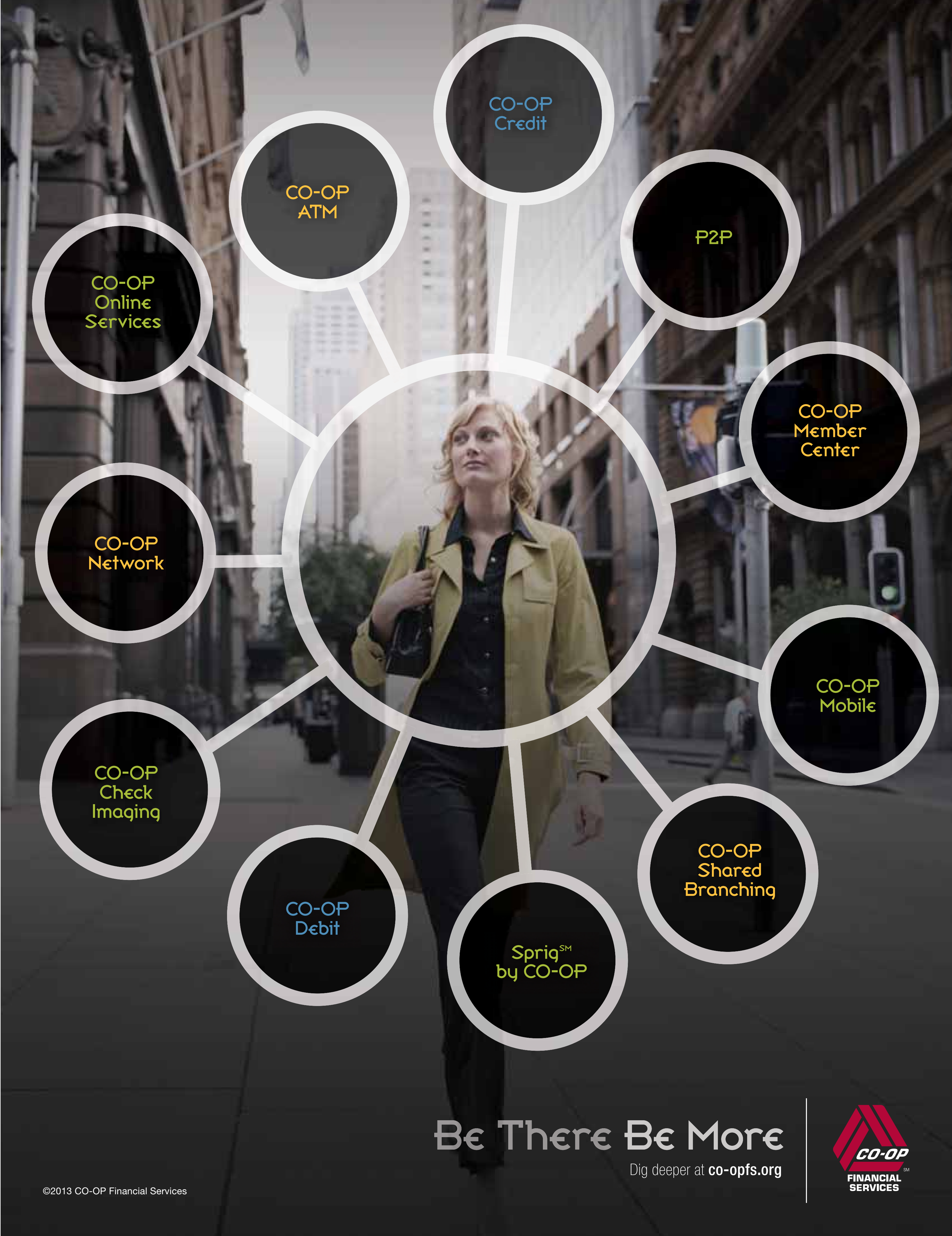
Perspectives

The Official Publication of Cornerstone Credit Union League
Winter 2014

Expanding Wallet Share: Know Your Members and What They Want



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Contents

Cornerstone Credit Union League

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CORNERSTONE CREDIT UNION LEAGUE

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GRAPHIC DESIGN
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18

22

32


FEATURE

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13-0901

CEO's Column

By Dick Enswieler
CEO
Cornerstone Credit Union League

Welcome to 2014! I don't know about you, but I just cannot believe that another year has passed. Like many, I made a new resolutions list. Get healthier, pay off debt, save more money, etc. are all pretty common New Year's resolutions. I myself have resolved to eat healthier and exercise more in 2014.

But I didn't just make a list for my personal life – I also made a New Year's resolution list for my professional life because I believe that just as we resolve to make positive changes in our personal lives, we must make the same commitment to our professional lives, too.

For the credit union movement, where a stroke of a pen can dramatically impact the way we do business, it is particularly important that we consider what we can individually do differently or better in the New Year to not only preserve and protect our movement, but to grow and strengthen credit unions' foothold in the financial services sector.

I challenge each of you to visualize what you'd like to see our movement accomplish in 2014, and then consider what you can do to accomplish this. Will you be an active participant or merely a spectator?

In visualizing the future of the movement, it's best if you envision a more favorable legislative and/or regulatory environment for which credit unions can operate. For example, would you resolve to increase your engagement in political advocacy? While we can't strong-arm lawmakers, we certainly have the ability to influence. Perhaps the greatest strengths of credit unions are our willingness to collaborate, cooperate and mobilize when necessary.

There are many ways you can get involved in political advocacy. You can become a key contact, and key contacts are individuals who have relationships with lawmakers and are able to reach out to these lawmakers when we need our voices to be heard. You can also support Project Zip and participate in grassroots initiatives such as CU: R.O.A.R., which stands for Credit Unions: Ready, Organized, Activated and Responsive.

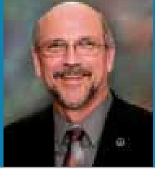
If a comment call is issued by a regulatory body, will you make the commitment to respond? If we remain silent, it can be perceived by the regulator that we don't have an issue with their proposed regulation.

If you envision a bigger market share for credit unions in 2014, what role will you play in helping to accomplish this? Will you leverage all opportunities available to you through Cornerstone to assist in this endeavor? Through our training and events department, for example, we offer a wealth of educational programs, from webinars and seminars to workshops and conferences that focus on a broad range of timely topics, including loan growth, product innovation, attracting diverse demographics, mobile technology and much more. Through Credit Union Resources, we offer myriad solutions to help you better meet the challenges of today and tomorrow. Credit unions seeking help in the areas of compliance, finance and auditing, strategic planning, technology, compliance and/or HR, are encouraged to take advantage of all that Credit Union Resources has to offer. And if Credit Union Resources doesn't have what you need, one of our many business partners likely will.

Serving in the credit union movement is demanding, but it's also an extremely rewarding profession. Now is the time to plan for your success in the New Year.

Chairman's Forum

By Paul Trylko
President and CEO
Amplify FCU



2014 marks a significant milestone for the Cornerstone Credit Union League as we enter the New Year as a bigger, stronger and more committed organization. I wish to extend my sincere appreciation to all of our member credit unions, for Cornerstone would not exist without your support.

We are a movement of people – people working together for a common goal. I strongly believe that if we adhere to our seven core principles and leverage the resources of Cornerstone, Credit Union Resources and the Cornerstone Credit Union Foundation, credit unions will continue to gain a stronger footprint, both in our region and across the nation.

Principle #1: Voluntary and Open Membership

Credit unions have been "America's best kept secret" for far too long. As credit unions, we need to work together to educate and inform the public about the credit union difference. Through traditional and social channels, Cornerstone is committed to doing its part to ensure credit unions are the first choice, and not the alternative. Additionally, Cornerstone will continue to explore other opportunities to build awareness and support national initiatives, such as asmarterchoice.org and "Unite for Good" that are helping bring credit unions to the forefront.

Principle #2: Democratic Member Control

Just as members have a voice, so too do credit unions. You have an official opportunity to exercise that right every year at Cornerstone's member business meeting. This year's business meeting is being held April 22 in San Antonio. The business meeting will run in conjunction with the Cornerstone Annual Meeting & Expo April 22-24. "One Team, One Dream, United for Good" is the theme for this year's conference. You can find more information on the Cornerstone website at www.cornerstoneleague.coop.

Principle #3: Members' Economic Participation

Let's face it – there are some members who are simply shopping for the best deal and may never fully participate or realize the value of membership. Just as consumers join a credit union for different reasons, credit unions affiliate with their trade associations for different reasons. Consider your decision to affiliate with Cornerstone. Perhaps it's the opportunity to network, or to take advantage of the education programs, or maybe it's for Cornerstone's robust advocacy program. Whatever the reason, my belief is you get out what you put in.

Principle #4: Autonomy and Independence

Cornerstone's mission is to advance the success of credit unions. We are able to accomplish this through the vast array of programs and solutions available through Cornerstone, Resources and the Foundation. If you want to learn more about what's available to you, you can find the information on our website, and I would highly recommend you take advantage of our orientation program held in the spring and fall.

Principle #5: Education, Training and Information

Through Cornerstone, you have access to a wealth of professional development opportunities. From conferences to seminars, webinars and workshops focusing on a broad array of topics, from loan growth to compliance, Cornerstone has a training program to fit your needs. Additionally, Cornerstone offers the Southwest CUNA Management School, a three-year course of study recognized in the credit union movement for innovative, intense, hands-on professional development. I graduated from the school in 1988 and highly recommend it.

Principle #6: Cooperation among Cooperatives

This is perhaps the greatest strength of the credit union movement. We understand that the success of one credit union is a success for the entire movement. Through Cornerstone chapters and councils, we are able to share best practices, gain ideas and explore growth opportunities. For small credit unions, Cornerstone's Small Credit Union Development program is an excellent resource.

Principle #7: Concern for Community

There is a reason the Community Reinvestment Act (CRA) doesn't apply to credit unions. We don't need to be regulated into giving back to our community. We are for-people and not-for-profit. As you consider the needs of your community, I encourage you to keep in mind that your Foundation offers tremendous support in the area of financial education. Additionally, financial education and community outreach grants are available. Cornerstone also has a REAL Solutions program and a Hispanic Outreach program, Juntos Avanzamos.

I welcome the New Year and I look forward to another successful year for Cornerstone, our movement and the credit union system.

By Brian Turner
Director, Chief Strategist
Catalyst Strategic Solutions

The Hazy Crystal Ball

Most would be surprised to know that a crystal ball actually has no power. It simply acts as a conduit on which the gazer can focus to clear his or her mind for a vision. Economic models are great calculators, but they are only as good as the data and formulas that are incorporated, and the analyst's skill in spotting trends, patterns and sentiment.

Recalling the old adage, "The good Lord created economists to make astrologers look good," let us assess expectations for 2014 and strategic considerations to ponder in order for us to be successful next year.

Economic Growth

After hitting a three-year low in 2013, annualized economic growth is expected to increase from this year's 1.7 percent pace to 2.5 percent in 2014. Both personal spending and private investment are expected to increase next year, which should spark growth in credit union loans and shares.

Personal spending is expected to increase at a 3.1 percent annualized pace next year, which is better than the 2 percent increase in 2013. The question remains whether the demand for financing will accelerate accordingly, and how broad-based that growth might be throughout the industry.

Employment

The employment sector remains the primary driver of the economy. Growth has suffered from consumers' job insecurity and tepid spending behavior. Although the unemployment rate has declined 2.6 percentage points from 9.9 percent to 7.3 percent, economic recovery has been a fraction of what was previously experienced during comparable declines in unemployment.

The pace decline of the unemployment rate will begin to slow in 2014, ending the year around 6.8 percent.

Consumer Finance

Inflation will be a non-issue in 2014, although wavering energy and food prices may have an impact on consumers' disposable income. The growth in the consumer spending component of GDP suggests retail sales will increase next year, although the pace of vehicle sales and home sales is expected to decline.

The Mortgage Bankers Association is expecting mortgage applications to decline 33 percent next year, with the refinancing share of originations to drop below 40 percent. This suggests that, in order to experience a material increase in overall loans next year, credit unions will require greater growth in consumer loans – principally auto loans or credit cards. This is why consumer spending sentiment projections are of vital importance.

Interest Rates

The Federal Reserve has stipulated that it will consider raising its overnight target rate only after the nation's unemployment rate drops below 6.5 percent and inflation is no higher than 2.5 percent. They appear to be targeting the summer of 2014, but the underlying data suggests that these triggers will not be attainable until sometime in 2015.

So, we can expect little movement in short-term interest rates through the end of 2014. Longer-term rates will continue to bear the brunt as the Federal Reserve attempts to keep rates down and market forces try to push rates higher. Expect the market to win the battle and longer-term rates to be higher by the end of next year.

Impact on CUs

The past few years have reflected the greatest performance disparity within the industry. For instance, the industry is experiencing a 5.5 percent increase in loans outstanding. However, larger credit unions ($500 million or more in assets), account for 67 percent of the industry's assets, but only 7 percent of the total number of credit unions have experienced a 9.2 percent increase in loans. This implies that the remaining 93 percent of credit unions collectively have experienced a 2.4 percent decline in loans.

Share growth has shown a similar pattern, as the overall industry has experienced a 7.2 percent increase. But shares at the larger credit unions have increased 10.5 percent while, collectively, the "93 percenters" have seen only a 0.9 percent increase in shares.

This disparity most likely will continue in 2014. The best way to forecast at the credit union level would be to expect a slight increase over 2013 loan growth and a greater improvement in share growth. To speculate any other way would be too presumptuous.

In the meantime, net asset yields have stabilized, with declining delinquency continuing to support lower nominal asset rates. Higher long-term treasury rates have pushed up mortgage rates, but many credit unions are still reluctant to retain mortgages on their balance sheet – a primary determinant for underperforming credit unions. These opportunities will continue in 2014, given rates are 100 basis points higher than last year, albeit the volume of applications will most likely decline. Consumer loans must increase to enable credit unions to experience any growth results in 2014.

Although there is still some room to lower cost of funds, we are closer to its floor. Credit unions should retain a short-term funding duration. Long-term certificates offer little benefit to long-term cost of funds and provide little protection against rising rates because of inadequate early withdrawal penalties.

So there's still a lot of haze in the crystal ball for next year, but a few things are very clear –lending needs to be more proactive without compromising underwriting standards, retaining a short-term funding duration does not compromise long-term cost of funds, and being frugal with operating expenses will help to offset lower fee revenues.

And be patient. Good fortune in your future lies in the cards.

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By Kimber Cockrill
Communications Specialist, Advocacy
Cornerstone Credit Union League

REAL Solutions: Vital—and Rewarding—Community Service

Tax year 2014 marks the fourth Volunteer Income Tax Assistance (VITA) filing season for Coastal Community FCU in Galveston, Texas. VITA is a nationwide Internal Revenue Service (IRS) program designed to help low- and moderate-income taxpayers complete their annual tax returns at no cost. Coastal Community offers the VITA tax preparation and e-filing service to individuals and families in their community, regardless of membership in the credit union.

Carol Gaylord is the president and CEO of Coastal Community FCU, as well as the site coordinator for the VITA program. Working closely with the IRS, she not only organizes the volunteers and training, but she also certifies volunteers and training, she also certifies volunteers to the advanced level and verifies every tax return.

"In our first VITA year, we prepared and e-filed 378 tax returns. In 2013, we prepared and e-filed 613, saving Galveston County residents over $65,000 in tax preparation fees," says Gaylord.

Last year, Coastal Community FCU was one of only two Texas credit unions selected by Opportunity Texas to participate in a pilot program to offer gift cards and a tax savings match.

"We not only offer tax service, we offer financial literacy training and resources. We open accounts for VITA clients who are unbanked, and we deposit or match the first share up to $5," adds Gaylord.

Vital VITA Volunteers

Volunteers play a crucial role in the VITA program. They are trained and certified by the IRS and must follow a code of conduct.

"This program could not exist without vital volunteer support," Gaylord explains. "Our volunteer support system is primarily staff with a heart for helping, and our true volunteers who willingly give their time and talents."

Gaylord's volunteers are from three Coastal Community branches, the Galveston Housing Authority, and the Mainland United Way—all of which serve the entirety of Galveston County. Gaylord rewards volunteers with incentives for passing the certification levels and for manning special volunteer events.

"This year we're working with students from Ball High School and The University of Houston at Clear Lake to provide a learning ground, testing environment, and hands-on tax preparation experience," she notes.

VITA's Impact

Coastal Community is a member of Cornerstone Credit Union League's REAL Solutions, which is the signature program of the National Credit Union Foundation (NCUF). The goal of REAL Solutions is to offer services that have been proven successful for people of modest means and low wealth. VITA is one of the initiatives promoted by REAL Solutions, as well as Elderly Financial Abuse and Exploitation awareness, which dovetails nicely with the VITA program and allows the elderly to take advantage of these special services as well.

"Our credit union has grown tremendously since we implemented the VITA program," Gaylord reports. "Year-end 2010, our assets were $40 million. By December 2012, we were at $49 million. Loans grew from $24.4M to $37.2M, and membership shares grew from $37.2 to $43.8 million."

Gaylord does advertise their program; however, she believes word of mouth is definitely responsible for taking things to the next level.

Of the time commitment, Gaylord acknowledges, "It is very time consuming and requires organizational skills. My work schedule during tax time goes from the normal 10 to the very least 12 hours a day."

So why does she do it? "VITA is our vessel to reach out to our community of low- and moderate-income families and senior citizens. We can demonstrate the credit union motto of people helping people. We don't sell them; we educate them. We touch their lives and leave our mark. When they are ready they know who to trust and turn to," Gaylord explains.

VITA sites generally assist people who make $51,000 or less or are eligible for earned income tax credits (EITC) or other low-income tax benefits. To locate a VITA center near you, go to the IRS website at http://irs.treasury.gov/freetaxprep or call (800) 906-9887.

On Cornerstone's website, credit unions will find a REAL Solutions Toolkit, which includes resources for credit repair, financial education, low-income designation, low wealth, prepaid debit cards, and reports, as well as VITA materials. For information on becoming a REAL Solutions credit union member, please contact Paula Upchurch, REAL Solutions director, at (832) 407-7965 or pupchurch@cornerstoneleague.coop.

By Mark Arnold, CCUE
President
On the Market Strategies

Your Brand as a Financial Cooperative

Branding … we hear it all the time in credit union land these days.

"Are you branding?"

"Are they branding?"

"Should we be branding?"

Yes, credit unions love to talk about branding. And rightfully so. Branding cuts straight to the heart of what an individual credit union stands for, believes in and represents to its members, potential members and the larger community.

However, branding is not a simple matter. Credit unions must dig deep and answer sometimes difficult questions to discover and cultivate their unique brand positions.

One credit union's brand may be related to civic activism.

Another may focus on speedy and reliable service.

Yet another may center on serving the underserved.

Many credit unions are doing a fine job when it comes to their individual branding efforts. Many others are now realizing the benefits of branding and working to incorporate it into their corporate DNA.

That covers the individual credit union level – check the box.

But what about credit unions as a whole – the cooperative of cooperatives, if you will?

Credit unions stake large claims on the very cooperative nature of the movement and stand together to fight for the rights of our members. Individual credit union branding aside, isn't it time for credit unions to remember what is perhaps their greatest brand – the shared aspect of cooperativism?

Granted, focusing on the cooperative angle isn't the sexiest aspect of credit union branding. It doesn't have the glitter and appeal of catchy taglines, crisp revised logos and jazzed-up employee-member engagement training. However, it is perhaps the most fundamental aspect of who and what credit unions are. Given that, isn't it time we got back to proudly promoting our cooperative nature?

One of the key tenants to branding is uniqueness – what sets you apart and what makes you different. Well, being a cooperative is certainly unique. You won't find a single bank in your community that can brand itself as a cooperative. And given the groundswell of public awareness surrounding Bank Transfer Day, it's clear that the American people like the idea of entrusting their resources to a financial cooperative in which they have a direct stake.

Even though it may seem like covered ground, there's still plenty credit unions can and should do to promote their cooperative nature. In an age where the increasingly civic-minded Generation Y is coming into its own, the time to strike is now. Let your members and potential members know that your credit union – and all credit unions – are financial cooperatives.

Here are some ways that you can help promote your credit union as a cooperative:

- Coordinate a social media campaign in which you tell the story of credit unions and why their cooperative nature are such a positive benefit for people and the communities in which they live.
- Attend targeted community events designed to give your credit union maximum public exposure and use those opportunities to reinforce the cooperative message.
- Educate your members on what a financial cooperative is and how it benefits them.
- Designate a special page on your credit union website that promotes cooperativism.
- Explain to members that their lower loan rates, higher deposit rates and lower fees are because your credit union is a cooperative.

Of course, the entire cooperative branding push does not rest on your credit union alone.

Seek ways to work with other credit unions in your community to promote your shared cooperative nature. For example, credit unions often join forces to raise funds for charitable causes. Look at the good that is being accomplished through such causes as Unite for Good and Credit Unions for Kids. And of course, credit union chapters across the region are making a difference through their cooperative involvement with locally-based charities. These examples point to one thing: credit unions that recognize their cooperative nature as an integral part of their overall brand strategy can make quite a difference.

Again, emphasizing the cooperative nature should just be part of the overall brand strategy and doesn't mean you have to abandon your unique brand characteristics. A recent CUNA Marketing and Business Development Council white paper addressed the myth that credit unions can't work well together, noting "a credit union's unique brand is important and doesn't have to be sacrificed to work cooperatively with other credit unions."

Your individual credit union brand is unique. It's vital. It's the real side of you that members see and trust. No one is saying that should (or even could) go away.

However, credit unions would also do well to remember that the cooperative genesis of our movement is still at the center of all we do. Capitalize on that strength and leverage it to work as an integral part of your credit union's branding strategy and plan.

By Susan Fletcher, Ph.D.
National speaker, psychologist and author

Maintaining Member Relationships in a Digital World

Before the digital experience was the norm, face-to-face relationships defined the basis of members' relationships with credit unions. Members were greeted on a first-name basis and there was a face attached to the business relationship. If you worked in a credit union before iPhones, you were the face of the credit union. A member did business with you, not just the credit union.

Now that we are in a digital world, that face has been replaced. We use our passwords to get real time data about our financial status, bypassing the in-person social nuances.

With online banking, mobile apps and ATMs, consumers never need to enter a credit union branch. Without the opportunity to shake hands with a member, how can credit unions maintain relationships with members?

Maintaining relationships with members is still important and expected. While it is no longer one-on-one and limited to in-person, the relationship is just as valuable with the brand, and it can be fostered with similar dynamics. Brands must be relevant and create an experience for the member. Experiences evoke emotion, and emotion builds our connections. Members still want to feel connected to something bigger than themselves.

Relationships must be redefined to be about the brand and what it stands for. Here are some questions credit unions must ask in the new relationship dynamic:

1. Does your credit union have a relevant presence in your community?
2. Does your credit union evoke emotion in your brand message?
3. Do your members see themselves as a part of something bigger?
4. Is your credit union aligned where there are opportunities to connect in the community?
5. Are you building a history in your community to which members can connect?
6. Is your credit union using various forms of social media to help current and potential members interact and feel understood?

The digital world provides an opportunity reaching far beyond the handshake relationships of yesterday. Brand development, brand awareness and brand loyalty are bullet points in the discussion of recruiting new members and satisfying current ones. Members want that connection, but they want it delivered in their world, on their terms, in their language, and in the ways they primarily communicate. Just like any good relationship, you have to meet them where they are.

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	28	Compliance Review Seminar	Houston	$299
FEBRUARY	10-12	Principles & Philosophy	Dallas	$749
	11-12	Bankruptcy & Collections	Dallas	$299
	26-27	IRA Seminars	Houston	$299
MARCH	5-6	SCMS Mid-Year	Dallas	*N/A
	24-28	MBL Boot Camp Series	Dallas	$6,075
	25-26	Home Equity Lending Seminar	OKC	$299
APRIL	8-9	Home Equity Lending Seminar	Dallas	$299
	22-24	Cornerstone Annual Meeting	San Antonio	$245
MAY	2-6	MBL Boot Camp Series	Dallas	**N/A
	13-14	IRA Seminars	Dallas	$299
	14-16	Southwest Lending Conference	Austin	$445
	20-21	Bankruptcy & Collections	Little Rock	$299
	22	Compliance Review Seminar	OKC	$299
	23-25	Hike the Hill	Wash DC	NC
JUNE	9-13	MBL Boot Camp Series	Dallas	**N/A
	18-20	Volunteers Forum	Hot Springs	$599
	26	CEO Roundtable OKC	NC	
JULY	13-23	SCMS	Fort Worth	$3,499
	21-25	MBL Boot Camp Series	Dallas	**N/A
	29	Lending Seminar	Little Rock	$299
AUGUST	7-8	YP Conference	DFW	$240
	12-14	Principles & Philosophy- National	Austin	$749
	18-22	MBL Boot Camp Series	Dallas	**N/A
	19-20	Bankruptcy & Collections	OKC	$299
SEPTEMBER	4-6	Leadership Conference & Expo	San Antonio	$729
	16-17	Home Equity Lending Seminar	Houston	$299
	18	Compliance Review Seminar	Little Rock	$299
	18-19	ACH Boot Camp	Dallas	$450
	22-23	MBL Boot Camp- Review & Exam	Dallas	**N/A
	29-30	New Ideas Forum	TBD	$799
OCTOBER	1-3	Marketing & Business Dev Conf	TBD	$549
	7-8	IRA Seminars OKC	$299	
	8-10	Manager's Roundtable	Branson	$275
	22-24	Compliance & Audit Conference	Fort Worth	$499-$599
	22-24	HR Conference	Fort Worth	$499-$599
	28	Lending Seminar	Dallas	$299
NOVEMBER	5-6	Bankruptcy & Collections	Houston	$299
	13	Compliance Review Seminar	Dallas	$299
	13	CEO Roundtable	OKC	NC
DECEMBER	2-3	IRA Seminars	Little Rock	$299

* SCMS mid-year event price included in 2013 SCMS tuition.
** MBL Boot Camp Series price included in March fee.
Prices shown are early-bird registration fees. Prices and event dates subject to change until published on website.

CORNERSTONE CREDIT UNION LEAGUE

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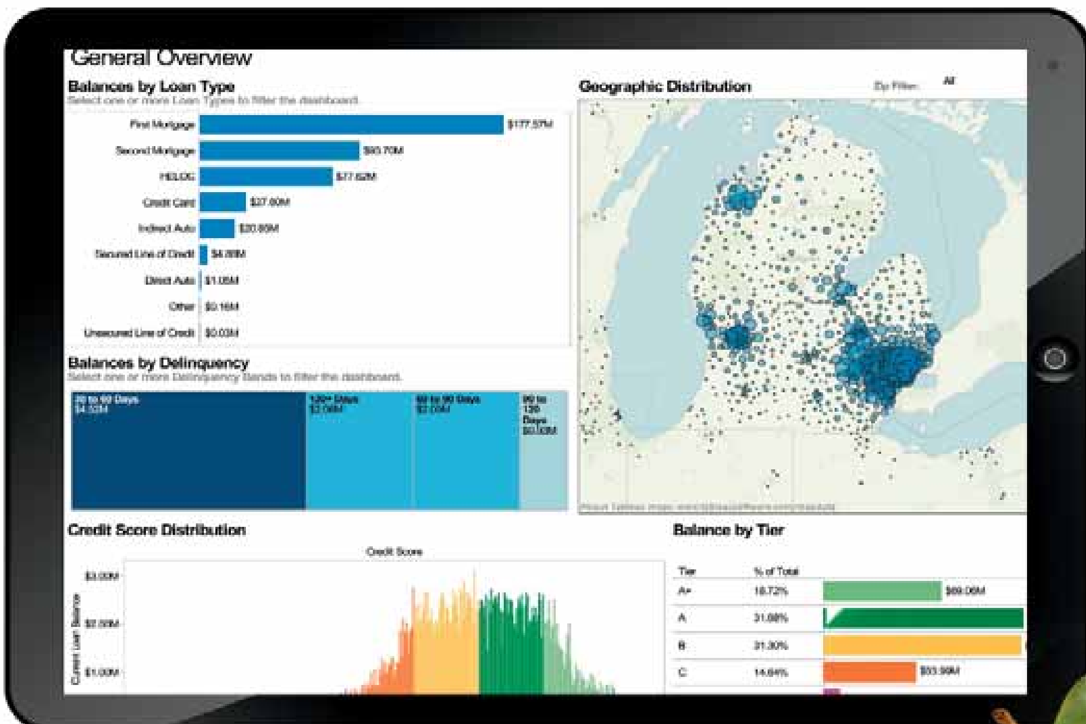

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Rebecca Reynolds Lytle
SVP/Chief Lending Officer
San Francisco FCU

For more information call **469.385.6987**

By Tamra Fairbrother, CMP, CMM
Vice President, Training & Events
Cornerstone Credit Union League

Finding a Way

In the New Year, people are focused on getting in shape physically, setting resolutions, and fine-tuning their budgets and financial goals, but how many are forming this year's plan for professional development and continuing education?

Expanding your knowledge in your field ensures you continue to be competent in your profession. Some company cultures support the ideas of professional development; however, due to limited time, staff or financial resources, it may not be a top priority. Meanwhile, others, ensure training and the ability to engage in conferences, and webinars are available to their staff at all costs on a consistent basis.

I very much appreciate the quote, "You can make an excuse or find a way." Isn't that true with anything? When the alarm sounds at 5 a.m. for boot camp, it's always temping to hit the snooze button. But when we are motivated to achieve a goal, we find a way to make it happen. We plan better by going to bed early or laying our clothes out the night before to be ready. The same is true for our career growth. Professional development must be an ongoing process.

When an unexpected opening occurs at your credit union, will you be the most knowledgeable and well prepared for the position? Learning isn't just for students in school. We should all be students and masters of learning in our lives. We should strive to hone those skills that will make us the top choice for a new promotion, stay up-to-date on trends and industry best practices to keep us relevant in our respective positions, and continue showing our value to the organization and our members.

Sometimes the reasons for not taking advantage of professional development opportunities are valid. Limited manpower in the office can be a factor in the ability to attend every conference or seminar you desire. In order to "find a way," begin the year establishing your education plan. Decide which training offered through Cornerstone is important to you and block out your calendar.

If you work for a small credit union, I encourage you to do this as a team so you can support each other's efforts and plan to back each other up. Ensure needed dollars are allocated in the budget, and take advantage of the early bird registration rate Cornerstone offers for its seminars and conferences. And, remember that educational grants are available through the Cornerstone Credit Union Foundation.

Keep in mind that while face-to-face meetings are the best way to gain peer-to-peer networking and connections, there is real value in supplementing that type of learning with online training. Webinars are an affordable way to expand your knowledge.

Again, when it's important, we always "find a way." Take advantage of your membership with Cornerstone by attending educational and training events. You will be part of a peer-to-peer network like none other.

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By Steve Gibbs, CUCE, BSACS
AVP, Shared Compliance Resources
Credit Union Resources Inc.

Preparing for a New Year of Regulations

Compliance. Regulation. Supervision. You can call it what you like, but be prepared to call it "permanent" in 2014. Even more regulations and mandates, as well as swift and severe penalties for noncompliance are on the horizon.

We've read articles, purchased software and attended seminars and conferences, yet some of us fail to remember our basic scout training – be prepared. The onslaught of regulatory additions and changes, as we've already seen in 2013, is not slowing down. The following are on the Consumer Financial Protection Bureau (CFPB) agenda for 2014:

Effective Jan. 10:

- The Regulation X rule addresses:
  - Error resolution and information requests (§§ 1024.35 and 1024.36)
  - Force-placed insurance (§ 1024.37)
  - General servicing policies, procedures and requirements (§ 1024.38)
  - Early intervention with delinquent consumers (§ 1024.39)
  - Continuity of contact with delinquent consumers (§ 1024.40)
  - Loss mitigation (§ 1024.41)
- The Regulation Z rule addresses:
  - Interest rate adjustment notices for ARMs (§ 1026.20)
  - Prompt crediting of mortgage payments and responses to requests for payoff amounts (§ 1026.36(c))
  - Periodic statements for mortgage loans (§ 1026.41)

As of Jan. 18, credit unions must also comply with:

- CFPB's appraisal requirements for higher-priced mortgage loans; and
- The Bureau's Regulation B disclosure requirement to inform applicants of the right to receive a free copy of any appraisals or other valuations performed in connection with their mortgage application.

In March:

- March 15 – Credit unions must report to IRS dividend payments of $10 or more to all non-resident aliens made on or after Jan. 1, 2013.
- March 31 – NCUA liquidity rule:
  - $250 million or more in assets must have applied to join the Central Liquidity Facility, seek access to the Federal Reserve's Discount Window, or both.
  - Less than $50 million in assets must have a written policy in place for managing liquidity, plus a list of contingent liquidity sources by this date.

Additionally, the IRS's final rule on interest and dividend reporting and NCUA's final rule on contingent liquidity take effect next year.

CFPB recently published their agenda of items for review in 2014. They include:

January

- Proposed rule on consumer information sharing

February

- Home Mortgage Disclosure Act pre-rule activities

March

- Payday lending pre-rule activities
- Direct Deposit Advance pre-rule activities

May

- Prepaid cards, NPRM

June

- Regulation CC, final rule

July

- Overdraft pre-rule activities
- No specific date
- Debt Collection – no date

It's a certainty that more regulations and guidance will be published in addition to what is listed here, so how do we prepare?

1) Face reality – this is not going away. Credit unions must address the regulatory compliance issue and develop an effective program, as examiners are weighting a portion of the examination management rating to this area.

2) Training! Training! Training! – The Cornerstone Credit Union League offers seminars, conferences and online programs that address regulatory compliance.

3) Last but not least – A strong centralized compliance professional (or Group). If you have a well-developed program with an experienced compliance professional (or professionals), then consider yourself far ahead of most. If your credit union can't afford a full-time compliance person or if your compliance person is "underwater" with the multitude of new items and changes, strongly consider outsourcing. Not only does this give you additional "eyes" and "hands," it also opens up a variety of resources available to that person or group.

By Nathan Behncke
Regulatory Compliance Advisor
Cornerstone Credit Union League

Regulatory Q&A:
NCUA's new rule on regulating CUSO's, and what you need to know.

Starting in 2015, all credit union service organizations, or CUSOs, will be subject to additional scrutiny and reporting requirements by the National Credit Union Administration (NCUA). These changes also include additional requirements for both federal credit unions and federally insured, state-chartered credit unions (FISCUs), including reporting in several key areas effective later this year. A number of the changes have applied to federal credit unions since 2008, and the NCUA is now extending those requirements to state-chartered credit unions.

The NCUA felt that it was within its authority, as manager of the NCUSIF, to bring CUSOs under the scope of its monitoring authority. CUSOs, while not specifically insured by the NCUSIF, have caused significant losses to some affiliated credit unions, and the NCUA decided additional scrutiny of CUSOs was appropriate. The NCUA also believes that the direct reporting by CUSOs should lessen the existing burden to credit unions in reporting their CUSO interests to the NCUA.

Here are some of the highlights:

- Section 741.22 of the Federal Credit Union Act is amended to include all Federally Insured Credit Unions (FICUs) with respect to:
  - Section 712(d)(2) - Certain recapitalizations restrictions
  - Section 712.3(d) - CUSO accounting, audits and financial statements
- Limits on the Recapitalization of Insolvent CUSOs:
  - Requires less than adequately capitalized FISCUs, or those that would be after recapitalization of a CUSO, to obtain the written approval from the appropriate state regulator before making an investment in a CUSO that will result in an aggregate cash outlay, measured on a cumulative basis, that exceeds the investment limit in the state in which the FISCU is chartered
  - For FISCUs in states without an investment limit, regulatory approval must be obtained for an investment higher than one percent of the FISCU's paid-in and unimpaired
- A requirement that all CUSOs:
  - Use generally accepted accounting principles during accounting of transactions;
  - Prepare quarterly statements; and
  - Obtain an annual audit of their financial statements by a licensed, certified public accountant
- A FICU's agreement with a CUSO requires the CUSO to file financial reports with the NCUA, and if applicable, the appropriate state regulator. These reports must be submitted annually. Newly formed CUSOs must file the report within 30 days of formation. The reports must address five broad categories, including:
  - General information
  - Board and management
  - Services
  - Credit union customer listing
  - Balance and income statements
- CUSOs engaged in certain "complex or high-risk" activities are required to submit more detailed and substantive information to the NCUA, and any applicable state regulator. These activities include:
  - Credit and lending, including business, consumer mortgage, student loan, and credit card originations, as well as loan support services, including servicing
  - Information technology
  - Custody, safekeeping and investment management services for credit unions
- Prohibitions on FICUs from investing in a CUSO, until a CUSO and all subsidiaries of that CUSO contractually agree to follow all applicable laws and regulations. This includes any subsidiary in which a CUSO invests any amount, if that entity is engaged primarily in providing products or services to credit unions or members.

FICUs with current loans or investments in CUSOs will be required to comply with the agreement requirements as of the effective date of the rule: June 30, 2014. CUSOs will need to start submitting reports to the NCUA under the new section 712.3(d)(4) when the agency's reporting system is fully operational, which will be Dec. 15, 2015.

We advise credit unions to start reviewing their contracts with any CUSOs as soon as possible to start ironing out any contractual requirements, and identifying any potential issues as a result of the changes. This is especially relevant to our state-chartered credit unions in Arkansas and Oklahoma that should review their total investment in any CUSOs to make sure they are not exceeding the statutory one percent investment limit without approval of the NCUA and state regulator.

For additional information, please contact Information Central, at (512) 853-8515.

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Expanding Wallet Share: Give Your Members What They Want

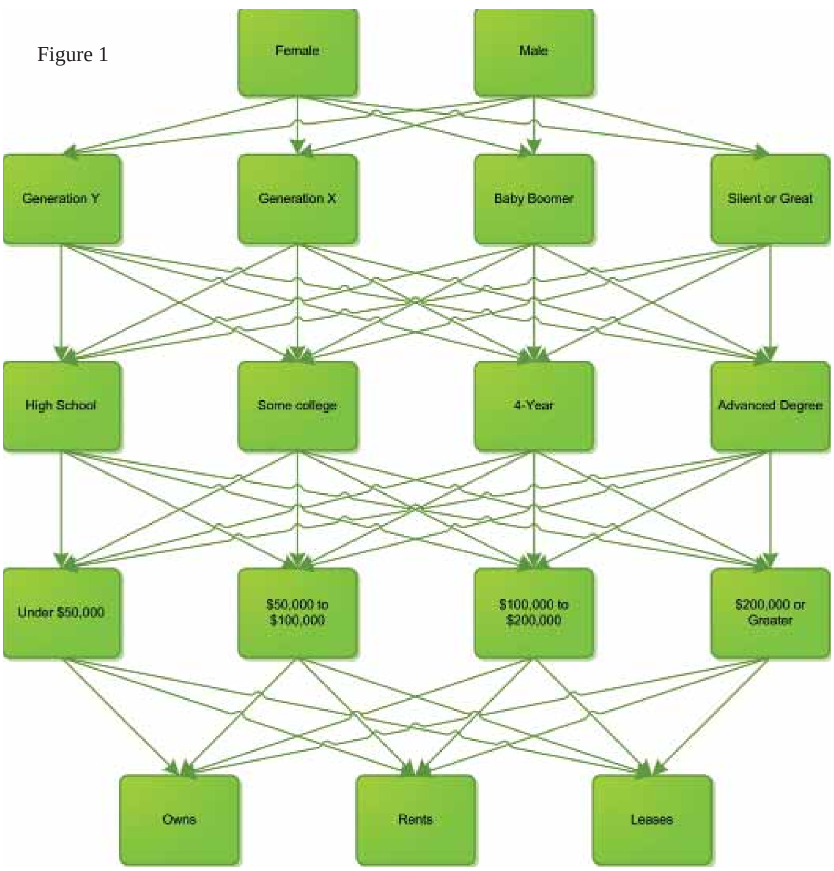
When my daughter was in middle school, she periodically announced on our morning drives, "Dad, I need $10 for school today." Not wanting to take my hands off the wheel or my eyes off the road, I would reach into my coat pocket and hand her my wallet. "You don't have any $10s dad, so I'll just take the $20!

"What about the two fives?" I'd ask.

"No, that's okay," she'd say. "The $20 will do." That was true wallet share – my wallet, her share.

The business world is not too different in its definition of wallet share, either. Basically, wallet share is the percentage of a member's spending that a credit union captures.

Figure 1



Now certainly the credit union does not sell clothes, or groceries, or hairstyling services and such. But the credit union does provide an array of financial services through which some of this money flows.

Wallet share can be defined in many ways, but most simply, it represents how much of a member's investable assets rest at the credit union, according to Bancography. This can include checking, savings, money-markets accounts, insurance, wealth-management products (such as mutual funds), debit cards, online bill pay, mortgages, credit cards, equity lines of credit and personal loans.

Yet, according to a report by Forrester Research, even though adults own an average of 8.2 financial products, they generally have no more than two or three products at any one financial institution.

In studies performed by Cornerstone Research, results have shown that 71 percent of credit union members also have accounts with a bank, and 30 percent have accounts with an investment firm or wealth management agency. Also found was that 29 percent say they have their largest accounts with a bank and 42 percent say the bank handles most of their financial activity.

Additionally, other industry research has uncovered that of all the members who have auto loans, only 20 percent of those loans are with the credit union.

So, how does one improve wallet share?

First, profile your membership and compare that profile to "the community." (I use "the community" in quotations marks because it means different things to different credit unions, depending upon their charter.) The analysis should look deeply into what comprises the membership. The outcome of profiling is to understand if the membership matches "the community," and how to group the membership (age brackets, stages of life cycle, etc.). A Marketing Customer Information File, or MCIF, application is very helpful in this type of analysis. A profile might take the form of Figure 1.)

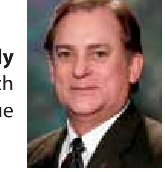
Next, analyzing the profiled groups. The objective is to understand what each group purchases, the amount they purchase, and at what frequency. Sometimes this is called a gap analysis, or the different ("the gap") between where the credit union is today and where it would be if it managed the full share of the member's wallet.

A "Gen Xer" with a four-year degree earning less than $50,000 annually will typically have different financial service needs than a "Gen Xer" with a four-year degree earning more than $200,000 annually. A single person will have different financial needs than someone married with two children. A married couple with two teenagers in high school will have different needs than a couple with two newborns.

According to Bancography, a member who has just one product with a credit union will stick with that credit union for about 18 months. But, by adding even one product – a savings account, perhaps – and the average jumps to four years. Members with three products will stay with the credit union for about 6.8 years.

Included in the analysis should be a series of key performance indicators. Those indicators are current member satisfaction and loyalty, purchase or usage frequency, current member retention levels, purchase levels and new member acquisition levels.

Our discussion here does not allow us to delve into each of these indicators, but any successful strategy must have points of measurement that help the organization understand goal achievement and keep tactics on target. Otherwise, the organization is as lost as Alice in Wonderland.



By Richard Grady
Vice President, Research
Cornerstone Credit Union League

Alice came to a fork in the road…"Which road do I take?" she asked.

"Where do you want to go?" responded the Cheshire Cat.

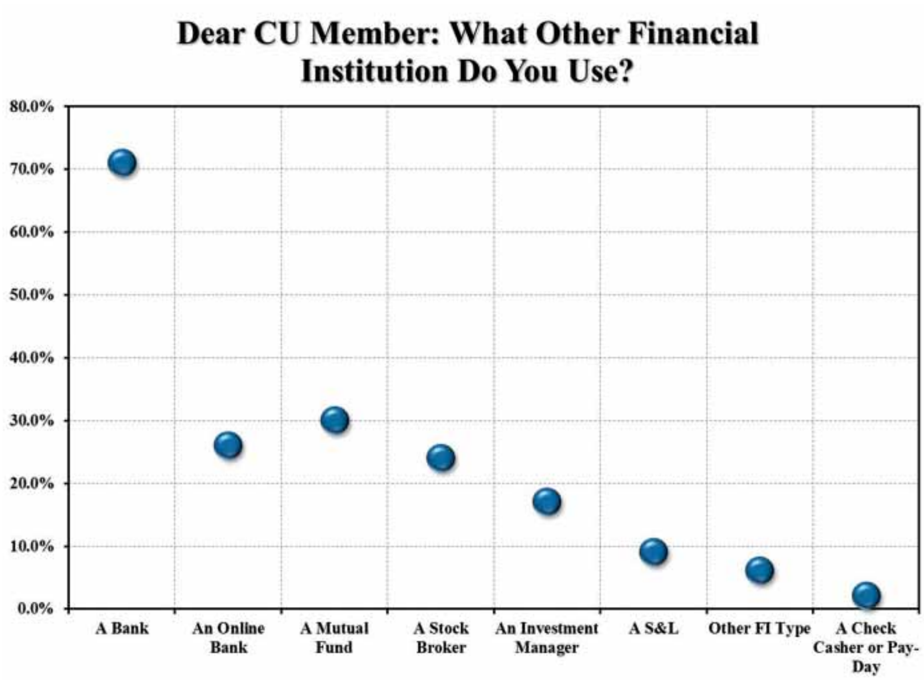
"I don't know," Alice answered.

"Then it doesn't matter," said the Cat.

Third, put an action plan together. Capturing more wallet share may be a series of strategies and tactics to increase usage of current products, or the addition of a new product line, or the changing of a delivery channel.

In today's economic environment, it involves less capital to increase the penetration of current financial products than it does to incorporate new products, but a credit union may need to do some of both, depending upon the analysis.

One area may be certain. Any long-term credit union has a loyal customer base. The first action might be to strengthen that base (usually known because they give high scores in a net promoter score poll). This strengthening may mean cross-selling more services to them or adding more areas of convenience.



For example, Bain & Company noted that consumers value convenience, and when an institution provides them with technology that enhances consumer convenience, it leads to loyalty and stickiness.

"We've seen a very clear correlation between loyalty, digital usage and share of wallet. Those three form a virtuous circle," says Gerard Du Toit, partner at Boston-based Bain. "It's hard to perfectly say which is "cause" and which is "effect." But there's no doubt that the more people adopt digital technologies in banking, the higher loyalty they have, and therefore the more money the institution can coax out of them because they use more products."

Like Cornerstone Research and many others, Bain measures loyalty in terms of net promoter scores. The discovery has been that digitally led institutions like USAA performed extremely well, while other direct banks had an average 66 (out of 100) net promoter score (versus 62 for credit unions, 46 for community banks, 19 for regional banks and 9 for national banks). USAA ranked higher than 80 in every segment.

The difference? USAA, founded in 1922 by a group of U.S. Army officers to self-insure each other, strongly focused on the profiling of each member and what that individual member might need at any point in life. Then USAA raised that potential concern every time the member touched the organization or vice versa. Today, USAA is significantly ahead of all their competition in loyalty and satisfaction, and their greatest growth comes from word-of-mouth marketing. They also capture nearly 100 percent of their member's wallet spend for financial products and services.

In this world of business where customer loyalty is everything, credit unions need to know that since they have already spent money to gain a member, it makes total sense to make sure they get a full return on that member.

Fourth: execute, measure, modify and re-execute. "The approach is to challenge the players to play every play in the game like it has a history and a life of its own. It's about discipline and execution to do the little things right so we eliminate some of the negative plays," Nick Saban, head football coach of the University of Alabama, has said of successful game play execution. The same is true in business. Every touchpoint is critical, and the outcome needs to be measured. When the outcome does not measure up to the standard, then it needs to be modified so when the next touchpoint happens, the outcome is better.

We naturally focus on the details of the balanced teller drawer and the financial reports. We must also build a natural focus on paying attention to all of the other details as well.

To capture wallet share, one must develop the relationships that allow capturing new segments and new divisions. To develop relationships, one must first deliver on the promises that are made.

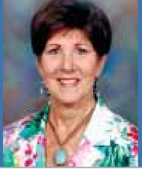
Americans have about $20 trillion in investable assets, 30 percent of which are held in deposits, according to IXI, a unit of Equifax Inc. Yet, most financial institutions have just a fraction of the average consumer's wallet.

According to Forrester, USAA is "the undisputed cross-sell leader" in the financial services industry, with an average of 3.9 products per customer. (Among brick-and-mortar banks, BB&T leads the pack with 3.4 products per customer, followed by PNC with 3.3, and Wells Fargo with 3.2).

The Forrester study also found nearly half of consumers who have accounts with USAA consider using it as their one-stop shop, and that consumers who regularly bank online own an average of 10.3 financial services products, compared with 8.2 products among adults who aren't active online users.

The point to make is that it costs credit unions more to get a new customer than to retain an existing one.

By Karen Houston-Johnson
Vice President, OnBalance
Credit Union Resources, Inc.



Building a Governance Partnership – Part Two

As we discussed in the last edition, board related work – in and between meetings – consumes an average of 22 hours per month of the CEO's time. The larger the board, the more time they spend. Board chairs typically spend 19 hours per month and other directors spend 10 hours on average.

As for the CEO, the partnership involves working for, working with, and working the board. Working for the board, the CEO has specific expectations for vision and accountability. While working with the board, the CEO shares knowledge and information to engage directors in asking the critical strategic questions that contribute to organizational effectiveness.

In "working the board," the CEO prepares directors to open doors to resources and relationships that make the organization the best it can be.

In the last issue, we examined rule number one of the seven rules for the board and CEO in developing a successful governance partnership. The seven rules are as follows:

1. Make mission matter
2. Know the organization
3. Cultivate relationships
4. Inform and communicate
5. Facilitate a balance in roles and responsibilities
6. Structure the board's work
7. Plan for transitions

In this issue we'll take a look at rule number two: know the organization. Equipped with a passion for the mission and vision, the CEO must stay ahead of the game. He or she needs to know the organization inside and out, past and present, from internal and external perspectives.

The CEO should process every action and every decision through this understanding of what the organization is all about and how it is perceived. This informed approach inspires confidence, engages board members and supports the board in its own role.

Knowing the organization from the inside means having a good grasp of its history, culture, guiding principles and values. Knowing it from the outside means being fully aware of external influences, the context for its mission, and member as well as public perceptions. In his or her partnership with the board, the CEO should be the board's link to everyday realities within the organization and within the industry. For their part, board members support the CEO by offering access to their connections and reflections based on their own external perspectives.

View from the director chair

Board members often don't know "what they don't know," and it really inspires confidence when the CEO helps explain how the organization fits into the larger arena of competitors, partners and other organizations. Board members don't deal with the organization's issues on a daily basis and may forget details that are important to the decision-making process. They look to the CEO to provide key information that enables them to consider issues and give relevant input – including information about unknowns or uncertainties.

Knowledge of the organization is necessary for both the CEO and the board, so helping to build the knowledge of board members is important. To assist the board in making informed decisions, the CEO needs to balance the delivery of information by providing details supported by real life examples that reinforce the facts. The partnership of CEO and board will be enhanced as everyone learns.

View from the CEO's desk

For a new CEO, the board serves as an important training and educational arm to help him or her understand the organization and the community, and then together build a new business plan for the future. As the CEO matures, it becomes both appropriate and necessary for him or her to teach the board as well. Setting the scene for thoughtful involvement of the full board in the strategic planning process is an important first step.

Through that process, the board learns right along with the CEO, making everyone better equipped to focus the vision for the future on an intentional path rather than react to scattered, sometimes off-track ideas just for the sake of generating activity.

Partnership tips to remember for the CEO and the board

- Have a strong grasp of the organization's history and business operations to inspire confidence in the partnership between the CEO and the board.
- Use the mission, vision and core values to evaluate opportunities and challenges.
- Use the strategic planning process as an opportunity to under stand and/or refine the organization's culture and values.

In the next issue of Perspectives, we will cover rule three, which is cultivating relationship. Among other things, we will address:

- Practicing self-management
- Avoiding self-defeating habits
- Juggling roles and opportunities
- Creating and maintaining a partnership with the board chair
- Building relationships with individual board members

A Conversation with Long-time CU Volunteer Leo Leners

Leo Leners treasures the credit union movement that our founders worked so hard to build. That is why he has spent six decades protecting, preserving and advancing our movement.

For the last 53 years, Leners has volunteered his time, experience and expertise to the members of Santa Fe FCU in Amarillo, Texas. But prior to that, while still in his twenties, he helped found Panhandle FCU in Wellington, Kan.

How he ended up serving 60 years as a volunteer in the credit union movement is a story he shares with Perspectives readers.

Question: Tell us about your first experience with credit unions.

Leners: After serving a few years in the Korean War, I returned home and decided to attend business school so I could find a good job. At 24, I was hired on at the Atchison, Topeka and Santa Fe railroad. At that time, for someone of my age, I was earning a pretty decent income. But like many of the people I worked with, saving was a struggle, and so was borrowing. There was a lot of chatter about credit unions, and I became intrigued by the concept of starting a credit union for all of us workers. Some of my co-workers felt the same way, and in 1957, we did it. We started the credit union with a little more than 100 members and about $4 million in assets. Today Panhandle FCU is about $49 million in assets and has more than 3,300 members.

Question: What attracted you to the credit union movement?

Leners: When I first became exposed to credit unions I was young, and probably a little naïve and maybe even idealistic. But I really believed I was capable of doing great things and that I could make a difference. I appreciated the fact that credit unions were about people working together to help one another. That resonated with me and I wanted to a part of it. I served on the board of directors for the Panhandle FCU for the same reason I helped found it.

Question: How did you end up at the Santa Fe FCU?

Leners: I built a very successful career for myself in the railroad industry, and it was my job that brought me to Amarillo. I may have left the Panhandle FCU, but I wasn't about to turn my back on credit unions. In 1961, I joined the loan committee at Santa Fe FCU. In 1973, however, opportunity came knocking, and I packed my bags for San Angelo.

In San Angelo I was still working for the railroad, but in my "spare time" they asked me if I could supervise the one and only part-time employee at the credit union. I accepted and was compensated an impressive $100 a month! I also served on the board of directors for that credit union for 12 years.

In the mid-'80s I moved back to Amarillo and later became a member of the supervisory committee at Santa Fe FCU. And 55 years later, I'm still here. I will continue to stay for as long as I can bring value to the organization and our members.

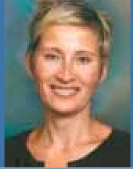
Question: How has the role of a volunteer changed since you first became one some 60 years ago?

Leners: In the past, I think volunteers played a more prominent role because credit unions were still a relatively new concept. We brought people together to form credit unions, and because most credit unions at that time were employee-sponsored credit unions, the members knew who we were because we worked alongside one another. If they had a question about their account or a loan product, they would often come to us volunteers instead of going to the credit union.

Although our roles have changed a bit, volunteers are still very important to the movement.

Question: Do you think credit union volunteers today have a more difficult job than 60 years ago?

By Linda Webb-Mañon, I-CUDE
Vice President, Communications & PR
Cornerstone Credit Union League



Leners: Definitely. Credit unions are far more complex organizations today than they were 60 years ago, so there is greater pressure on volunteers to ensure we have the knowledge and skillsets to perform our duties, as well as to support credit union staff.

When I first began my volunteer credit union career, credit unions offered two core products: savings and loans; then came share drafts, and today credit unions offer a suite of products and services, from money market accounts to mobile banking. And while technology has made our lives easier in a lot of ways, it has also put us in a more vulnerable position. As volunteers, we have to understand how to leverage technology while keeping our credit unions and members safe.

Regulation is another huge challenge, and as volunteers, it is our responsibility to help ensure our credit unions are compliant.

Question: A lot of credit unions say they have difficulty recruiting volunteers for the board. Why do you think this is such a challenge? And what do you think credit unions can do to attract a younger generation of volunteers?

Leners: I think the biggest challenge is that everyone is so busy with their careers and families. Serving as a credit union volunteer, whether it's on the supervisory committee or the board of directors is a huge commitment of time. It's not like giving up an hour to stock shelves in the food bank. Credit union volunteers today are expected to understand the financials of a credit union. They are expected to stay abreast of what's happening in the legislative and regulatory arenas. As the governing body of the credit union, serving on the board of directors is an enormous responsibility, and quite frankly, it can be intimidating to a lot of people.

As far as attracting a younger generation of volunteers, I think young people are socially conscious, but they also want to know what's in it for them. I think as credit unions we could do a better job of " selling" ourselves to the younger demographic. Appeal to their sense of community, but at the same time help them to understand that as a credit union volunteer, they can grow personally and professionally, as well as increase their marketability in the workforce.

Question: The credit union movement has evolved a great deal throughout the last 60 years. What are your thoughts on where credit unions are today compared to when you first started volunteering 60 years ago?

Leners: As I touched on earlier, credit unions have evolved a great deal. When I first started volunteering in the movement, credit unions were much smaller and simpler organizations. Credit unions were relational-based, so the bond between the credit union and its members were strong. Today, credit unions are highly sophisticated financial institutions. We've moved from SEG-based to the broader community, and while this has allowed many more consumers the opportunity to enjoy the benefits of credit union membership, I fear that the bond between the credit union and members may not be as strong.

Question: What do you think is the one thing credit unions do exceptionally well?

Leners: Serve our members. Credit unions have grown in size and complexity, but at the core, we are still for-people, not-for-profit.

Caleb McLean, accounting manager with Santa Fe FCU, contributed to this article. Photos were taken by Courtney Moran, executive director of the Cornerstone Credit Union Foundation.

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Human Resources Consultant
Credit Union Employment Resources

HR Q&A

The majority of states in our country conform to what is known as "at-will employment," including Arkansas, Oklahoma and Texas. At-will employment means that an employer can terminate an employee at any time for any reason, with or without notice. Likewise, employees have the right the terminate employment at any time as well. However, employers should not disregard the other part of the at-will doctrine that includes, "…as long as it's not for a reason that is illegal."

Below is a commonly asked question, as well as the answer, regarding at-will employment.

Question: Why couldn't I simply terminate an employee "at-will" if I wanted to? Shouldn't I be able to terminate them at any time, for any reason, with or without notice?

Answer: In most situations you can terminate an employee "at-will." However, every state recognizes at least one of the following exceptions to at-will employment. Therefore, before terminating an employee at-will, it is recommended that the following exceptions be reviewed:

- Public policy exception - In more than 40 states, you can't fire employees for reasons that violate an established public policy of the state.
- Implied contract exception - In most states, courts may find an employer entered into an implied contract with employees by making certain promises to them – usually in the employee handbook. Your handbook or policies might contain promises to your employees that you'll follow certain procedures before firing them. These assurances may imply to your employee that you will do what you said you would do based on the handbook's message. In effect, that turns an at-will employee into a contractual one. You should make sure that your employee handbook or policies contain the proper language to protect your credit union.
- Also, an implied contract may have been made when you or a supervisor assured an employee that his or her job was secure. This and other similar statements could create an oral employment contract, over which a potential employee could sue to make enforceable. Finally, your initial letter offering the employee a job could be construed as an employment contract as well, depending on the manner and structure of the letter.
- Covenant of good faith and fair dealing - In fewer than 15 states, employers have a duty to act fairly and in good faith in all dealings with employees.
- Federal and state employment laws - Another major exception to at-will employment is that an employer cannot fire a worker in violation of federal or state employment laws, such as Title VII of the Civil Rights Act of 1964, the Family and Medical Leave Act (FMLA), and the Americans with Disabilities Act (ADA). Even in at-will states, the Uniformed Services Employment and Reemployment Rights Act (USERRA) offers additional job-loss protection to veterans who return to their jobs with your credit union. These laws guard against terminations for illegal reasons such as discrimination, retaliation and whistleblowing.

If your credit union has a question or needs assistance with their HR needs, please contact Kimberly Jones at (800) 442-5762, ext. 6432. You may also contact Susan Looney at extension 6431. You may learn more about CUER online at www.curesources.coop.

Top HR Issues in 2014

It's that time again, when industry experts weigh in on what they believe will be the top HR issues for the coming year. And while everyone has their own opinion on the matter, there is one issue that most HR practitioners seem to agree will be a real challenge in 2014: healthcare reform.

While many provisions went into effect Jan. 1, there is still a great deal of confusion on the long-term impact healthcare reform will have on employers and employees. As credit unions struggle with how to comply with healthcare reform, they are also evaluating new healthcare designs and delivery approaches for their employees.

Going forward, credit union HR professionals will need to continue educating themselves on healthcare reform and work to ensure their organizations remain in compliance.

Additionally, HR professionals will need to revisit their organizations' financial commitment to health benefits and their ability to maintain a sustainable plan in the face of annual cost increases and the excise tax if they do not offer insurance.

As if dealing with healthcare reform wasn't enough, I've listed below a number of other issues I believe will be a challenge for credit union HR professionals in 2014:

Employee recruitment

With unemployment still high, one would think there would be a large pool of qualified candidates to choose from when trying to fill a vacant or newly created position. Although there are many candidates available, not everyone is a good fit for the credit union. Skills alone do not guarantee that you will hire the right candidate. Prospective employees should possess a combination of skills and characteristics that fit your credit union.

To hit optimal performance levels, organizations must first find the best people, with the right skills, quickly and cost effectively. Credit unions will need to utilize a wide variety of tools to help find that right person. Such tools might include skills assessments, personality assessments and background investigations.

HR professionals will also need to ensure that they clearly articulate criteria for the position; that they've identified their methods of recruitment (e.g. traditional job posting sites, LinkedIn, employee referrals, etc.), and have a keen sense of what they are looking for in a potential candidate. Additionally, HR professionals will want to make sure their interview skills are sharp.

By Susan Looney
Senior Vice President
Credit Union Resources

Because employee recruitment is time-consuming and requires specialized skillsets, many organizations choose to outsource the function.

Employee retention

Recruiting, hiring and training personnel is a huge investment for an organization. The last thing any organization wants is to lose their brightest talent to the competition. Therefore, retaining talent will be an area of focus for HR professionals in 2014.

How can credit unions improve employee retention? Employee assessments are a valuable tool in helping retain talent in your organization. Employee assessments help identify an individual's strengths and weaknesses. They also aid in ensuring that you have the right people in the right positions, and that an employee has the opportunity to reach his or her full potential.

Access to professional development is another way credit unions can retain talent. Continuing education stimulates our minds, develops our skillsets, and broadens our knowledge. Employees are more motivated to perform at their best when they feel the organization is vested in their personal and professional growth.

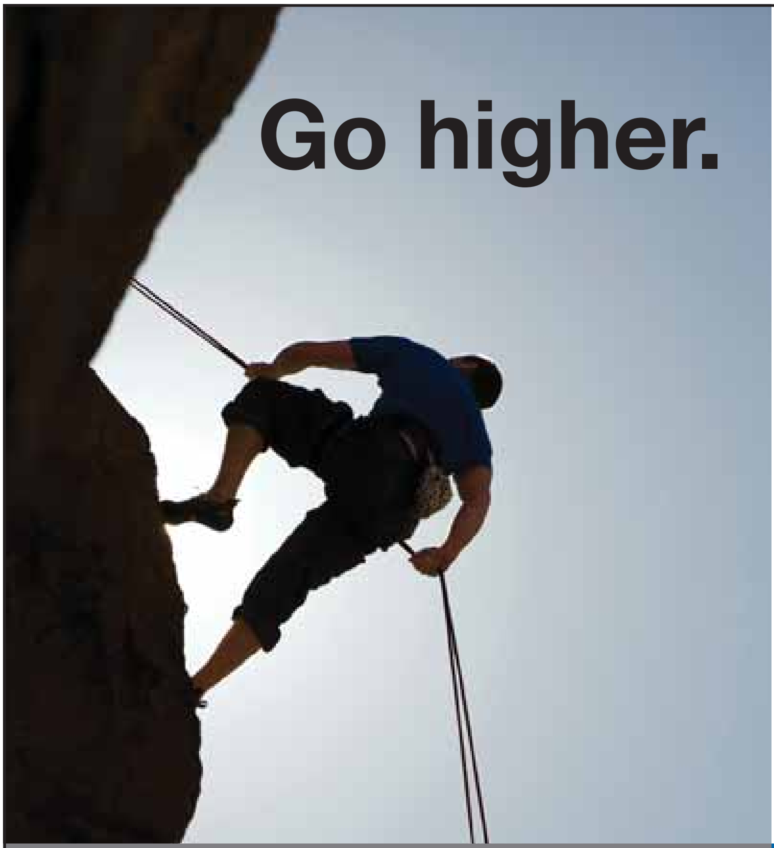
Employee recognition programs are another tool. Employees aren't just motivated by money and benefits. They want to know that their hard work is valued and appreciated. They want to know that what they do is helping the organization achieve its strategic goals. Authentic employee recognition programs acknowledge staff that goes the extra mile for the organization.

Developing future leaders

As a large segment of the Baby Boomer generation prepares for retirement, credit unions will need to focus their efforts on grooming the younger demographic for leadership roles.

Credit unions will need to ensure that they have a recruitment program in place to attract young professionals, and a strategy for retaining their young talent. It's also important that credit unions offer a work environment that fosters growth, and a succession plan that will develop young professionals as they move up in the organization.

As with any profession, there are going to be challenges; however, these challenges are also opportunities for greater growth and success.



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EQUAL HOUSING LENDER

By Kimber Cockrill
Communications Specialist, Advocacy
Cornerstone Credit Union League

Economic Challenges Engender Opportunities

As business leaders look to the future, the first question on everyone's mind is, 'What's the economic outlook for 2014?" According to Dennis Dollar, former National Credit Union Administration (NCUA) chairman and principal partner in Dollar Associates, LLC, things are improving, but very slowly.

As evidence, Dollar cites a number of interesting figures. Some of the positives include incremental upticks in new residential sales and construction, retail trade and services sales, and overall construction spending. However, the numbers show lackluster movement when it comes to homeownership. Rates at the end of the second quarter of 2013 were at 65 percent, which is down from 65.5 percent in the same quarter of 2012. Additionally, manufacturing profits were down 8.6 percent in the second quarter of 2013 after being up 15.3 percent in the first quarter. This makes for a fluctuating recovery that's somewhat unpredictable.

How does this affect credit unions?

Unfortunately, in response to a challenging economy that many blame on excesses in the financial services industry, regulators are still trying to regulate us out of the crisis. Dollar says, "Increased regulation, both from NCUA and the Consumer Financial Protection Bureau (CFPB), tend to make credit unions more risk averse, which will impact income and growth potential."

Dollar adds that NCUA's recently announced, risk-based capital proposal will further restrict programs that drive growth (including indirect and business lending, loan participations, mortgage growth and CUSO investment), unless the proposal takes a more balanced approach that rewards lower risk balance sheets and doesn't simply penalize those with more risk on their books – even if they are managing it well.

"The stimulation of innovation and growth is essential for economic recovery," Dollar says, "but excessive regulation and unnecessary supervisory action can kill innovation and growth."

Right now, the CFPB has 109 rules and prospective rules out for comment. Dollar says now is a great time for credit unions to contact regulators, explaining how the rules affect their businesses and their members.

How Great Are the Threats?

If past is prologue, we can look down the road and fairly confidently project how current economic indicators may affect the future of credit unions.

"For instance, we will see more regulation and compliance costs, resulting in direct and indirect costs in resource allocation and strategic risk aversion, and CFPB regulations on mortgage fees, credit cards and overdraft programs could impact non-interest income," Dollar notes. "Additionally, an unbalanced, risk-based capital plan can remove needed investment capital and force it to stay as reserves, and a potential new, interchange court ruling would impact swipe fees."

Let's add Congress into the mix. Continuing congressional stand-offs will garner little legislative progress on the MBL cap increase and supplemental capital legislation. Since taxation remains part of Congress' agenda, Dollar says we'll need to be vigilant about grassroots efforts – this even though the credit union position remains strong. Additionally, MSB conversion activity has slowed considerably, but it would increase if taxation passes Congress. Lastly, watch for Federal Reserve QE pullback and interest rate increases.

Threats Engender Opportunities

So where's the light? Certainly there's much positive to come out of our current economic state. All you have to do is look. Dollar cites these opportunities for credit unions:

- Innovation in technology to foster more compliance support (i.e., NeighborBench-type solutions).
- Checking account growth, in volume, can make up some potential interchange and overdraft losses. Currently, 46 percent of credit union members use their credit union checking accounts as their primaries.
- Increased field-of-membership growth opportunities and CUSO investment options.
- More low-income-designated credit unions have MBL, supplemental capital, non-member deposits and FOM options than ever before.
- Merger activity continues to grow, but with more economies of scale.
- Credit unions will benefit from member-centric collections and recovery using CUSO and league recovery programs.

Seize the Moment!

Fewer community banks will survive the current crisis. This means credit unions have the opportunity to become leading community financial institutions. By noting differentiation opportunities in tough, anti-bank and non-responsive-bank marketplaces, credit unions can build new areas of product growth (student lending, credit cards, business services, mortgages, and checking account innovation). They'll also be able to benefit from shared branching activity and nationwide branding.

"Remember, credit unions have traditionally worked smarter, not just harder," Dollar says. "Even during the financial crisis, credit union lending is up 7.6 percent, while bank lending is down 6.5 percent. We can look at 2012 loan losses (consumer, mortgage and MBL) and come to the same conclusions that credit unions are performing better than banks. Credit unions fill a national need, and they're doing it smartly."

Department of Public Safety FCU's CEO on the Future and What Keeps Her Awake at Night

Barbara Ray of Oklahoma City has served in the credit union movement for some 13 years. She started as a member of the supervisory committee for the Department of Public Safety FCU and then became a board member.

In 2005, Ray accepted the position of assistant manager. About a year later, the manager seat became vacant and Ray was tapped to fill the position on an interim basis. The manager job became hers on Sept. 7, 2006. Soon after, her title was changed to president/CEO.

Based in Oklahoma City, the Department of Public Safety FCU serves approximately 3,300 members. It employs seven people, including Ray, and boasts assets of $28.2 million.

Ray, a member of the Cornerstone Credit Union League's Small Credit Union Committee, shares her thoughts with Perspectives readers on the future of the Department of Public Safety FCU and what keeps her awake at night.

Question: What was the economic climate like in Oklahoma City in 2012, and what impact did it have on the credit union?

Ray: Just as everywhere else, our economy has been adversely impacted. We are seeing some improvement, but until the state recovers and starts refilling their coffers, it will continue to impact our members. Our SEGs consist of state of Oklahoma employees. They have not had a raise in six years, so between the rising cost of living and the fact that the majority of our members' income has not increased, there is no discretionary income for them to work with. The fiscal year for the state of Oklahoma will be July 1, so raises won't be considered until close to that time.

Question: Where do you see the local economy heading in 2014?

Ray: Most of our members are considered middle income employees, so I think they are still going to have a tough year in 2014. Even if members' income increases some, it won't be nearly enough to catch up.

"We have a duty to the members to provide them a safe environment to keep their money and a comfortable place to do business, as well as find ways to help them grow their assets."

Question: What are the growth opportunities for Department of Public Safety FCU?

Ray: We have lots of growth opportunity to glean more active members. We need to continue to add more products and services that help facilitate their ability to use us as their primary financial institution. Our credit union offers great service, low borrowing rates, and is well-capitalized – all of which puts us in a great position. Additionally, our staff has a close relationship with the membership, and that encourages affiliation.

Question: What are the challenges that could hinder the growth of the credit union?

Ray: Our members are statewide, so that presents challenges in that we don't have a physical location on every corner to serve them. What we do offer our members, however, is mobile banking, online banking, 24-hour automated voice response, and a no-surcharge network of ATMs throughout Oklahoma. Competition from institutions that have a more expansive product/service line-up to entice members away is also a challenge for our small credit union, so we focus a great deal of effort on strengthening member loyalty. With our geographically diverse membership, we understand the importance of providing them the experience and products/services they demand, so going forward we know we'll have to further develop the knowledge and expertise necessary to expand our product/service offerings.

Question: How does the Department of Public Safety FCU differentiate itself in the market space?

Ray: Personal service. The larger institutions offer more products and services; but as they grow in that area they sometimes lose out on the personal relationships, as well as their ability to price for the benefit of the members.

Question: What percentage of your membership considers the credit union its PFI?

By Linda Webb-Mañon, I-CUDE
Vice President, Communications & PR
Cornerstone Credit Union League

Ray: Not as many as we would like; however, as we expand our products and services in a deliberate and responsible manner, I'm confident we'll see growth in that area.

Question: What measures is the credit union taking to increase market penetration?

Ray: We are adding new services such as mobile banking, as well as exploring better ways of communicating with our members.

Question: Are you at all concerned about the onslaught of regulations?

Ray: Absolutely. The cost in manpower and money impacts our ability to offer more products and services. The belief that these regulations serve or protect the member is not true, especially here at DPS. It basically puts regulations between us and our members' expectations. It also limits what we are able to offer.

Question: What do you see as the most pressing compliance issues?

Ray: Being able to continue affording the implementation of things that are designed to correct the ills of the financial industry that have nothing to do with the way we do business in the world of small credit unions.

Question: What measures, if any, will you take to strengthen your internal regulatory compliance processes?

Ray: As we review policies and do risk assessments, we continuously look at our processes to see if we can make improvements. We sometimes purchase technology, but often just tweaking our procedures can improve things significantly. Many times, cost versus benefit becomes a real dilemma, especially with the reduced margins. But safety and soundness must be the winner.

Question: As the CEO of a small credit union, what keeps you up at night?

Ray: Everything! We have a duty to the members to provide them a safe environment to keep their money and a comfortable place to do business, as well as find ways to help them grow their assets. We have a responsibility to comply with all laws, rules and regulations, whether they make sense or not to the membership and or us. We have a responsibility to make sure we are not extravagant with our capital as we try to add and improve services. We have a responsibility to know how the political environment is going to affect the economy and make sound judgments. I could go on for days, especially in these difficult political times. Unfortunately, while we have all the responsibilities noted above and then some, it sometimes feels as though we have very little control in getting people to see the reality from the perspective of the small credit union.

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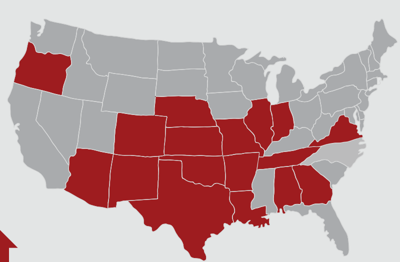

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By Timothy J. Erwin
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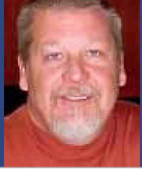


Solid Core Data Processing Foundation Essential to Serving Your Members

When it comes to providing service to your members, one key to success is having a solid core data processing foundation that will be flexible for years to come.

I recently started a home remodeling project. This particular project was one I found out was 20 years in the making. You see, when we built the house, we barely had the money to finish the construction, and so to save money we used cheaper grade windows. Now the cheaper grade windows served us well for many years, but it came time to replace them all. Also, part of the remodel was to put two new windows in the basement wall. When we had the sales folks out to measure the windows, they talked about the framing cost of the new windows in the support wall of the basement. It amounted to more than the cost of the windows, but because we had started our new home 20 years ago on a good foundation and framed out openings for future windows, the result was that we saved thousands of dollars with our project.

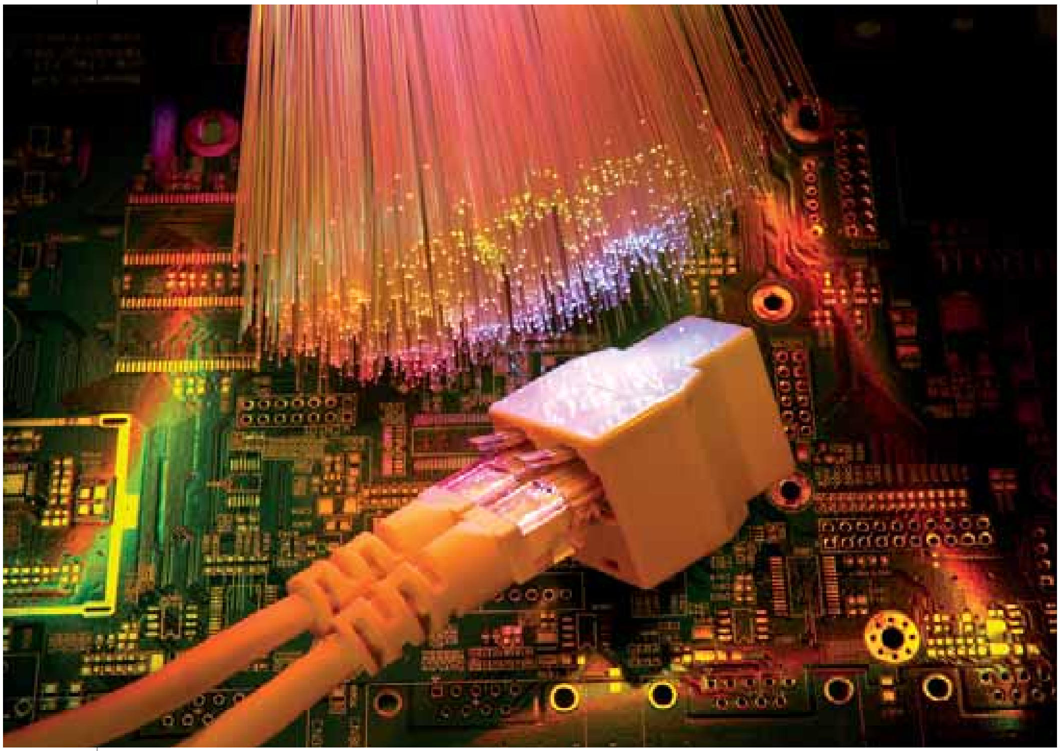
The same is true with your data processing. What you put in place today will provide you with great rewards and save you thousands of dollars in the future. To build a good foundation for your data processing, you need to understand what your core data processing really is.

The term means different things to different credit unions. For most credit unions, this term refers to the software and hardware that is used inside the credit union to collect and process member data. For other credit unions, the core is a much greater piece and is made up of two sides that provide the foundation and stability of their future. They define it as the side that services the staff and the side that services the members. Both are equally important, and both rely heavily on the other being in place and working all day, every day.

Imagine if your Home Banking products did not work for a week. What if you had to wait for years to offer Mobile Banking or shared branching because it was too expensive or just would not work with your system? It would not be long before your members would move on down the road to the next financial institution.

For years, many credit unions have tried on their own to accomplish building a foundation within their credit union walls, and some are now realizing the commitment to providing and maintaining a flexible core is raging out of control. There are expensive upgrades, regulatory changes, security investments and the demand for more integration of information. All these make it impossible for even the largest credit unions to remain competitive while holding expenses in check.

Statistics are showing that more credit unions are turning to outsource their core data processing. From small to large, credit unions are finding that outsourcing can help them avoid costly upgrades and expensive personnel, free up funds for other projects, and provide a competitive edge in the marketplace within half the implementation time. Most importantly, it allows the freedom to add new services without the worry of integration issues, increased maintenance and expensive upfront investments. Utilizing collaborative processing, many credit unions are obtaining access to services today and in the future that normally would not be affordable. This methodology saves money, increases member service options and provides the credit union with stability and flexibility well into the future.



If you're interested in learning more about how your credit union can build a great foundation for the future, contact Innovative Technology (INTECH), Your Partner in Technology.

By Dave McCue
Senior Manager of Marketing and Product Development
Harland Clarke Digital

Digital Communications: The New Necessity for Your CU

Once considered a convenience, smart phones have quickly become a necessity in a very short time period, and the same can be said for some of the capabilities, such as mobile banking, upon which smartphone users have come to rely.

According to the Pew Research Center's Internet & American Life Project, 56 percent of all adults in the U.S. now own a smartphone. That increases to 80 percent among those between 18-34 years old.

If your credit union has a mobile app already, you should have the ability to send "push" notifications to your members' devices. These are short messages, such as "Your October statement is ready," that typically appear at the forefront of smartphone screens, practically guaranteeing some degree of engagement from the user. Outside of apps, mobile messaging can take more advanced forms when communicating with smartphone users. In addition to text messaging (SMS), which is widely supported across almost all mobile devices, smartphones can accept multimedia messages (MMS) that allow for a greater amount and a greater variety of content. For example, delivering a video directly to members' smartphones via MMS is an effective way to provide product education and helpful financial resources in an engaging format that is a great fit for the mobile channel.

Another 35 percent of the adult population carries mobile devices that are not smartphones. While that reduces the level of sophistication you can use in communicating with that segment of your member base, it does not prevent you from incorporating SMS into your interactions. These text messages are ideal for transactional notifications, such as non-sufficient funds or member-initiated inquiries where an inbound SMS containing a keyword can trigger an outbound auto-responder containing the member's current account balance (for example).

Of course, those smartphones can be used for more than banking. Nielsen data has shown that smartphone users spend 30 percent of their mobile time accessing social networking sites such as Facebook and Twitter. Social media, in some form, should be part of your marketing arsenal, but without a content strategy in place you risk simply adding to the noise rather than providing real value. Promotions should not necessarily be avoided, as long as the ratio of promotional content to educational/informative content skews toward the latter. If you have the resources to generate your own exclusive content – video in particular – it can be a tremendous benefit to social media efforts. At a minimum, finding member-beneficial content and resources online that can be shared to your audience through social channels will help you increase financial literacy, broaden awareness of the tools and resources you provide, and help ensure members understand that you have their best interests in mind.

Embracing mobile and social channels is only scary if you don't have a strategy.

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