

CREDIT UNION COLLABORATION

WHITE PAPER

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INTRODUCTION

The Year 2009 marked the 100th anniversary of credit unions in America. During those 100 years, credit unions peaked in number during the 1960s to 23,876. Then, in the late 1980s and early 1990s, the financial community began to suffer from a major economic downturn. Over the next several years, financial institutions had to reinvent themselves and competition between banks and credit unions increased. Many credit unions abandoned single sponsors or multiple SEG (select employee group) business models and adopted community charters, positioning themselves to compete head-to-head with the larger commercial banks.¹ At the end of 2007, the world was faced with the worst financial recession in 60 years, which continues to affect the entire financial sector, including credit unions. Once again, credit unions find the need to reinvent themselves. Far from its mid-60s peak, the number of credit unions today has declined dramatically as seen in the illustration below.

CU PROFILE 2007-2009

	YEAR 2007	YEAR 2008	YEAR 2009
DEMOGRAPHIC INFORMATION			
No. of credit unions	8,268	7,965	7,709
Total members (thousands)	88,497	89,912	91,194
CAPITAL ADEQUACY			
Net Worth (%)	11.4	10.6	9.9
% CU w/ net worth >7%	98.6	97.6	94.7
ASSET QUALITY			
Loans/Assets (%)	70.1	69.9	65
Delinquencies (%)	.93	1.37	1.82
CU STRUCTURE			
Fed. CU w/sponsors (%)	14.5	14.1	13.8
Fed. CU w/community charter (%)	14.3	14.8	15.2
Data Source: CUNA			

At a recent NAFCU conference, Gigi Hyland, NCUA Counsel, noted the recent actions taken to stabilize the credit union world, including a Temporary Corporate Credit Union Liquidity Guarantee Program as well as a Temporary Corporate Credit Union Share Guarantee Program. NCUA infused a failing U.S. Central with a \$1 billion capital note and ultimately placed both U.S. Central and WesCorp under conservatorship, and is in the process of redefining the entire corporate system for future success. What did all of this mean for natural person credit unions? The creation of the Corporate Stabilization Plan which ultimately caused many credit unions to operate in the red for the first time in history.

STATEMENT OF THE ISSUE

Today, credit unions are asking one question: Where do we go from here?

This White Paper will explore a new horizon for most credit unions, one that has been quietly discussed and has been present in the forethought of credit union professionals for some time. Few have stepped onto the pathway, but we believe many are now bringing the idea to the table with more conviction. This important idea is collaboration between credit unions. A large part of collaboration is cooperation and compromise. By sharing resources and information, credit unions can reduce operating cost, improve internal operations, and provide improved services to members.

Credit Union Culture and Merger

The chart below illustrates CUNA's economic forecast for the future of credit unions by year 2013. You will see a sharp decline in the number of credit unions by end of year 2013.

CU FORECAST AS OF YEAR END 2013

ASSETS	# OF CUs	% OF CUs	% OF TOTAL MEMBERS
<20M	2,568	41.7	3.7
20-50	1,294	21.0	5.4
50-100	738	12.0	5.7
100-200	546	8.9	7.8
200-500	569	9.2	17.6
500-1B	224	3.6	16.4
<1B	222	3.6	43.3
TOTALS	6,161		
DATA SOURCE: CUNA			

The credit union system was once one of a cooperative nature; now it seems to be a series of standalone agents focusing on their own individual well being and bottom line. Several have begun operating in many ways similar to banks by depending more on mergers and by focusing on growth just for the sake of growing. While merger can be a healthy growth strategy, there can be too much consolidation. At the present rate of consolidation of credit unions, with the assumption of the smaller credit unions diminishing first, the credit union industry could ultimately consist solely of 1,000 billion dollar plus size institutions. Continued increase in industry consolidation could lead to diminished political sway as fewer entities will exist to voice concerns to Congress. There will also be fewer directors to help promote credit unions to

potential members, and excessive credit union consolidation will mean less community-specific credit union philanthropy. In light of excessive reliance on mergers and fee income, Congress may even feel pressure to reconsider separate regulations for the credit union industry. In addition to these practical concerns, the excessive use of mergers and fees has undercut the ability of credit unions to fulfill their mission of serving the "Average Joe."

There seems to be no better time than now to redefine the credit union culture as one distinct from the philosophy of commercial banks. As our cooperative roots suggest, collaboration should be a critical component of credit union strategy. Credit Unions are cooperatives. The etymology of the word "cooperative" comes from the Latin *cooperari*, meaning "working together."² Collaboration exists as an alternative to mergers in the quest for improved financial stability, especially for smaller credit unions. Moreover, it offers stability in a way consistent with the original credit union philosophy of local, community-oriented service. Collaboration, the sharing of resources and information, is directly in line with the credit union philosophy of "people helping people."

Credit Union Performance

Increasing operating expenses and the ongoing stabilization expense, coupled with decreasing loan demand, ever growing compliance regulations, and aging membership makes collaboration even more important at this time of rebuilding. As Guy Messick, National Association of Credit Union Service Organizations (NACUSO) Counsel, has observed, "the 20th Century model of living off of net interest margin is not sustainable in the 21st Century."³ Members continue to demand the market's most aggressive products and services, which credit unions must deliver to compete with larger financial institutions. All institutions are fiercely competing in an environment where consumers are opting to save more, in fear of job loss and the uncertainty of the future. Furthermore, credit unions are not only competing with large banks, but with a troubled automobile industry which is offering unprecedented deals to consumers in attempt to rebuild their industry. This shaky economic landscape has kept loan demand low as consumers continue to fear borrowing. Diminished loan volume and net interest income have created a financial shortfall which threatens the stability of a large percentage of credit unions.

In striving to overcome these trying conditions, collaboration offers a means to reduce redundant operation expenses, thus saving money for the credit union. The sharing of ideas and strategies between small to mid-size credit unions is especially helpful to these organizations to innovate in a tough climate, and to improve in areas of under-performance. By trimming operation costs and becoming more skilled in reacting to the environment, credit unions can become more stable, and better able to offer first class services to members and the community.

RESEARCH

Challenges

There are a number of challenges associated with collaboration. Below are listed some of the most significant challenges.

- **Fear of loss of control.** Unlike the Desjardins Group concept where credit unions are joined under one organization, collaborative efforts between credit unions allow leaders to remain in control of each separate entity allowing continuance of serving their traditional scope of membership.
- **Fear of Loss of Identity.** As opposed to merger, collaboration between credit unions can allow each credit union to continue to exist without surrendering their identity. Collaboration can actually enhance credit unions identities by improvements made in weak areas of the partnering credit unions.
- **Personnel Transitions.** Personnel transitions can be the most difficult challenge with collaboration, especially if downsizing of departments become necessary. Strong training and education of employees is of utmost importance to have complete cooperation.
- **Time limitation.** Because of hectic day to day operations for most credit union leaders, often there is little time for the amount of planning necessary to properly coordinate collaboration efforts. To properly collaborate, a systemic plan needs to be put into place for successful results.
- **Trust.** In order to successfully collaborate with other credit unions, groups must be formed with a common trust and sense of partnership in order to build an equal playing field for all parties.
- **Breaking Tradition.** As much as credit union professionals would like to continue to operate under the traditional model of credit unions, in today's economic changes, overcapitalization is disappearing and more efficiency is needed to remain safe and sound. It is virtually forcing leaders to think outside the box.

Collaboration Pathways

Every credit union has a different degree of collaborative needs. Below are a few possible pathways to consider when deciding your credit union's direction for improvement:

- **People to People:** joining conversations within the industry is a simple form of collaboration for credit union leaders. From trade association facilitated discussions to social networks via Facebook®, Twitter®, and LinkedIn® to organized professional network meetings are just a few common modes of communication in the industry. Conversation and networking offers a very powerful opportunity for performance improvements and enhancing decision making.

- **Business-to-Business:** informally bringing two or more credit unions together to boost success is emerging as another important pathway for many small and mid-sized credit unions. This can be as simple as sharing expertise via phone calls, emails, face to face meetings, or even sharing staff when it is not affordable to hire on a full-time basis. It may even be the hiring of a mutual contractor for both partners to share cost. Networking to define needs and strengths of peer credit unions can lead to business to business relationships.
- **Business Partnering:** formally defining business alliances or partnerships that serve specific shared interests (i.e., sharing the cost of design, development, and delivery of custom educational programs that meet the common needs, participating in shared branching networks).
- **Credit Union Service Organization (CUSO):** developing a CUSO enabling participants to share the risks and rewards of offering certain types of products or services. From business services to shared vendor agreements to financial planning services, the options for utilizing this pathway are endless and may be the key to increasing returns in the longer term. CUSOs could be formed to hire bankruptcy/collection attorneys or possibly a CUSO formed to provide management services are just a few to name. Another use of CUSO is to join CUSOs already formed to offer extended services such as CUSO Financial Services, CU Answers, Ongoing Operations, LLC, Open Technologies Solutions, many of which have been formed for many years.⁴

All of the collaboration pathways can be designed specifically for an individual credit union’s needs. It is important to remember that collaboration does not mean losing identity; branding is a very important part of the collaboration design.

Collaboration Options

There are endless collaboration opportunities. The following collaboration topics were rated the top 10 priorities in a recent survey conducted by the Rochdale Group, Inc. There were 100 participants of the survey.

Compliance	Vendor Due Diligence
Policy and Procedure Review	Internal Audit
Collections	Call Center
Human Resources - Training	Human Resources – Benefits Admin.
Risk Management	Human Resources – Emp Policy & Proc

It is important to encourage board of directors and leadership teams to carefully consider these various pathways and define where they may fit into your credit union.

CASE STUDIES

The following case studies will show successful credit union collaboration utilizing three of the possible collaboration pathways.

Case Study 1: The Business Partnering Collaboration Pathway

In mid 2001, several Georgia credit unions approached the Georgia Credit Union Affiliates (GCUA) regarding the possibility of developing a Compliance Management Program for compliance collaboration through the Affiliates. The credit unions expressed concern that compliance was becoming an overwhelmingly large part of the daily operations and lobbied the Affiliates to develop a program which would allow credit unions to reduce redundant research, procedures, policies, and training of compliance personnel. As a result of this initiative, there are currently 15 credit unions participating in the compliance management program offered through the Georgia Credit Union Affiliates.

The program structure consists of the Affiliates hiring and training the Compliance Specialist. The Compliance Specialist training credentials consist of intensive compliance education, including completion of CUNA Regulatory Compliance School (Introduction and C.U.C.E. Certification), CUNA BSA Conference, and additional training by GCUA Vice President /Credit Union Development. Other training is provided, including numerous webinars and conference calls centered on meeting each specialist's educational needs. The GCUA staff may also coordinate with regulatory examiners and external auditors during examinations to ensure that compliance issues are adequately addressed where appropriate.

One major reason credit unions are hesitant to collaborate with other credit unions is the fear of competition. To alleviate this fear, GCUA also requires all collaborating parties to sign a confidentiality agreement which includes:

- technical and business information relating to proprietary ideas
- copyrights and/or trade secrets
- existing and/or contemplated products and services, software, research and development
- costs, profit and margin information
- finances and financial projections
- business partners, clients, SEG groups
- marketing plans, and current or future business plans and models
- nonpublic personal information as defined under NCUA Regulation 716.3(q) about CU's members or prospective members.

Once this process is complete, the compliance specialist is leased to participating credit unions for a predetermined monthly fee. The specialist reviews, revises, and/or implements a compliance program for each participating credit union. The specialist also evaluates and recommends changes to procedures and forms in order to comply with applicable laws and regulations without giving legal advice. Policies are updated to adhere to new regulation requirements and credit union training sessions for new and existing employees are conducted as needed.

The Credit Union's responsibilities consist of a one-year commitment with the GCUA to financially support the position. Expenses of the position including salary, benefits, training, and travel are paid to the Affiliates by the credit union. These expenses are based on the percentage of time allocated to the credit union by the Specialist. The credit union provides adequate support to specialists, such as a formal compliance committee (if desired), workspace, Internet access, publications, and regular meetings regarding the implementation of recommended compliance changes or updates.⁵

United First Federal Credit Union

United First Federal Credit Union consists of approximately \$94 million in assets with 62 full time employees and 6 part-time employees. This credit union joined the GCUA compliance collaboration in an effort to save on operating expenses. Jannette Velazquez with United First Federal Credit Union shared their credit union's compliance need to ensure their staff was current on the day to day procedures, regulatory changes, and compliant on their daily operations. By outsourcing through the GCUA, United First saves a large compensation expenses, including vacation pay, holiday pay, employment taxes, healthcare, and incentive plan.

This particular collaboration started when United First FCU approached GCUA about the compliance program. Jonathan Burgos with the GCUA explains that initially two credit unions got together and decided that it was important to establish a compliance program to help with the ongoing and changing regulatory environment.

With compliance and regulatory constantly changing, both credit unions agreed it was in their best interest to collaborate. Neither credit union had anyone on staff with the needed expertise to develop such a program; therefore, they contacted the GCUA. They both agreed to share the cost of this program and signed a contract with the Affiliates.

The two credit unions share the compensation expense of one compliance specialist actually employed by the League. This person's time is split evenly between the Credit Unions, since both deemed it unnecessary to hire a full time person at their respective credit unions. The compliance duties for the credit unions are very broad and depend on immediate credit union needs. The specialist provides sample model policies for the credit union to revise to fit their needs. The specialist also reviews procedures for correctness to be completed in compliance with all regulations. They also provide various types of risk assessments for the credit union to perform the assessment.

This approach to collaboration has freed the United First Federal Credit staff to spend more time handling the day-to-day needs of their members rather than spending endless hours researching regulations and compliance issues. By using this particular approach, the credit union saves approximately \$25,000 annually in salary and benefits expense.⁶

Case Study 2: The Business to Business collaboration pathway

In small credit unions, it is difficult to acquire employees who possess the needed skills, wisdom, and talents to handle complex credit union issues. That is why some small credit unions are recognizing the value of supporting and enabling collaboration is an asset to daily operation of the business, not to mention the business to business collaboration is the least expensive collaboration pathway.

Family Trust Federal Credit Union is a perfect example of collaboration and the credit union philosophy of “people helping people.” Approximately one year ago, Family Trust FCU hosted a “local” credit union roundtable and invited three local credit unions, two smaller credit unions and one larger credit union. The purpose of the meeting was to discuss areas of concern each credit union was facing such as increased healthcare, compliance, regulatory changes, etc. The two smaller credit unions attended and each credit union had some great sharing time. This one simple gesture of collaboration has opened the door for Family Trust FCU to help the smallest credit union, First Patriots Federal Credit Union, with some of their compliance training. In addition, the three credit unions have a collaboration meeting annually.

First Patriots FCU is a community-chartered credit union located in Rock Hill, South Carolina with a branch office in Fort Mill. Their total assets are approximately \$26 million with 3,030 members. They employ one part-time and 13 full-time employees. Family Trust FCU, having the resources and staffing required to meet compliance needs, are pleased to help the small credit union with upcoming regulation changes, policy changes and staff training. The Family Trust FCU compliance officer has actually conducted the training for First Patriots FCU staff on compliance issues. This allows the staff of First Patriots to focus on daily operations and membership needs instead of spending time on redundant policies and procedures being developed by Family Trust FCU. Family Trust FCU also invites First Patriots staff to attend their staff on-site trainings throughout the year.

Chrissy Catoe from Family Trust FCU explains they have also attempted to collaborate in other ways, but they were more difficult. Chrissy also shared that the smallest CU had recently hired a marketing business development person and Family Trust FCU offered assistance with acclimating this employee with credit unions marketing understanding. They have conducted many discussions via telephone and he now attends Rotary with Family Trust FCU Business Development Officer to get him more involved in the community.⁷

First Patriots FCU participates in other credit union collaboration by attending in Small Credit Union Roundtables offered by the South Carolina Credit Union League. Small credit union CEOs meet quarterly to share ideas and listen to various speakers on relevant topics especially compliance. The group shares ideas for products and services, advertising, cost-cutting measures, and staffing issues facing small credit unions.

Diane Catoe of First Patriots FCU stated that Family Trust FCU, has been a tremendous assistance to their small credit union. She notes that Family Trust FCU allows First Patriots staff to attend security training, and Family Trust FCU has spearheaded a security-networking group for the area to assist with fraud and other security issues. Diane also shared that last year one of their staff members visited Family Trust FCU on a quarterly basis for fraud, identity theft, and

other security-related training. They also invite the First Patriots staff to their annual Regulatory training sessions and have offered their library resources and extended invitations for other joint sessions relating to compliance regulations.

Diane explains she has very little time for the planning necessary to properly facilitate their strategic planning meetings. The CEO of Family Trust FCU has a true passion for Strategic Planning and helps other small credit unions in South Carolina. He conducted the strategic planning meeting for First Patriots FCU last year and is planning this year as well. Diane notes Family Trust FCU CEO offered remarkable support in working with their board in identifying the most critical areas for future growth and profitability.⁸

The business-to-business collaboration is the most popular among smaller credit unions and the least costly. Each credit union involved in the process can keep complete control, their branding, strategic plans and/or philosophies.

Case Study 3: CUSO Collaboration Pathway

The most popular credit union collaboration is through a CUSO. This is a unique approach to eliminating redundant products, daily tasks, and/or policies and procedures. Modesto's First Credit Union totaling \$30 million in assets joined with five other credit unions to form a Data Center CUSO. This collaboration effort started during the Y2K planning. The credit unions joined forces in early 1999 to develop a plan in approaching Y2K. The group shared the expenses associated with implementing a site for each credit union staff to spend three to four hours each night entering data if needed. After much collaboration on setting up war rooms for the Y2K episode, the credit unions discovered each credit union was nearing the end of their current data processing contracts. They also realized they were all trying to achieve a common goal. Since the Y2K collaboration was a success, the credit unions started discussing other options that could improve their operating efficiencies.

The credit unions had to become more open and less proprietary as a means to enable collaborative services. Each credit union had to be willing to give up their customization in order to take advantage of additional features. As a result, they started the data processing collaboration by researching the possibility of collectively purchasing one data processing system rather than three different data processing systems. The credit unions worked together in selecting a data processing system that would be beneficial and cost effective for each credit union involved.

By joining forces in the data processing CUSO, Modesto Credit Union saved approximately \$150,000 by cost sharing the system between the three participating credit unions. By collaborating, each Credit Union currently operates on the same host box, and they now have their own hot site. The CUSO has been able to provide services to their members they would otherwise not have been able to provide their membership. This has enabled improved and additional services to the members while allowing the credit union time to focus more effectively on growth areas through strategic planning. Each credit union has a central E-mail server and cold storage for documents.

The duties are disbursed among the participating credit unions. These duties include hosting the system, bill payments, accounting for the CUSO and special projects. The credit unions share their expertise and are able to access specialized talent and technology resources. As projects occur, the credit union with the greatest interest or knowledge will lead the project. The CUSO implementation did not require Modesto to downsize staff. Per Milgrom, there was no threat to the current credit union personnel. The first transition was a simple move of the hardware to one location versus three different locations. As more collaboration developed, credit union staff virtually became the CUSO. The staff reductions came from attrition and then jobs were added to the CUSO or consolidated within the credit union. The CUSO allowed for the consolidation of back office duties, which freed staffing hours to work on special projects or other new services. The reduced routine transaction handling time helped increase the advising or assisting time to the members.

Milgrom explains Modesto's First main priority when entering the collaboration was insuring the credit union could continue to provide its members with exceptional financial services including low-cost loans and high return share accounts. Modesto is committed to complete member satisfaction.

When asked if competition of the participating credit unions is ever an issue, Milgrom explains that geographics have helped a great deal. He explains that Modesto's membership remains a Select Employee Group (SEG), while two other credit unions possess a community charter with overlapping membership territory. Modesto serves employees of the City of Modesto: employees of AT&T and Lucent Technologies who work in Stanislaus County; employees of Liquid Container in Modesto; and Physicians, their staff and employees of Stanislaus Medical Society. Before its closure in 2000, employees of Proctor & Gamble's Modesto plant were in the field of membership. One of the credit unions is a CDFI credit union, which as a different strategic plan than the credit union sharing the territory. Even though the credit unions are within a 50-mile radius of each other and share territory, each credit union is unique and has their own needs and membership marketing plans. There is some feeling that being in a collaboration effort in the same community is beneficial because they understand the external factors and unique needs of the geography.

Milgrom shared their next step is to grow in their collaboration of common needs, such as compliance, accounting, collections, printer services (paper statements, forms, etc.), and the list may continue to grow. Their efforts are moving towards purchasing the products and services by the CUSO for all the partners rather than individually. In this way, they can look towards pricing for new partners, or credit unions that may want to join as subscribers rather than as invested partners.⁹

Whichever pathway a credit union decides to use, when credit unions collaborate, they are a stronger, more competitive force.

RECOMMENDATIONS AND SOLUTIONS

The process of forming an alliance must be undertaken methodically. When considering how to collaborate and the appropriate pathway to select, credit unions noted the following factors to be considered:

- What are the strengths of your organization?
- Where are your weak areas?
- What are the touch points with members in your environment, and how might collaborating help or hinder them?
- Are your processes “ready” for collaboration?
- Where could others benefit from your specific expertise and unique capabilities?
- Where is volume of transactions an opportunity?
- What level of privacy do you require for your culture?¹⁰

It is important for credit unions involved in the collaborations process to focus on commonality, not uniqueness. It is equally important to compromise on procedures and tasks when working toward the same goal. Often times, each credit union may be reaching for the same goal, but each reaching the goal in a different way. When collaborating open-mindedness is important.

Whether your credit union is considering People to People, Business to Business, Business Partnering, or CUSO as a collaboration pathway, there are many aspects to ponder. Successful collaboration starts with adequate resources and an adequate understanding of your needs and of those that may be involved in the collaboration. A great part of collaboration is cooperation, working for a common purpose, and compromise. Each credit union must be willing to give something up for the common good. Are you willing to be a junior partner in the collaboration efforts? Stepping up or stepping down from the proverbial plate may be required. Turning control over to someone else can be hard, but sometimes is necessary. Trusting those involved in the collaboration is vital. There can also be a clash of cultures over policies and procedures / best practices. “All alliances have conflict; how skillfully that conflict is managed is one of the factors that determine whether the alliance will ultimately meet its goals”.¹¹ Lack of personnel, cost, and time are a few challenges when considering collaboration.¹

Steps to a Successful Collaboration Effort

- 1) Determine the purpose for the collaboration. Most reasons to collaborate include reduction of expenses and revenue growth. Each entity needs to insure their business needs are met in the scope of the project. Create a clear vision and strategy. Discuss possible avenues to avoid road blocks. Explain the direction in which the project needs to cover your company’s goals and gain an understanding of the interests of the other parties. Are there enough resources available to you and if not where else can they be

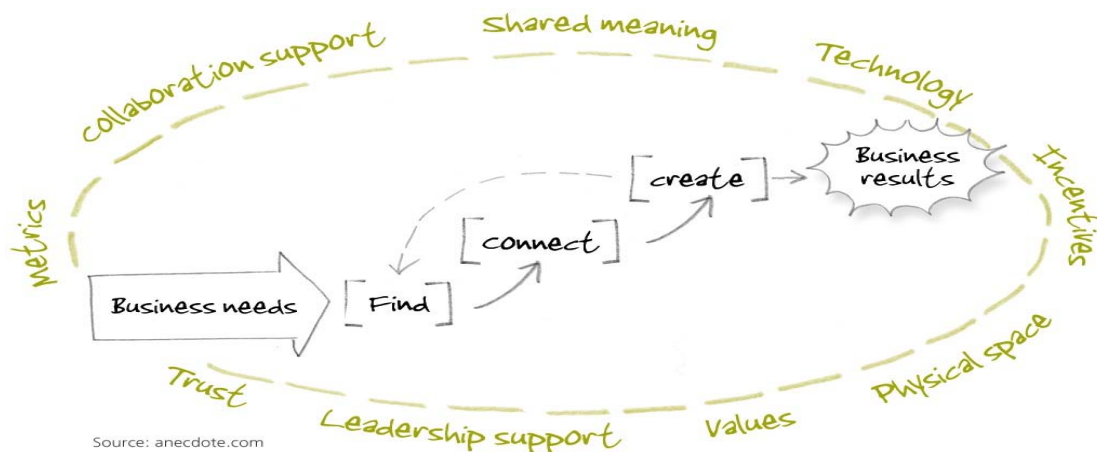
found. Look at the cost and set up a budget for your collaboration.¹

- 2) Identify participating institutions. Meet with other credit unions to possibly establish a group to help contribute to the project. Finding others that share the same basic needs can be difficult. Networking with colleagues and friends will help get the word out about your ideas. Look for individuals with experience in the fields needed to complete your project. These individuals may be at your own credit union and personnel or job duties may need to shift to allow the employee to devote time to the project. The Rochdale Group has found this to be the most critical stage in the development of a collaborative initiative. Each partner should determine that potential partners are good strategic matches. There is also the step of securing the buy-in of the people inside the organizations.
- 3) Connect with those who possess similar goals. Becoming aware of their job duties, job history and personality traits will help define what area of responsibilities to assign in the collaboration project. Make sure everyone is in for the long haul; collaboration takes planning, time, and persistence and results are not always seen immediately. Understand the focus and gain from the project; each person will succeed only if the project itself is a success. At this point, it is of extreme importance to become a team--teams win and lose together.
- 4) Engage a qualified consultant to help guide you through the process. History shows that multiple credit union projects are best facilitated with the help of an independent consultant who can ensure that the process moves forward with an agreed upon time table while assisting in the development of the project.¹
- 5) Identify expense reduction opportunities. Rank such functions in order of interest on the part of each credit union. Ask questions such as:
 - What functions are most expensive and can be partnered between credit unions?
 - What are most critical to the day to day operations of the credit union?
 - Can this function be performed by one of the participating partners that have excess capacity and could perform this function for all the participants?
 - Should any aspect be outsourced to a third party?
- 6) Create and put your collaboration ideas together. This is where you will see solutions that go well beyond any limited vision of what is possible. This is also where discussions may be challenged. Learn to advocate your point without stepping on toes. There must be a mutual respect and trust among the participating institutions. Everyone has the same goal of improving products and services for membership as efficiently and cost effective as possible. A level playing field should be established among and between all partners.

Set goals that are obtainable within a reasonable amount of time. Then set action plans into place and decide who will be involved in each plan. Check for agreement and gain commitment to shared goals. Notify others of changes or problems in a timely manner and make procedural changes to encourage progress toward goals. Determine what data

can and will be shared among the participating credit unions. Are you getting adequate return to justify sharing critical information and resources? Testing by each credit union may be required before the project is ready for startup.

Business results will be seen differently by each collaborator. Make sure your institution is prepared for the changes to come and understand the reasons for change and the collaboration project. Share your vision of the project ahead of time. Once certain operations been combined or outsourced there may not be a need for full staffing in those departments. Commit to reducing or changing the placement of staff if necessary.



It has been noted that large scale collaboration is more successful when there is a common IT platform. OTS (Open Technology Solutions) was the product of four large credit unions working to initially align their IT operations. They believed each credit union would benefit more from shared resources of an IT platform than a merger. Once the common IT platform was in place there was no end to the options of collaboration available to them. Each credit union shared equally in decision making and startup cost. These four credit unions make up around 740,000 members, which would make them the fourth largest credit union if they were a single entity.²

Recommended areas of credit union collaboration with minimal cost:

- 1) Host an annual round table meeting with the credit unions in your area. Joint community awareness seminars, as some credit unions are not in the position to hold community awareness seminars for their members.
- 2) CU Grow is a credit union blog devoted to collaboration, communication and innovation. (www.cugorw.com)
- 3) Look for new areas of collaboration that are often overlooked. Building collaboration tools that tie you in tighter with your current suppliers. What about tools that allow your members to become your product developers?

- 4) If your credit union budget does not allow hiring for a specific department or position, consider sharing that cost with other credit unions in your area.

For example:

Share a Compliance Officer: Determine your specific credit union needs. Speak with your auditors and board to determine what exactly you want from this position.

Should this employee handle all of the compliance for your credit union, including writing compliant policy and procedures?

Do you need someone to monitor the compliance horizon while management handles the rest?

The average annual salary for a Compliance Officers is 40,000 – 46,000 plus benefits.¹² With this option, the Compliance Officer will need to attend several training events yearly, including Compliance School. This could add another \$5,000 – 7,000 a year to the cost of this position. Sharing this cost with three other credit unions would cut your annual salary expense to an average of \$21,000. The disadvantages of this option could be scheduling conflicts and training issues with the numerous processing systems in use.

Another option is to consult with your state league. Some offer contractual leasing of a compliance officer or specialist for a specific number of hours a month. We found one credit union that utilized the compliance officer from the league but found they did not need the allotted time they had purchased. They gave part of their allotted time to a smaller credit union in the area that could not afford to hire a compliance officer or contract with the league.

Share a Collections Officer: Again, determine what your specific collection needs.

How many accounts do you have in collection?

Do you include your consumer loans, credit cards, mortgages and share drafts in this collection process?

How many hours do you need devoted to your collection accounts?

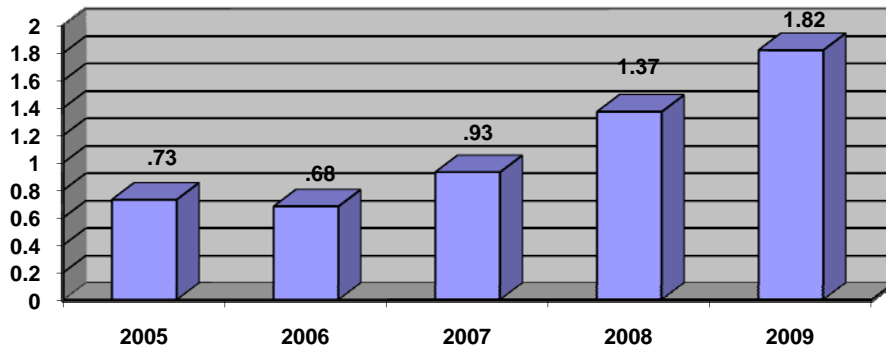
The average annual salary for a Collections Officer is \$31,000 – 34,000 plus benefits.¹² Sharing this cost with three other credit unions would cut your annual salary cost to an average of \$14,500. The disadvantages of this could be system accessibility issues, training issues due to the many processing systems in use, and attendance issues. If only one collector exists, sick and vacation time could become issues if not properly addressed at startup. Since collection is not something that can be work once a month, this process and continuous contact with the members is essential.

Collaborate to hire an outside vender for Collections. Most only charge if contact is made with the member. This keeps the credit union from worrying about scheduling conflicts or absences of staff members. With a vender, there are several employees covering your collections account. Another advantage is that the vender may have multiple ways of

making payments for your members, such as taking credit or debit cards over the phone, setting up one time or recurring ACH payments. The disadvantages may include sending and receiving information to the collections vender. Accounts in collection would need to be updated to the vender on a daily basis as well as updating your processing system with the collection notes and promises to pay.

Below is an illustration of the increasing delinquency in credit unions in today's economic time.

Delinquency Rate

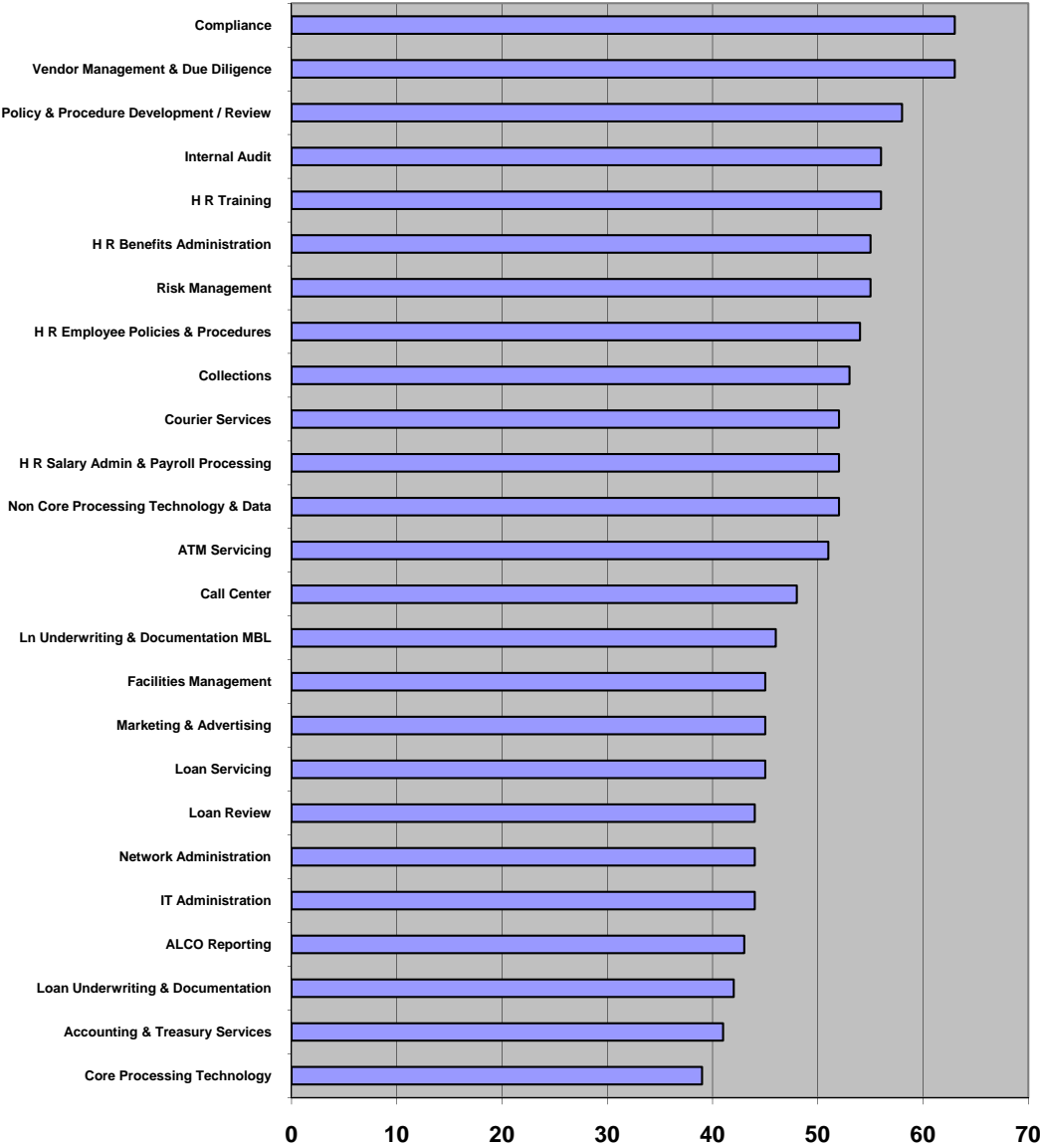


Source: CUNA U.S. Credit Union Profile 2009 Year End Summary of Credit Union Operating Results

There are numerous other collaborations to help curtail expenses while fulfilling the departmental needs of the credit union. We all know the saying “we wear many hats throughout our day”. But when is it too much? Unfortunately we cannot do it all, and collaboration with other credit unions can lift some of the loads we tend to carry. Contact your league and inquire about the needs of your credit union. There may already be a position or an outside vendor contracted for such services. Now may be the time that you help your league install a new service or search for that outside vendor. If you know other credit unions who may be interested in a service or product, start the process by consulting with their leaders.

An important reality is that not all alliances succeed. Exit from a collaborative partnership does not necessarily mean failure. Some will be terminated simply because the objective is not being achieved or maybe one partner can achieve it on their own. Once a collaborative effort is formed, it must be monitored and assessed continually for success. “All alliances have conflict; how skillfully that conflict is managed is one of the factors that determine whether the alliance will ultimately meet its goals.”²

Collaboration / Outsource Preference Ranking



Source: The Rochdale Group

SUMMARY AND CONCLUSION

The credit union business model has morphed over the past few years. We have the choice to either continue to keep doing things as we have in the past and hope things turn out for the best, or we can meet things head on, and adapt to the fact that the environment is changing and embrace new suggestions and practices which can mean taking some risks. Collaboration should be seen as joining forces and forming an alliance in order to save money, time and resources. Collaboration is the best prospect for success in these times that are full of challenges and opportunities.

Learning how to collaborate will accomplish nothing if we do not build relationships or new partnerships which can benefit our credit unions. Collaboration cannot happen by itself; we have to be proactive. We are just beginning to see what can be accomplished with Collaboration. We have to be ambitious, brainstorm collectively and take some prudent risks. We need to Grab the tool bag, rally the crews, and start building.²

To build a successful collaboration team effort, the following must be in place:

- Mutual Trust
- Common vision
- Compatible cultures and systems
- Equitable investments by each party
- Effective conflict resolutions mechanisms
- Stakeholder support (both internal and external)
- Clear Boundaries
- Precise objectives and terms of relationships
- Periodic assessment of success²

Some of the most successful credit union ventures through the years have come from credit unions willing to collaborate for the greater good.¹ We know that there will be conflicts, but if the conflicts are carefully and skillfully handled, it can be a winning situation.

Collaboration should be a critical component of our credit unions strategy. While credit union assets continue to grow, they still remain a small percentage of bank's total assets. Due to growing member demands, shrinking margins and the need for technology it is even more difficult for credit unions to compete with banks. In order to succeed must improve our operating efficiencies, which can often be done by collaborating with other credit unions.

While teaching at Princeton, Albert Einstein was approached by a disheveled graduate student who breathlessly exclaimed, "Professor, the questions on this year's final exam are exactly the same as last year's questions". Einstein paused, looked the student in the eye and replied, "Yes, that's true-the questions are the same. But the answers are different".¹ This is so true of the credit union industry. The questions are the same, but the answers are different."

Team Insights

This project reassured me of how important credit union collaboration is to both small and large credit unions. The idea of sharing compliance among several credit unions along with policies, procedures, etc. is a big time saver for a small credit union with few employees. This project has reinforced how important it is for credit unions to pull together and take the time and energy to collaborate.

Collaboration can be as simple as reviewing and discussing upcoming regulations with other credit unions in order to make sure that there is not a better more efficient way to do something. With all of the current and upcoming challenges, it can be a great way to save money in order to help cut expenses.

The credit unions in Western Colorado have been collaborating for many years through our chapter. During our monthly lunches we often times bring in speakers for the group of credit unions in order to get training that is needed for the credit unions. For the past few years we have been involved with an annual car sale that is hosted by several of the credit unions involving several of our local dealerships. I truly believe that collaboration is a vital and necessary part of what will make the difference in how well credit unions will do.

Research during this project significantly enlightened me on the idea of collaboration. What I see in this movement toward collaboration is innovation in the credit union world. I agree that credit union roots suggest that collaboration should be a critical component in today's strategy. By participating with fellow credit unions or CUSOs, credit unions will be able to share many areas of expertise without sacrificing their own identities. I believe this will be the surviving nature of credit unions in the future, as the number of credit unions continually shrinks every day. The credit union world as we know it has rapidly changed and collaboration will be of utmost importance to the future survival, especially in smaller credit unions. I believe in doing so, credit unions will become less independent and more interdependent by working side by side with visionary partners.

The Virginia Credit Union League has established a Collaborative Task Force for the state of Virginia. It is comprised of CEOs representing credit unions of all sizes. The purpose is to share collaborative ideas and create pathways for all credit unions. I believe this will aid in the selection of collaborative pathways for all Virginia credit union and my strategic plan will continue to include collaboration in several areas of operation in the near future.

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