

Summer 2015

Perspectives

The Official Magazine of the Cornerstone Credit Union League

SHOW ME THE HANDS!

Teamwork builds us up and keeps us standing strong

TOP 10 BENEFITS OF LEAGUE MEMBERSHIP

Help your credit union be successful by making the most of your membership

BUILDING CAPITAL AT THE CAPITOL

Create a strong, effective advocacy team to advance the credit union agenda



Shifting Gears

agile

personalized

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MAKING

CONNECTIONS

SIMPLE

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Membership Value through Collaboration & Outreach with CUs Care

By Dick Ensweiler, President and CEO
Cornerstone Credit Union league

“You are here in order to enable the world to live more amply, with greater vision, with a finer spirit of hope and achievement. You are here to enrich the world, and you impoverish yourself if you forget the errand.”

~ Woodrow Wilson

If you ask me, of the many advantages of league membership, outreach and collaboration are two areas not lauded often enough; yet they offer the highest potential for making long-lasting connections with our communities and spreading good will.



Cornerstone's Credit Unions Care campaign, launched June 1, is one such collaborative outreach venture. Participation in the Credit Unions Care campaign and wearing the red T-shirts provides excellent opportunities to increase credit union visibility, demonstrating that credit unions are not only financial partners but civic partners.

We are very excited about this campaign because from El Paso to Little Rock and from Enid to Brownsville, Credit Unions Care is striking a happy chord. Credit unions are embracing the campaign in all of their community outreach programming, whether it's volunteering at a homeless shelter, Credit Unions for Kids, providing food for the disadvantaged, shred days, etc.

As you probably know, the first wave of the campaign, from June 1 to Aug. 31, is for the benefit of Children's Miracle Network. All funds raised will be donated to the local hospitals from where the contributions were obtained. In other words, all of the money you raise will go back into your community.

We're also doing something that's never been done before. Cornerstone EVP Karen Hart is going to lead a number of CU Ride motorcycle tours to deliver more than 1,500 stuffed dogs to 10 CMN hospitals in Arkansas, Oklahoma, and Texas. We hope you'll fire up your cycles and don your leathers to join Karen on this momentous journey.

The Credit Unions Care campaign is a great way for credit unions to collaborate and reach out in a way that's as meaningful as your commitment to financial literacy and health, individual saving and wealth, and reliability and soundness.

We hope that if you're not already taking part in the Credit Unions Care campaign, you'll give it some serious thought. "People helping people" is not only our philosophy, it's the way we do business. I'm ready to put on my red T-shirt. Are you? ■

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The Top 10 Benefits of League Membership

By Kenny Harrington, Chairman, Cornerstone Credit Union league

“Coming together is a beginning; keeping together is progress; working together is success.”
~ Henry Ford



This issue is all about the benefits of membership—the big-picture benefit of belonging to a synergistic cooperative that believes honoring our shared purpose can ensure we make the greatest impact and do the most good, and the small-detail benefits that help ensure

the rising tide lifts all boats so no one is set adrift.

Cornerstone’s existence is predicated upon successful partnership with our credit unions. Here are the top 10 benefits of league membership that can help your credit union be successful:

1. Advocacy. We advocate for your interests in Washington, D.C., Arkansas, Oklahoma, and Texas. We research issues, identify and nurture legislative allies, and execute grassroots initiatives. And let’s not forget the PACs, which allow us to support candidates who support credit unions.

2. Regulatory and Compliance. Keeping up with regulations is challenging, but credit unions can count on compliance staff and resources like Information Central, InfoSite and ComplySight to stay current with the regulatory environment.

3. Asset/Liability Management (ALM) Resources. Get analysis and guidance to stimulate your financial strength. Receive quarterly and annual reports, guidelines, and opportunities to attend ALM workshops.

4. Chapters. Chapters promote unity among credit unions through communication, training, leadership development, networking, and special projects.

5. Councils. Councils allow credit unions to interact and communicate with colleagues about shared interests, best practices, current issues, trends and challenges.

6. Communications and Outreach. The communications and outreach department disseminates industry insights, community activities, and breaking news; recognizes and awards high achievers; and helps promote awareness of the credit union difference.

7. League Representatives. Our representatives provide consulting, financial analysis, policy development, regulatory and compliance assistance, and management training, as well as supporting the REAL Solutions program in serving the needs of your low- to moderate-wealth members.

8. Research. From statistical summaries to community feedback and economic profiles, our research staff is committed to expanding knowledge and market positioning.

9. Small Credit Union Development. Cornerstone helps small credit unions thrive by providing targeted education, training, regulatory and compliance assistance, and operational support.

10. Training and Events. With a wide range of topics and venues, training and events offers educational and networking opportunities via conferences, workshops, seminars, and online training.

These are only some of the many benefits of membership; but I’ll stop there, confident that whatever our member credit unions need, we’re here to offer our assistance. ■

Building a Governance Partnership—Final Part 7

By Karen Houston-Johnson
Vice President, Credit Union Resources

Hopefully, you've been following this series and have enjoyed the first 6 of the 7 rules for the board and CEO in developing a successful governance partnership. In this issue, we'll be looking at **Final Rule 7 – Plan for Transitions: Lay the Groundwork for Changes in Leadership**.

One certainty in the lifecycle of a well-run, volunteer-driven organization is *constant* change. According to a Filene Research Institution study in 2010, 77 percent of today's directors are older than 50 and 46 percent are older than 60. Organizations working toward best practices refresh and renew volunteer leadership on an ongoing basis. Bringing in "new blood" creates dynamics and fresh ideas and allows more tenured board members to move into positions of increased leadership.

Dramatic changes in CEO positions are also on the horizon. The baby boomers are retiring at the same time the credit union sector is growing. Credit Union National Association predicts that 50-60 percent of current CEOs are eligible to retire in the next 5-7 years.

Preparing for these inevitable transitions is critical in avoiding a disruption to the important work of your credit union.

SUCCESSION PLANNING FOR THE BOARD

Nothing is more important to the health and sustainability of your credit union than getting highly qualified, engaged, skilled, and enthusiastic people to serve on the board. But the job of building a great board is about more than just filling slots; it's about being *strategic* in the way you look at the composition related to the board's responsibilities. Getting the right mix requires careful attention to the recruitment process.

There are seven keys to success in director succession planning and development:

1. Define the necessary board competencies for the future director
2. Anticipate when directors are leaving,
3. Assess where the board has or will have competency gaps
4. Create a development/recruitment plan
5. Build a list of potential directors
6. Have an organized, written succession plan
7. Update the plan on an annual basis

CEO TRANSITIONS

Most of the reasons for the departure of a CEO (resignation, termination, illness, or death) do not allow for the luxury of considerable planning once announced. A good chair and/or CEO bring the issue of succession planning to light for the board and coordinate the work on a succession plan that fits the credit union and supports its mission.

Succession planning is much more than having talent on tap to fill the CEO's spot in the event of vacancy. Succession planning is an ongoing and adaptive process rather than a specific event. There are five key steps in the succession planning cycle:

1. **Understanding the job of the CEO.** A board that understands the unique challenges of credit union leadership and the type of individual best suited to the job is a board that will make the best choices when it comes to short- and long-term solutions to bridging the gap in leadership.
2. **Developing an emergency plan.** A board should know and understand how organizational functions of greatest concern will be handled during an emergency transition—communication, financial oversight, interim management, and executive

search—make sure this information is documented and accessible.

- 3. Agreeing on the mutual expectations of the CEO and board.** The board, with input from the CEO, defines mutual expectations of the CEO and the board.
- 4. Establishing evaluation process for the CEO.** An established process is supported by an up-to-date job description and annual goals.
- 5. Conducting a productive process for board self-assessment.** The board looks at its own performance, knows what it wants from its members, and makes continuous improvements.

PARTNERSHIP TIPS TO REMEMBER

- Develop a volunteer leadership pipeline by keeping an eye on talented and reliable directors who can be moved to positions of increasing responsibility

- When recruiting for director positions, be honest and specific about the time commitment necessary for directors to be successful at their jobs
- Present the topic of board and CEO succession planning to the board and help develop realistic preparedness plans for both that fit your credit union and supports the mission and vision

Being a constructive partner in the board/CEO relationship is conceivably the most critical role a director or a CEO plays. Throughout our series on Building the Governance Partnership, we've shared ideas to help move the partnership with the board and CEO from good to great. But perhaps the most important advice we'll leave you with is to build on what you already know; continue to reflect on, re-examine, reinforce, or reshape your approaches to building a *great* relationship between the board and the CEO. ■



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The Real CU Difference is Not about Service or Fees

By Dean Borland, Vice President, Credit Union Resources

Responses are likely to vary widely when credit unions¹ are asked about the value of league membership. Scale, capacity, and internal capabilities influence credit union leaders' perception of the league value proposition.

Leaders of small credit unions often respond from the viewpoint of "lifeline," dues-based services, and support they receive from their league. Midsize credit unions may point to league services and support, advocacy, and/or operational solutions obtained through a league service corporation, or an LSC business partner. The largest credit unions, those having robust internal competencies, will likely place the highest value on the league's advocacy activities.

Based on their individual perspectives, credit unions can generally articulate a well-defined value proposition for credit union league affiliation. Unfortunately, many of those definitions omit the credit union movement's most important value component: cooperative structure and the role leagues play in maintaining the movement's cooperative infrastructure.

From inception, the backbone of the U.S. credit union industry has been the principles and philosophies expressed in the seven cooperative principles:

“Today, leagues are the primary legislative watchdogs advocating on behalf of natural-person credit unions and credit union members within the state(s) they serve.”

1. Voluntary and Open Membership
2. Democratic Member Control
3. Members' Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Cooperation Among Cooperatives
7. Concern for Community

The cooperative principles permeate credit union culture. Cooperative structure is the basis for credit unions' not-for-profit status. Cooperative structure feeds credit unions' empathy and concern for members; and cooperative structure was the catalyst for the design of the credit union movement, from the governance structure of natural-person credit unions to credit union industry infrastructure. Cooperative structure is what makes credit unions different from other types of financial institutions.

Leagues are positioned in the center of the credit union movement's structure and are an integral and necessary catalyst for the ever-important "cooperation among cooperatives." In the early stages of the credit union movement's growth, leagues had a strong hand in organizing and chartering many new credit unions, an activity seldom seen in the world of associations.

Today, leagues are the primary legislative watchdogs advocating on behalf of natural-person credit unions and credit union members within the state(s) they serve. Leagues also support national advocacy efforts spearheaded by Credit Union National Association (CUNA). Through the cooperative efforts of natural-person credit unions, leagues, CUNA, and other industry trade associations, legislators are constantly reminded of the credit union movements' cooperative structure, efforts that have been consistently successful in defending the credit union tax exemption from bank attacks.

Admittedly, credit unions engage in many of the same business activities as a variety of other types of financial institutions, including banks. What differentiates credit unions from other financial institutions and the premise upon which credit unions' tax exemption is based are the principles and philosophies derived from cooperative structure. Cooperative structure defines the credit union movement and separates credit unions from other types of financial services providers. Thank you for supporting the Cornerstone Credit Union League and its efforts to preserve credit union cooperatives. ■

1. NCUA defines "small" credit unions as having less than \$100 million in assets. As of 12/31/2014, 75% of U.S. credit unions could be defined as "small."



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Show Me the Hands!

By Scott Butterfield, CUDE, Principal,
Your Credit Union Partner

The hand is the most frequently symbolized part of the human body. It blesses, it's expressive; it's used in gestures of greeting and friendship. It represents strength, power, and protection but also symbolizes generosity, hospitality, and stability, as in "lending a hand." It's no wonder the international credit union movement chose to depict hands and a globe to represent us.

THE CREDIT UNION HANDS

The credit union hands and globe logo has symbolic and historic significance for the credit union movement. The cupped hands symbolize both the financial security and support offered by the international credit union network, as well as the fact that the success of the movement is in the hands of its members.

I don't get to see the international logo much in the United States these days, unless it is branded on an old trinket I discover in the bottom of my desk. I guess the logo is viewed as old and outdated. It's kind of sad for a brand that worked so well for so long. It's interesting that after 74 years, I found the logo alive and well in Jamaica, a place where credit unions are growing.

Recently, I was invited to visit Jamaica as part of a Cornerstone Credit Union League strategic planning facilitation team. Our task was to facilitate the Jamaica movement's five-year strategic planning session. There, in Jamaica, I found credit union hands in abundance—both in image and in deed.

Representing the Cornerstone Credit Union League was Jon Gorman, CUDE, senior vice president of communications and outreach, and Robert Gallman, member service director. Along with me, successful credit union CEO, former CUNA board member, and credit union consultant Steve Dahlstrom represented Your Credit Union Partner.

COLLABORATIVE HANDS

I facilitate a lot of planning sessions, but this one was truly unique and special, as it was the planning meeting for the entire Jamaica credit union movement with more than 90 representatives from 35 Jamaica credit unions, each present to weigh in on the future direction of their movement. It was really something to see: credit unions with millions to billions in assets, rural, urban, closed field and open field of membership credit unions all coming together to collectively join their voices, each weighing in on the strategic priorities of their future.

This credit union collaborative example is about more than its unique planning session. Working together, this league of credit unions has come together for many things—most recently for a cooperative-wide mobile wallet product. Both are great examples of collaboration and innovation.

The Cornerstone Credit Union League is an outstanding example of cooperation among cooperatives. Gorman will tell you that the investment it makes in supporting this relationship is mutually beneficial for both leagues. Working together, they are strengthening the worldwide credit union movement.

HELPING HANDS

In preparation for the day-long planning session scheduled as part of the Jamaica Co-Operative Credit Union League's Annual General Business Meeting, the League arranged for our team to meet with four credit unions: Palisadoes CCU Limited, Jamaica Police CCU Limited, C and WJ Employees CCU Limited, and First Heritage Co-operative Credit Union Limited. At each credit union, the hands were proudly displayed for everyone to see. It was clear to me that the abundance of the logo images was not an oversight of an outdated branding strategy, but rather a current reflection of their robust commitment to service and collaboration.

Ms. Wilson, general manager of Palisadoes Co-op Credit Union Limited, shared how each year her credit union invests 5 percent to 7 percent of its surplus (gross income) for community development to underserved and overlooked communities in the outlying rural areas. Now that is what I call a bonus dividend to the people who need it the most. Through the years, this act of service and love has led to very loyal members, and that loyalty is reflected in the credit union's financial strength and growth.

Each of our site visits was impressive and demonstrated the success of the credit union movement. Jamaica's Finance and Planning Minister Dr. Peter Phillips commended the credit union movement at the annual awards ceremony for being "one of the fundamental building blocks of modern Jamaican society." Being recognized as an economic building block resonated with me, reminding me of the history of our movement. Truly, the movement's impact is felt across the island nation.

Some of our one-on-one conversations with the League team, as well as credit union general managers, were among the most strategic conversations I have

ever had with credit union professionals. Like their U.S. counterparts, the Jamaica credit unions overall are finding ways to navigate changing demographics, economic, and regulatory landscapes. They are stretching, pursuing unique CUSOs for investment, planning, insurance, and micro-small-business services to an ever increasing market.

League leadership is truly committed to the success of the movement. This commitment is reflected in the service to the credit union membership. They were remarkably warm and kind hosts for us as well.

Let's give our brothers and sisters from Jamaica a hand! ■

Scott Butterfield, CUDE, is the principal of Your Credit Union Partner, a consulting firm he founded in 2010. Butterfield is a trusted adviser to more than 100 credit unions located across the country. Your Credit Union Partner exists to help small and mid-sized credit unions effectively operate and successfully meet the unique needs of their membership.
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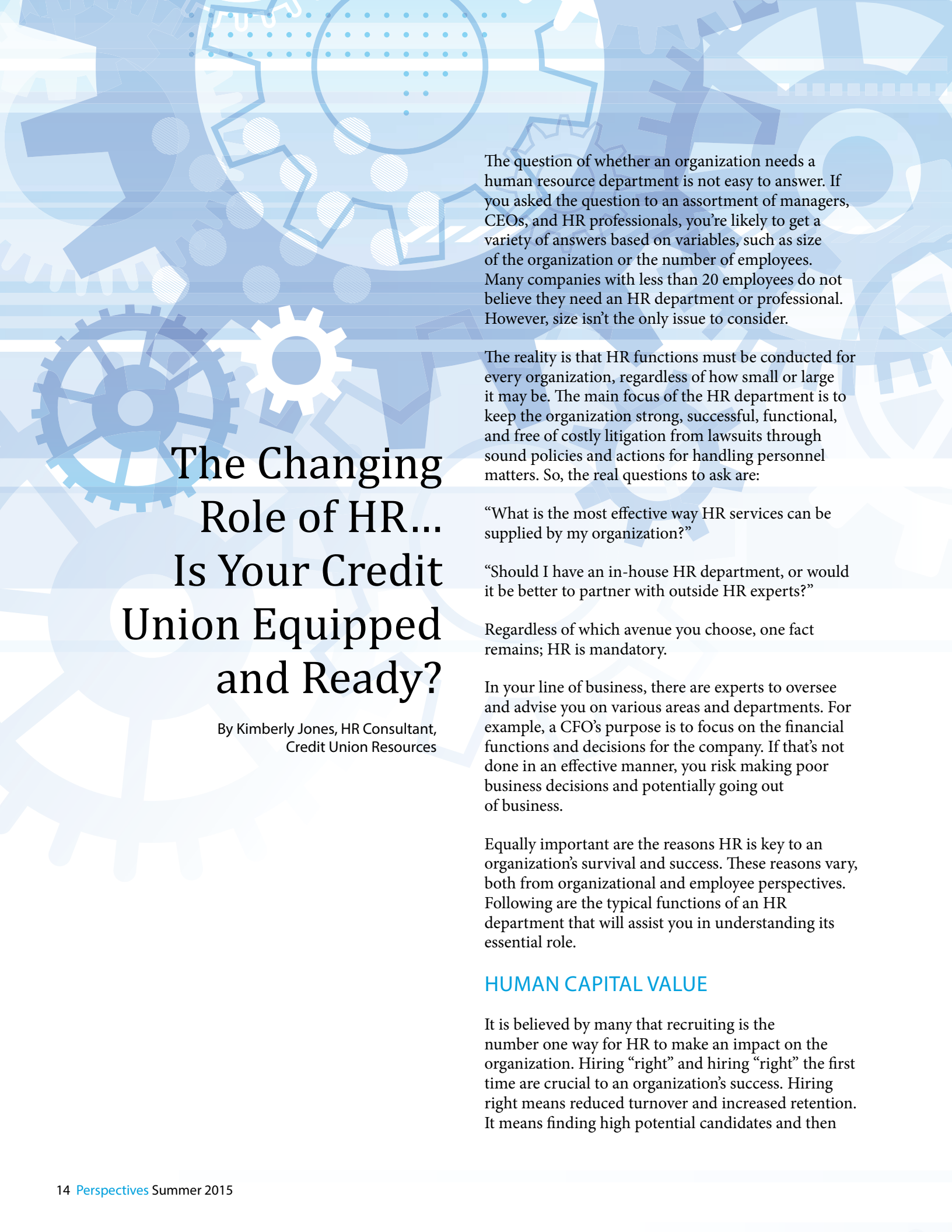
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The Changing Role of HR... Is Your Credit Union Equipped and Ready?

By Kimberly Jones, HR Consultant,
Credit Union Resources

The question of whether an organization needs a human resource department is not easy to answer. If you asked the question to an assortment of managers, CEOs, and HR professionals, you're likely to get a variety of answers based on variables, such as size of the organization or the number of employees. Many companies with less than 20 employees do not believe they need an HR department or professional. However, size isn't the only issue to consider.

The reality is that HR functions must be conducted for every organization, regardless of how small or large it may be. The main focus of the HR department is to keep the organization strong, successful, functional, and free of costly litigation from lawsuits through sound policies and actions for handling personnel matters. So, the real questions to ask are:

“What is the most effective way HR services can be supplied by my organization?”

“Should I have an in-house HR department, or would it be better to partner with outside HR experts?”

Regardless of which avenue you choose, one fact remains; HR is mandatory.

In your line of business, there are experts to oversee and advise you on various areas and departments. For example, a CFO's purpose is to focus on the financial functions and decisions for the company. If that's not done in an effective manner, you risk making poor business decisions and potentially going out of business.

Equally important are the reasons HR is key to an organization's survival and success. These reasons vary, both from organizational and employee perspectives. Following are the typical functions of an HR department that will assist you in understanding its essential role.

HUMAN CAPITAL VALUE

It is believed by many that recruiting is the number one way for HR to make an impact on the organization. Hiring “right” and hiring “right” the first time are crucial to an organization's success. Hiring right means reduced turnover and increased retention. It means finding high potential candidates and then

convincing them why they should work for you. It also means not hiring problem employees to begin with. In order to be successful at hiring right, there should be a systematic hiring process that probes for work ethic, attitude, aptitude, motivation, and skill sets. A strategically focused HR professional can be instrumental in this process.

BUDGET CONTROL

Human resources can limit excessive spending through methods of trimming workforce management costs, which include negotiating better rates for benefits such as healthcare coverage. Also, HR can ensure that competitive and realistic salaries are paid based on examining the labor market, employment trends, and salary analyses based on job functions. As many smaller organizations are faced with budget restraints, this HR function can be especially beneficial.

CONFLICT RESOLUTION

Conflicts in the workplace are inevitable. Employees have diverse personalities, work styles, backgrounds, and levels of experience. An HR professional who is specifically trained to handle employee relations matters can identify and resolve conflicts between employees or a manager and employee before things get out of hand. The HR department acts as a consultant and mediator to sort out issues in an effective and timely manner.

TRAINING AND DEVELOPMENT

Another way HR can assist an organization in being successful is to help managers be better managers. This will, in turn, help to prevent or eliminate distractions for employees. According to author Beverly Kaye, employees don't leave bad companies, they leave bad bosses. Good managers are crucial to having an effective organization; however, most managers must learn how to be effective. A key reason HR is important in helping and training managers to manage effectively is to ensure that when problems arise, they won't escalate to the point of distraction for other employees. HR can help develop and coach managers to do the best possible job.

Employees, likewise, need training and development. HR can conduct a needs assessment for the organization's current workforce to determine the types of training and employee development that is necessary for improving skills and qualifications. It's less expensive to train and promote from within, than to hire additional staff or more qualified candidates. Also, it's a strategy that can reduce turnover and improve employee retention.

LEGAL COMPLIANCE AND PROTECTION

Legal compliance with labor laws is another responsibility of HR. This includes informing all levels of employees about federal and state laws, such as overtime, safety, and discrimination. HR protects the interests, image, and success of the organization in every way imaginable by complying with various laws, executing administrative processes, and creating policies in the most cost-efficient manner.

MORE THAN JUST AN ADMIN

Not sure if your organization needs a professional HR resource or a staff member that can absorb the HR functions? Below is a list of some transactional and strategic services performed by traditional HR departments:

- Payroll and Tax administration
- Payroll and tax administration
- Liability protection
- Legal compliance
- Benefits negotiation
- Benefits administration
- Talent acquisition
- New hire onboarding
- Performance management
- Leadership training
- Employee development
- Time and attendance monitoring
- Disciplinary review and guidance

Most organizations require most, if not all, of the HR functions listed above and more. Ask yourself, "Does my organization possess the necessary skills to fulfill each of these functions as currently constructed?" If your answer is no, you might consider re-evaluating the importance of HR in your organization. ■

Building CAPITAL at the Capitol

Nate Webb, President, Oklahoma Credit Union Association

Our members tell us strong, effective advocacy is what they want most from their league. It's why the Cornerstone Credit Union League has committed considerable time, effort, and resources to building a top-notch team of advocacy professionals.

With decades of legislative, regulatory, and political advocacy experience, the league's advocacy team is on the front lines every day working to advance the credit union agenda. But they are just the tip of the spear. The most effective advocacy requires equal effort from members ready, willing, and able to let their voices be heard, and of that group, the most effective are those who have political capital at their disposal.

What exactly is political capital? As with any type of capital, it's something you build for the future and use judiciously. But unlike other types of capital, the political variety is hard to quantify, and the formula for building it is not an exact science. However, they all have one thing in common: an initial investment and continued maintenance.

The following are a few tried-and-true ways to build capital at your capitol.

In any political capital portfolio, relationships are by far the most important element. If you've never made contact with your legislator until you ask them to take action on

an issue, the chances of a personal reply are dramatically less than someone they know. After all, on any given day a representative or senator could receive hundreds of constituent communications. Predictably, folks they know will be higher on the call list.

Volunteering for a campaign builds relationships in a hurry, especially in a state race. Even a few hours stuffing envelopes, putting up yard signs, or handing out campaign material will build a strong and positive relationship before the candidate even takes an oath of office.

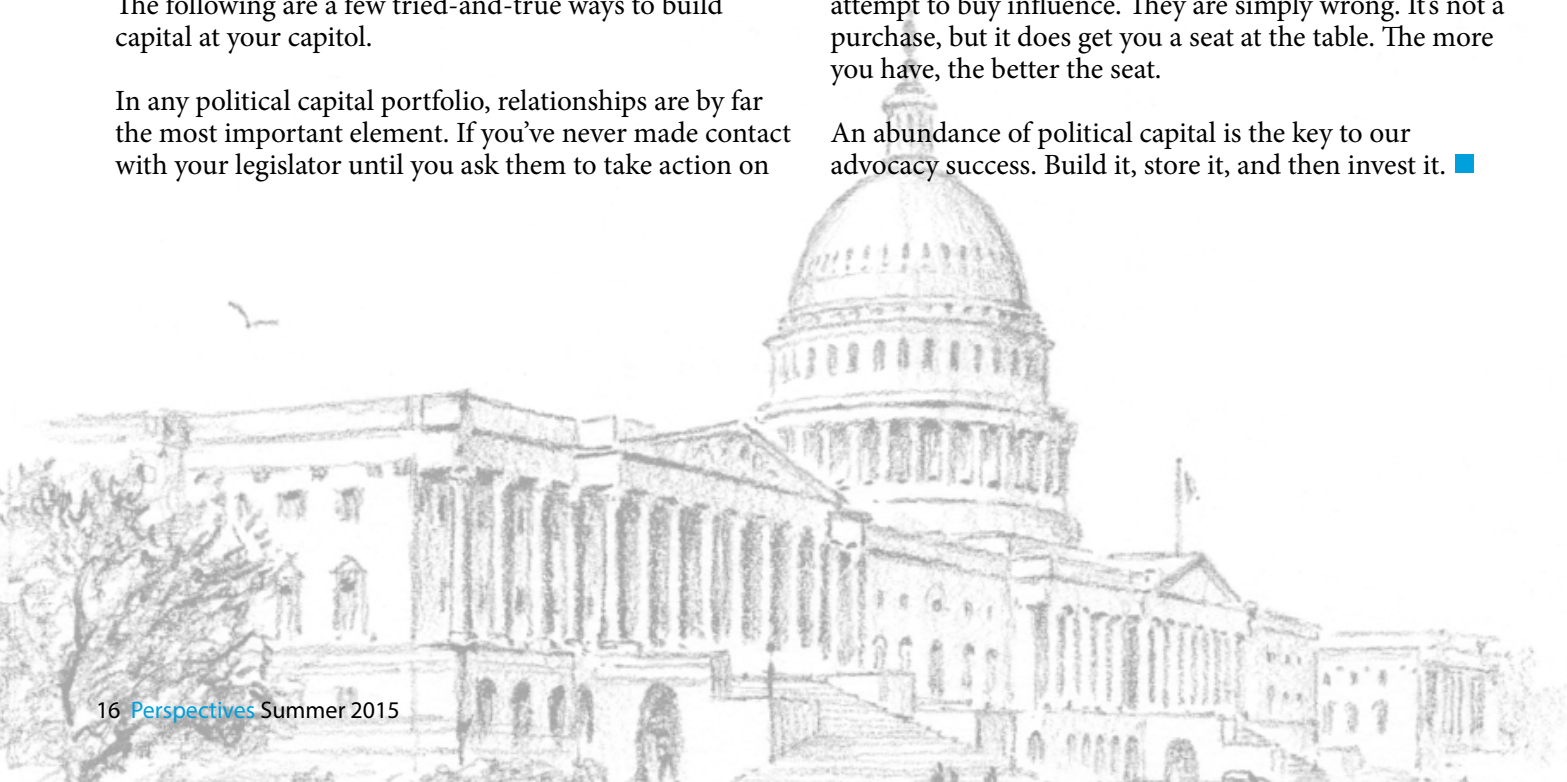
Money, as the old adage goes, is the mother's milk of politics. Well, there's a reason old adages become, well, old adages. It's because they reflect a truth that stands the test of time. Contributing to your political action committee, both state and federal, is critical to your league's advocacy efforts.

Your PAC is an important implement in your advocacy tool belt. It gives credit unions the ability to support candidates friendly to our issues as well as those with the greatest influence over our legislative agenda. Elected officials remember who supported them when they needed it.

Personal contributions are also a powerful way to build capital. Not only does it ingratiate you to candidates and incumbents alike, delivering a check at a fundraising event or a one-on-one meeting opens the door for a lasting relationship.

Is it worth the effort? Will it make a difference? Remember, our representative democracy was founded with the notion of citizen involvement. Skeptics say the notion of political capital is nothing more than an attempt to buy influence. They are simply wrong. It's not a purchase, but it does get you a seat at the table. The more you have, the better the seat.

An abundance of political capital is the key to our advocacy success. Build it, store it, and then invest it. ■





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To reach Information Central, call 512-853-8515 or 800-442-5762, ext. 8515.

InfoSight Online Compliance Manual

InfoSight is your first stop when searching for compliance answers. It operates as an online compliance manual at your fingertips, containing federal and state-specific content that is accurate, concise, and detailed on a wide range of topics and issues. There are easy-to-read compliance summaries, checklists for compliance, direct links to laws and regulations, frequently asked questions, and links to additional important resources including CUNA's online compliance resource "E-Guide."

InfoSight Online Weekly Newsletter

As part of InfoSight, Cornerstone sends out a weekly compliance newsletter highlighting regulatory changes, hot topics, and regulatory comment calls.

CU PolicyPro

As a benefit for being an affiliated member of Cornerstone Credit Union League, you have access to CU PolicyPro. The online CU PolicyPro system features more than 200+ model policies developed and written by regulatory experts, customizable specifically for credit unions. You can upload and maintain all your existing policies in a fully indexed, easily accessible online manual.

Compliance Support Cards

Our online Support Cards are a ready-reference/solution to common credit union compliance questions on subjects such as deceased accounts, power of attorney, guardianships, garnishments, etc. and are available free of charge to affiliated credit unions.

Compliance Council

The Compliance Council is a membership-based organization comprised of compliance professionals. The Council offers member credit unions an opportunity to collaborate with others through the Compliance Council Forum. It's also a place to ask and answer compliance questions, exchange ideas, share resources, and talk "all things compliance."

Being a member of the Compliance Council also allows you to receive deep discounts on Council-sponsored training. ■

From your friends at
Information Central



Watching the Horizon: Crucial Compliance Issues

By Steve Gibbs, Assistant Vice President
Shared Compliance, Credit Union Resources

Although we haven't quite reached the end of 2015, the need to plan for New Year 2016 is rapidly becoming a reality.

The new compliance environment no longer affords us the luxury of one or two issues for which to prepare.

▶ Compliance professionals should be watching the multitude of trends and regulatory benchmarks instituted by various regulatory agencies. The following are items that have been continuously showing up on the radar of compliance officers and staff.

CFPB – CONSOLIDATED TILA/RESPA FORM

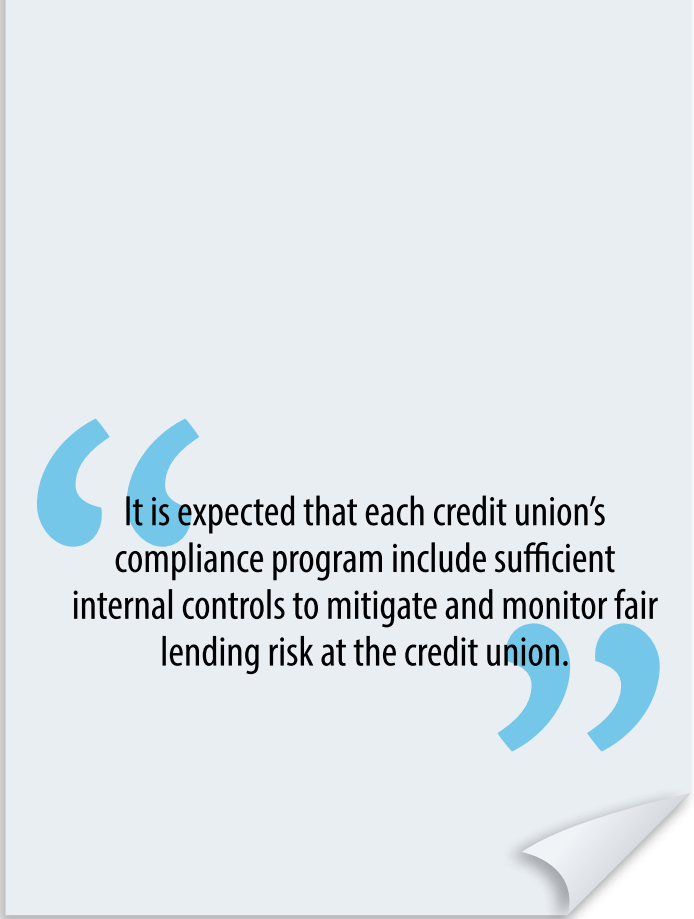
The Consumer Financial Protection Bureau moved the effective date of the Know Before You Owe mortgage disclosure rule to Oct. 3, 2015. Also known as the TILA-RESPA Integrated Disclosure rule, this long awaited directive requires easier-to-use mortgage disclosure forms that clearly lay out the terms of a mortgage for a homebuyer.

The first new form (the Loan Estimate) is designed to provide disclosures that will be helpful to consumers in understanding the key features, costs, and risks of the mortgage loan for which they are applying. The Loan Estimate must be provided to consumers no later than three business days after they submit a loan application. The second form (the Closing Disclosure) is designed to provide disclosures that will be helpful to consumers in understanding all of the costs of the transaction. The Closing Disclosure must be provided to consumers three business days before they close on the loan. The CFPB has provided several resources to aid in compliance with the new forms.

FAIR LENDING EXAMINATIONS

In 2009, the Federal Reserve issued “Interagency Fair Lending Examination Procedures.” In March 2013, the National Credit Union Administration issued its Letter to Federal Credit Unions 13-FCU-02 providing additional information about fair lending examination selection criteria. Since 2013, numerous credit unions have been subject to the examination.

As a rule, examiners send the credit union a fair lending examination notification letter that includes an “items needed” list, a loan officer questionnaire, and request for information about products and services offered. The NCUA also request loan data for approved and denied loans in an electronic format. It is expected that each credit union’s compliance program include sufficient internal controls to mitigate and monitor fair lending risk at the credit union.



It is expected that each credit union’s compliance program include sufficient internal controls to mitigate and monitor fair lending risk at the credit union.

Credit unions should have written fair lending policies and procedures along with risk assessments and ongoing monitoring of compliance with fair lending laws appropriate to their size and complexity. Sample policies have been difficult to find; however, NCUA provides fair lending educational and compliance tools and resources.

HIGHER PRICED MORTGAGE LOANS (HPML)/HIGHER COST MORTGAGE LOANS (HCML) UNDER HOEPA—MONITORING MORTGAGE LOANS AND CORRECTING VIOLATIONS

Those making mortgage loans are aware of the final TILA HPML Escrow Rule (the Rule) for applications received on or after June 1, 2013. The rule established average rates that are obtainable through the FFIEC website. Recent examinations have included a focus on whether the APR on these loans causes them to exceed the FFIEC average and considered HPML or HCML under HOEPA regulations. Compliance and audit areas should provide for periodic review of these mortgage loans, particularly with regard to determining rates. Should errors be discovered, those should be “cured” as soon as possible following discovery.

BANK SECRECY ACT (BSA)/ ANTI-MONEY LAUNDERING/ OFFICE OF FOREIGN ASSETS CONTROL (OFAC)—CONTINUED VIOLATIONS, FINES, AND ACTIONS

No matter what new regulations or disasters occur in the industry, BSA, AML, and OFAC remain chief concerns of regulators. Recent domestic terrorist attacks along with individual liability (and monetary penalties) assessed for individual compliance officers have shown us that we must continue to be keenly aware of our duties and

“Flood insurance rates have substantially increased due to this adverse weather phenomenon.”

responsibilities under these rules. All financial institutions are seeing a trend in increased training for staff regarding these areas. Examination reports citing violations in areas of policy and procedures have forced many institutions to adopt tighter quality control standards.

DIVERSITY POLICIES AND PROCEDURES

NCUA, as well as other federal agencies, recently issued a final interagency policy statement establishing joint standards for assessing the diversity policies and practices of the institutions they regulate. These final standards are similar to those proposed in 2013 as part of the Dodd-Frank Act. They provide a framework for regulated entities to create and strengthen their individual diversity policies and practices. Credit unions are encouraged to use the finalized standards as appropriate. Details may be found on the NCUA website at www.ncua.gov.

FLOOD INSURANCE

The year 2015 has seen many records broken with regard to rainfall and flooding situations. Flood insurance rates have substantially increased due to this adverse weather phenomenon. All financial institutions making



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mortgage and related loans should review their policies and procedures for flood insurance. As this is a safety and soundness issue with regard to the protection of collateralized loans, it is likely there will be additional scrutiny in this area. In addition, for those outsourcing flood insurance, contracts should be reviewed as well as account handling practices of the vendor.

UDAAP (DECEPTIVE PRACTICES)—SENIOR ABUSE

A growing byproduct of fraud and identity theft is the financial abuse of senior/older citizens. Numerous institutions have adopted policies that allow for identification of this type of activity and notification of appropriate authorities (e.g., Adult Protective Services). As a risk mitigation strategy, all credit unions should ensure that policies and procedures are in place to address this issue, should it occur.

To ensure success in the coming year, compliance professionals should make certain the following items form the foundation of their compliance programs:

- **Strong Compliance Presence.** This includes regular interaction with various officers and departments;

a robust training program; effective communication regarding compliance issues; and involvement in various areas including marketing and new product development.

- **Unified Management Buy-In/Participation.** This means taking part in management planning; setting up committees or councils to include management in the compliance process; and disseminating key compliance information to all levels of management.
- **Pro-Action.** Last, and certainly not least, is that ability to look to the horizon and plan for upcoming changes as well as the introduction of new statutes and directives. The key is vigilance, which entails hours of reading and research; attending compliance seminars and symposiums; and developing a network of fellow professionals with which to share ideas and issues.

The compliance professional has evolved in the past few years. Not only is there more liability with regard to the position and duties, there is more inherent responsibility in protecting the safety and soundness of your institution. This old chestnut has been used untold times but appears appropriate for compliance people in our environment: If you fail to plan, you plan to fail! ■

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The payment world is evolving and EMV chip-based debit card technology is at the forefront of concerns for financial institutions in the United States today.

It's the most recent effort designed to help debit card issuers reduce growing fraud losses caused by counterfeit plastics. US financial institutions have begun issuing cards this year to take advantage of the new rules for liability.

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Checking with BENEFITS

By Catalyst Corporate

It's no secret that check writing in America has been trending downward since the early 21st Century when C-21 was adopted and financial services found a new delivery method with mobile devices. Despite their decline, don't write checks off yet. According to the Federal Reserve's 2013 bi-annual report on payment services, 18.3 billion checks were paid in 2012 with a value of \$26 trillion. That's a heap of staying power.

Checking accounts are probably the first, and perhaps the most important, product members will use with their credit union, according to Karen Coble, vice president of sales at Catalyst Corporate. The checking account is members' most common interaction with their credit union, and if members are happy with their checking account, they'll likely be more willing to take on other products from their financial institution, she said. Enter checking rewards programs.

Aunt Mary's traditional \$50 birthday check can now do more than give you just enough money for an annual tank of gas. As part of her enhanced account, the check is her passport to cell phone protection, roadside assistance, access to local discounts and other benefits. That's because rewarded accounts like Checking with Benefits, a new Catalyst Corporate service, allows credit unions to breathe new life into tired checking programs.

Rewards programs can make credit union checking accounts more attractive to members and potential members, strengthen member engagement with the credit union, and generate fee income. They provide a powerful menu of on-demand benefits delivered by a mobile app that can be customized with the credit union's own branding.

In addition, rewards programs like Checking with Benefits can help increase revenue for credit unions. For financial institutions looking to add fee income, the challenge is not offending customers. Thoughtlessly slapping a new fee on an existing traditional service isn't the answer (remember the \$5 debit card fee debacle).

Every day, however, credit union members choose to pay for other things they value. For example, added together, 200 million people choose to pay for memberships in Amazon Prime, Costco, Sam's Club, and AAA. Now, Catalyst Corporate is packaging similar rewards for credit unions to offer their members.

Rewards programs, through mobile and online delivery platforms, smartly provide consumer-demanded benefits so relevant and appealing that members gladly pay for them. How much? On average, about one-third of your consumer checking relationships will pay nearly \$75 per year, according to StrategyCorps.

By evaluating its existing checking program to determine profitability and appeal, Catalyst Corporate can make recommendations for a tailored Checking with Benefits program that delights members, differentiates the institution in the marketplace, and is enthusiastically promoted by frontline staff.

Among the benefits that credit union members can use:

- Cell phone protection that can replace a broken or stolen phone
- 24-hour roadside assistance
- Travel accident insurance
- Personal identity theft protection
- Pharmacy, vision, and hearing discounts

Through a rewards program, participating credit union members can also shop local and save local—taking advantage of local and national retailer discounts to save money on shopping, groceries, dining, travel, and entertainment.

Catalyst's Coble says, "The Checking with Benefits program can bring customer-friendly, non-overdraft-related fee income like no other retail service." For information about the Checking with Benefits program, send an inquiry to: contactus@catalystcorp.org. ■

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Navigating the Winding Road to EMV Conversion

By Harland-Clarke

“What is your institution’s view on migrating from mag-stripe cards to EMV chip cards?”

Have you begun the conversation or is your team still debating the when, where and how?”

1. Identity Theft Resource Center, Identity Theft Resource Center Breach Report Hits Record High in 2014, January 12, 2015.

Many financial institutions are having similar conversations and debates, but one thing is clear: EMV is happening fast. The motivation is simple. Better card security. More than 750 card security breaches occurred in 2014, compromising two billion consumer credit card accounts. That’s 27.5 percent more breaches than the year before.¹

Getting to EMV will be a challenge even for the most sophisticated banks and credit unions. That’s because EMV conversion will take a significant amount of resources to plan and implement. Financial institutions must make an extraordinary number of decisions about highly technical choices—profiles, types of chips, data preparation, etc.—to begin the conversion process. Even after making these choices, the rollout itself will require clear, careful, and consistent communication with accountholders.

Financial institutions that delay EMV conversion of their credit and debit cards will not only deprive their cardholders of much more comprehensive card security, but will also put them at increased risk. Why? Fraudsters always go to the easiest targets first. Cards with outdated security that are easier to hack or circumvent could be low-hanging fruit for identity theft and credit and debit card thieves.

Multiple studies have validated rapid, near-term conversion to EMV for both debit and credit cards in the

United States. Of course, it's always easier to break a big project into manageable pieces. A well-organized EMV conversion plan might look something like this:

1. EDUCATE YOUR TEAM

Assemble the team

Your organizational structure will determine who needs to be involved, but it will likely include a cross-functional group of those who handle credit and debit portfolios, legal, marketing representatives, and a C-level project champion. You'll also want to identify individual contacts to represent your card vendor, service bureau provider, transaction processor, and payment brand. Your core provider may also need to be involved. This team will be responsible for the many decisions your institution will make and implement.

Secure the support of a C-level champion

- Assemble a cross-functional team, including legal, marketing and those who manage credit and debit portfolios
- Identify contacts from card vendor, service bureau provider, transaction process and payment brand
- Engage your core provider
- Define the internal communications strategy

While some inside your organization are living and breathing EMV, many others are completely in the dark about what EMV is and what's going to be involved in the conversion. It's imperative that you develop an internal communications strategy early because a smooth transition will require the involvement of many employees at multiple levels of the institution—everyone from branch to call center staffers. You will need employee training materials that detail the benefits of EMV, timelines for conversion and card replacement, and how EMV cards are used. Your internal staff must be educated so that they can answer questions from cardholders when the time comes.

- Design an internal communications strategy
- Develop employee training materials
- Identify conversion and card replacement timelines
- Register your card brand

Your payment brand—Visa or MasterCard—needs to be aware of your conversion plans. Your transaction processor also needs to know you're migrating to EMV. Remember, reaching out to these partners in a timely manner is critical because every financial institution in the country could be attempting migration in a relatively tight timeframe.

- Advise your payment brand of your conversion plans
- Advise transaction processor that you're migrating to EMV

2. DEFINE YOUR PRODUCT

Select from preapproved profiles

There are more than 23 EMV personalization profiles to choose from, some basic and some highly complex. The profile you choose is important because it translates program options—debit, credit, contact, contactless, single or dual interface, online or offline PIN, etc.—into chip data.

Note that your transaction processor is also making decisions about which profiles to support. You'll need to be sure your institution and your processor are on the same page relative to these choices.

- Determine program options, including debit, credit, contact vs. contactless, single or dual interface, online or offline PIN, etc.
- Select your EMV personalization profile from the 23+ personalization profiles available
- Work with transaction processor to ensure alignment on profile choices

Select your chip

Your profile decisions will dictate certain chip choices. However, there are hundreds of different chips from which to choose, each with a different combination of memory size, authentication method, and operating system.

- Determine chip memory size, authentication method, operating system, etc.
- Select chip that meets these criteria

3. CONSIDER CARD DESIGN AND ARRANGE PRINTING

Procure chips

The chips you choose must be procured, pre-personalized, inventoried and embedded in new cards. You will need to coordinate this process with your card vendor.

- Procure, pre-personalize, inventory and embed chips
- Coordinate with card vendor
- Finalize designs

It's likely your cards will need to be redesigned to accommodate chip placement. Discuss design and

branding options with your card vendor and ensure that the vendor has the correct chips available to mill and embed in the card body. Approximate turnaround time for this process ranges from 12 to 20 weeks.

- Redesign cards to accommodate chip placement
- Identify branding options
- Ensure card vendor has correct chips available to mill and embed in card body
- Plan for 12–20 weeks for this process

Prepare data

Your card vendor will need to build card configuration and mapping programs. All of the chip data tags must be created and developed to encode chips for each card.

- Work with card vendor to build card configuration and mapping programs
- Create and develop chip data tags for each card

4. MANAGE KEYS

Keys are one of the essential elements of EMV security. Key management is a critical step in EMV conversion, as a whole new set of cryptographic “keys” will be needed to ensure data authentication at the point of sale. Key generation, validation, storage, and transfer must be managed based on your institution’s needs.

- Build a new set of keys to ensure data authentication at point of sale
- Manage key generation, validation, storage and transfer

5. CREATE AND EXECUTE YOUR COMMUNICATIONS PLAN

Communicate before, during and after issuance
Your conversion will require three distinct communications windows. Prior to card issuance, you will want to focus on awareness—letting cardholders know a change is coming. When the card is issued, you will need to provide information on activation and security benefits and advice about how to use the new chip card. Then, you will want to provide ongoing education about what to expect at the point of sale.

Use multiple channels

A multichannel approach is needed at each communication window and should include statements, ATMs and branches, call center, internet, advertising, social media, email, and direct mail. Also prepare and

print card carriers, welcome packs, posters, ads, and other collateral to support the conversion. Your channel strategy must be thorough. For example, will your call center be prepared to handle increased call volume? Should you provide each branch with a card reader to demonstrate the EMV “leave the card in the reader” technique to account holders?

- Create and execute external communications plans for awareness, conversion, activation, and ongoing education
- Include statements, ATMs, branches, call center, website, advertising, email, social media, and direct mail in plan
- Design and print card carriers, welcome packs, posters, and other collateral
- Plan for increased call volume
- Consider in-branch accountholder demonstrations and education

6. TEST, PRINT, AND GO LIVE

One of the final steps in the EMV migration process is creating test cards and validating with the payment brand and processor that the chips are coded according to their requirements. User acceptance testing follows, with a small number of live cards field-tested for transaction ability and acceptance.

Once testing and validation are complete, it’s time to print live, personalized cards and manage their distribution.

- Create test cards
- Validate with payment brand and transaction processor
- Conduct user acceptance testing

7. TAKE A DEEP BREATH

EMV conversion is a formidable task, with numerous details to coordinate among many different players. But help is available. ■

Harland Clarke has turnkey solutions for EMV card issuance that includes all the essential elements—product education and training, chip procurement, card design, manufacturing, and fulfillment. For more information about EMV conversion, call Harland-Clarke at 800-277-7637, email cardservices@harlandclarke.com, or visit harlandclarke.com.

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