER	3-5	IRA Seminars	OKC	$325
	4-5	Mortgage Lending Seminars	Houston	$325
	12	CEO Roundtable	OKC	NC
	19	Compliance Review Seminar	Little Rock	$325
	19	CEO Roundtable	OKC	NC
	25-26	Lending Seminars	Little Rock	$325
NOVEMBER	1-3	New Ideas Institute	DFW	$749
	2-4	Marketing & Business Dev. Conference	Austin	$549
	9-10	IRA Seminars	Fort Worth	$325
	15-17	Chapter Leaders Conference	DFW	$350
	16-17	Bankruptcy & Collections Seminars	Houston	$325
DECEMBER	No events scheduled.			

CORNERSTONE
CREDIT UNION LEAGUE

*SCMS mid-year event price included in 2016 SCMS tuition.
Prices shown are early-bird registration fees. Prices and event dates subject to change until published on website.
The Cornerstone Credit Union Foundation offers grants for educational needs. Please visit their website at www.cscuf.coop. For more information, please visit the Cornerstone Education page at www.cornerstoneleague.coop/education.html.

REV 12.8.15


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Hassle-free, one-click account switching
Consumers think switching banks is a real hassle.[1] Inactive accounts are a hassle for you. ClickSWITCH changes that. A turnkey, fully automated account switching solution, ClickSWITCH simplifies activation for you and your new account holders with the click of a mouse. In just 10 minutes, they can initiate secure transfers of recurring transactions, deposits and online bill pay from former financial institutions to yours. Easy for them. Increases activation rates for you. It just clicks.
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[1] Consumersunion.org, *Trapped at the Bank*, September 2013