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# WHY CUSOs WORK FOR CREDIT UNIONS



FOR MORE CREDIT UNION STRATEGY & PERFORMANCE VISIT

# CREDITUNIONS.COM

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# HELP THE UNDERBANKED MAKE THE RIGHT CHOICE

*What happens when the targeted market is out of your credit union's reach?  
For Redstone Federal Credit Union, the solution was to start a CUSO.*

BY YUN MA

In November 2012, Redstone Credit Union (\$4.4B; Huntsville, AL) formally opened the first location of its check cashing business, Right Choice Money Services. Before the opening, Redstone CEO Joseph Newberry noted that, “For the nearly four out of 10 Alabamians who do not use traditional banking organizations, Right Choice Money Services offers a welcome and competitive alternative.”

The town of Decatur, where Right Choice opened, sits 25 miles east of Redstone’s headquarters in Huntsville. Located in Limestone County, the area boasts a contingent of employees in the engineering sector, along with an underserved population of low-income households, including a significant Hispanic segment. According to the 2010 Census, documented Hispanics make up 12.4% of Decatur’s population, the second most prevalent minority group.

Joyce Dye, president of Redstone Services Group LLC, which oversees Right Choice, says that the idea of starting up the CUSO began about five years ago. Having lived in California, where bilingual financial services catering to Hispanics abound, Dye noticed that there was nothing comparable in Alabama. To address this discrepancy, all of Right Choice’s staffers are bilingual. She estimates that 60% of Right Choice customers are Spanish speakers.

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Instead of buying a CUSO, Dye and her team decided to build it from scratch, hiring the manager in-house, someone who understood the targeted market, and who could carry the co-op’s “people helping people” spirit to the new business. They launched Right Choice

with a soft opening in July 2012, allowing themselves a few months to publicize the business and get to know the neighborhood. In addition to check cashing, the CUSO also offers pre-paid debit cards, bill-paying services, wire transfers, and money orders.

Here, Dye spoke about starting up a new CUSO and what the credit union has learned.

## HOW DID YOU COME TO SEE THE NEED FOR A CHECK CASHIER BUSINESS IN THE DECATUR AREA?

**JOYCE DYE:** We felt there was a real need in Limestone County. Quite candidly, there were an awful lot of check cashiers and payday lenders that were really ripping people off. And even though Redstone has two branches in the Decatur area, we saw there was a real need to help the population that was not using traditional credit unions, banks, or other financial institutions.

According to an FDIC study, about 32% of the state of Alabama is considered underbanked, which is amazing. Either they’ve been turned down for checking accounts because of past problems, or they just don’t trust financial institutions. That’s what helped us make the decision to start Right Choice. As a credit union, we’ve been charged by Congress to serve people of modest means. But we’re not really serving people of modest means as a credit union if we’re only serving the people who qualify to get checking accounts and loans. We have to remember there’s a huge population out there that’s underbanked.

## IT SOUNDS LIKE THERE ARE PLENTY OF CHECK CASHIER OPTIONS IN LIMESTONE COUNTY. WHY WOULD CUSTOMERS CHOOSE TO USE RIGHT CHOICE AS OPPOSED TO ANOTHER CHECK CASHIER?

**JD:** In my opinion, there are three reasons. The first is our fees are very, very affordable. We aren’t even close in

### CU QUICK FACTS

**Redstone FCU**

HUNTSVILLE, AL

DATA AS OF 06.30.16

**\$4.4B**

ASSETS

**387,293**

MEMBERS

**23**

BRANCHES

**6.00%**

12-MO SHARE GROWTH

**8.83%**

12-MO LOAN GROWTH

**0.71%**

ROA

“There are things that CUSOs can develop that they in turn can give back to their credit unions. It saves the credit union the development time and everything else that takes away from its priorities.”

— JOYCE DYE, PRESIDENT, REDSTONE SERVICES GROUP LLC



what the others are charging. I'll give you an example. Our competitors might charge \$3 or \$4 in reloading fees for a prepaid debit card, but for us, it'd be \$1. Our fees are just very, very competitive and affordable. Keeping our fees competitive and as low as possible will result in our breaking even with a modest profit.

The second factor is that, we cash any check. And I really want to stress that: we cash any check. When you drive up and down the street, you'll see a lot of check cashiers that will only cash government checks or only a certain type of check. We will cash any check. All of our check cashing is done through an online service provided by Chexar. As a part of our agreement, Chexar assumes 100% of the risk.

Lastly, we will accept any ID — even from other countries, as long as they're not on the OFAC list.

I think there is a genuine acknowledgement that we want to help people when they come in. We have a dedicated staff that understands the needs of this market; some of them come from that market, and they really understand the individuals. They try not to talk above them but at the financial level at which these individuals may be dealing.

#### WHAT WOULD YOU SAY IS A PRIMARY CONCERN OF RIGHT CHOICE CUSTOMERS?

**JD:** When the customer first comes in, they worry, “I'm not legal to be here. I won't have the right ID or visa. They want to see my citizenship papers.” Now, obviously we don't ask that information. Once they come in and they understand we accept identification from any country, and they realize we cash any check, they feel very comfortable with us. They don't feel any intimidation.

Our interest in starting a check cashier actually goes back to 2007. When I came to Redstone after being in California, I was surprised we didn't have anything bilingual. That just wasn't heard of in Alabama. We had a couple of board members who were very interested in serving the Hispanic market here. And so we kept

talking. Our president got involved, and there was a lot of conversation.

#### ARE YOU LOOKING TO TRANSITION RIGHT CHOICE CUSTOMERS INTO REDSTONE CREDIT UNION MEMBERS?

**JD:** That is the ultimate goal. We know that won't happen for everybody. There is a population of people who will never want to use a bank or a credit union. They want to regularly send money back to family in Mexico or wherever, but they do not want to deal with checking accounts. They want to deal solely in cash. Maybe they've had bad experiences in the past, but that's just the way they are. So we'll help them with everything else — prepaid debit card, bill-paying services, money orders, money transfers, cash checks, whatever it may be.

We are, however, helping some people get into the credit union. They may not have thought they could join a credit union, but now we're helping them to get into one. Maybe someday we'll help them with that first car loan.

In our Right Choice location, we have one window that belongs to the credit union, which will make only Redstone transactions. If we see an opportunity where someone can transition into one of the services that the credit union offers, we simply move them to the credit union window and address that service with them. In the short time we've been open, we have not yet transitioned customers, although we have discussed the opportunity.



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I will point out that we also have very limited services available at that Redstone window. First and foremost, this is a Right Choice office. The only things we offer at that credit union window, are we'll open that shared secure credit card for you, a checking account, and we'll take a deposit. But anything else you want to do, we'll send you to the credit union branch, probably a two-minute drive away.

#### **WHY DID YOU DECIDE START UP YOUR OWN CHECK CASHIER INSTEAD OF BUYING ONE OUT?**

**JD:** We felt we wanted to customize our CUSO to fit the culture of Alabama. We didn't really see check cashing organizations here in our area — I hate to put it this way but — that would be worthy of Redstone buying. We felt we wanted to start small, form our own organization and make it to really build something around the credit union, as opposed to buying something and making it form to the credit union. We thought we would just build it to fit the needs of people of modest means, who are either unbanked or underbanked.

#### **WHEN YOU FIRST ESTABLISHED RIGHT CHOICE, DID YOU HIRE STAFF FROM WITHIN REDSTONE, OR LOOK OUTSIDE?**

**JD:** We were very lucky. When we started this office, knowing that we wanted to eventually open a facility like this, we had a bilingual gentleman, Peter Alvarez, who is now the general manager of Right Choice. Before that, he was serving as an assistant branch manager, and was also manager of Redstone's Hispanic program, which has since grown into Right Choice. Peter in turn hired staff from both within Redstone and outside.

In starting Right Choice, our first inclination was to go find someone who had a lot of experience in the check cashing or the title loan business. I'm glad we didn't do that, because I think they would've brought in too much of a business mentality, and we would've lost the cooperative spirit of the credit union. Now, as we expand, would we hire more employees from outside? Maybe. But I know we will have to keep the Redstone ethos.

#### **WHY DID YOU DECIDE TO DO A SOFT OPENING FOR FOUR MONTHS?**

**JD:** We'd meant to open earlier, but some products, such as the prepaid debit card and the check cashing, just took a little bit longer. We got ahead of ourselves in planning. We found the facility we liked, had all the work done, and the staff picked out. Instead of keeping it closed, we did a soft opening with much more limited hours.

Primarily, it was a public relations effort for four months. Our employees spent a lot of time doing street marketing, talking to various businesses in the area, leaving fliers in Laundromats and gas stations. They reached out to people, community groups, and churches. It benefited us an awful lot in that we really got to know the community. Even though we didn't plan it, I'd do it again if I was opening up a second store.

#### **WHAT ADVICE WOULD YOU GIVE TO OTHER CREDIT UNIONS LOOKING TO START A CUSO?**

**JD:** I think you have to think about a CUSO as doing one of two things. Either start a CUSO because you want to offer your membership services that the law will not allow you to do as a credit union, or start a CUSO because you want to offer a service that could be provided better through a CUSO than if you did it yourself in a credit union.

We're also finding ways that CUSOs can in turn give back to their credit unions. Right Choice has a prepaid debit card, and Redstone was talking about offering a prepaid debit card to its members. We kind of looked around and said, "Why would you go talk to other vendors? Why don't you let your CUSO give you the prepaid debit card? We've got one. It works! It's great." We're in the process of talking about that, it's not finalized.

There are things that CUSOs can develop that they in turn can give back to their credit unions. It saves the credit union the development time and everything else that takes away from its priorities.

#### **EVEN THOUGH RIGHT CHOICE IS ONLY A FEW MONTHS OLD, WHAT KIND OF FEEDBACK OR RESULTS HAVE YOU SEEN?**

**JD:** It's going to take time, but we are growing. We are ahead of proforma in terms of the number of transactions that we expected to have. We just closed December, and I haven't seen the numbers, but I understand that we are 10 times ahead of transactions of where we were four months ago.

I think one of the neatest things we're tracking is that our customers come back. Ninety-eight percent of the people we serve come back. I find that incredible. When I look at our log sheet every day, it reads: "regular customer," "regular customer," "regular customer." We're not losing people, which I really like. They feel that human connection with us. 🧡

*This article originally appeared on CreditUnions.com on January 21, 2013.*

# DON'T JUST COOPERATE; BE A COOPERATIVE

*CUSOs support network building so that credit unions can bring progressive services to market.*

BY DREW GROSSMAN

Randy Karnes has been with the credit union movement nearly 30 years. During that time he has seen roles change and evolve, growth happen, and mergers and shake-ups of all types. Since 1994, Karnes has been CEO of CU\*Answers — a [credit union-owned CUSO](#) that provides core processing, consulting, management, and technology services to more than 190 credit unions and their 1.5 million members in 18 states. Karnes' success at the CUSO is a testament to the benefit of cooperative strategy in the credit union movement. And to Karnes, it's not about collaboration, it's about being a cooperative.

"Sometimes I hate the word collaboration, because collaboration sounds like something you socially do," Karnes says. "Credit unions are cooperatives; they have a business charter to be a cooperative. I think that cooperatives have a greater understanding of what members need, because of the member-owner model."



## FAST FACT

Originally called West Michigan Computer Co-Op, Inc. (WESCO), CU\*Answers began in 1970 as a non-stock cooperative that provided low-cost data processing services to credit unions.

In addition to the services offered through its own technology platform, CU\*Answers partners with credit unions to help deliver services to members such as ATM, debit card, interactive voice response, Internet home banking, and item processing solutions. CUSOs provide a means for credit unions to reap the benefits of ownership by providing capital funding for research and the development of new products and capabilities, but with significantly reduced risk.

This is why CU\*Answers was founded in 1970. West Michigan Computer Co-Op, Inc. (WESCO) — the CUSO's original name — organized as a non-stock cooperative to provide low-cost data processing services for credit unions.

WESCO's core data processing solution was still in development when the co-op started to realize its resources were limited. WESCO found that to keep up development, it needed to share both the expenses and the opportunities of its core processing solution with a group of users.

"Basically, the founding credit union started selling services and, as it went forward, it decided it would be best to have multiple owners," Karnes says.

## INSPIRATION FROM THE COOPERATIVE MODEL

According to Karnes, one of the keys to CU\*Answers' success is that its governance model is a mirror image of credit unions' governance model. Because of this, the CUSO's business motivations, its revenue motivations, and its investment motivations all align well with the customer-owner model that credit unions use.

"More and more credit unions are seeing the cooperative business charter as a way to gain advantage and CUSOs simply amplify that," Karnes says. "It's not the only way to do business, but it certainly is an intuitive way."

Credit unions have expounded customer-owner motivations for decades, so it makes sense that the businesses established to interconnect credit unions have the same motivations, style, and design.

At CU\*Answers, the strategy hinges on three things: Create a disruptive price that sends ripples through the market place, break into new markets, and share the associated costs and rewards.

"We live on the principles of creating a disruptive price, gaining access to new markets where we're blocked, and creating shared execution models so credit union professionals can enhance their careers," Karnes says.

## MORE THAN PROCESSING SERVICES

When Karnes joined CU\*Answers in the mid-1990s, CUSOs were struggling to find relevance in the credit union movement. The service organizations went into a period of developing operational services to accompany the data processing that they already provided to credit unions.



## FAST FACT

CU\*Answers serves more than 190 credit unions and 1.5 million members in 18 states.



“We don’t have to do it as a show again, we’re doing it for our members every day.”

— RANDY KARNES, CEO, CU\*ANSWERS



“In essence we had an explosion of ideas about what to do beyond core data processing,” Karnes says. “We had opportunities because we shared distribution channels.”

CUSOs had an opportunity to share their approach to credit union operations and leverage their networks by working cooperatively. The result was shared call centers, accounting and bookkeeping firms, and collection agencies.

“That continues today. Today we look at everything we’re connected to and say, ‘let’s leverage our network again, leverage it to CUSOs, leverage it to other bodies,’” Karnes says. “You basically parallel the operational resources needed by a credit union and you say, ‘how can I use these resources?’”

## THE POWER OF CONNECTIVITY AND THE FINANCIAL CRISIS

The turn of the millennium brought renewed attention to the connectivity and benefits of credit union networks.

“Connectivity is the key to everything,” Karnes says. By connecting larger groups of retail customers with larger groups of vendors, credit unions found themselves in the middle of a rapidly expanding networked world.

Networks align with the philosophy of the credit union movement and the decision to connect your entity with others in the movement in order to share services and best practices.

“The values found in a network bring the opportunity to get more out of the social side of the market place, the operational side of the market place, and everything,” Karnes said.

The 2007 financial crisis emphasized the network effect as well as the role CUSOs serve supporting credit unions. As credit union executives crunched and re-crunched numbers to try and find ways to afford extending their businesses, CUSO networks provided a low-risk opportunity to take advantage of sharing employees, greater outreach, mortgage CUSO networks, and indirect networks.

The crisis challenged people to get the most out of their business model, and the way to do that is networking, Karnes says.

The financial crisis also made collective ownership more attractive. Since the crisis, more businesses are hedging their bets by joining a network and credit unions are doing the same thing by joining CUSOs. Credit unions extend their powers to reach and support their

members by providing new member services through CUSOs. Services including data processing, disaster recovery, and indirect lending are better provided by a unified network compared to many fractured credit unions.

“The crisis challenged people to get the most out of their business model and the way to get the most out of your business model is networking and the cooperation,” Karnes said.

Credit unions also benefit from CUSOs in other ways. Because they are partial owners, credit unions earn income on their investment in CUSOs through the development of new solutions. This shared investment in research and development reduces the risk of developing new technologies to serve members of natural-person credit unions. This also allows credit unions with fewer assets to offer top-of-the-line services to members that they may not have been affordable otherwise.

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## CUSOS IN THE FUTURE

Karnes says that CUSOs will continue to play an important role in the future.

“There is another awakening here. This is not just something that we do, it is something that we use to create businesses,” he said. “That is a very important point because I don’t want people to be cooperative, I want people to be a cooperative and there is a distinction between those two things. Being a cooperative and having a customer-owner business has advantages that can be leveraged for a competitive advantage.”

For CUSOs to go beyond where they are today, the service organizations need to bring bigger efforts to bear, drive bigger things to the market, and create bigger market-share expectations. 🌐

*This article originally appeared on [CreditUnions.com](#) on April 15, 2013*



# HOW IN-HOUSE APPS JUMPSTARTED A TECHNOLOGY VENTURE FOR GREYLOCK FCU

*Lessons from a Massachusetts credit union that started a service organization dedicated to programming, training, and application development for financial institutions.*

BY SUSAN LEVI WALLACH

The need for applications that interface with industry-standard software systems is a given for any credit union that wants an efficient and effective IT setup. Most opt for one of two solutions: development and maintenance of homegrown apps, which can be an expensive time suck, or buying them and hoping for the best.

Greylock Federal Credit Union (\$1.1B, Pittsfield, MA), however, is among a small group of credit unions that is leveraging its in-house expertise in app development and programming to create an additional revenue stream. Two years ago, the 75,000-member credit union started its Greylock Technology Group, a credit union service organization dedicated to programming, training, and application development for financial institutions that also use Fiserv Inc.'s DNA core software platform.



KEVIN ZIMMER, CTO,  
GREYLOCK FCU

“We have a long history with an in-house programming and development staff,” says Kevin Zimmer, Greylock’s CTO and president of GTG. “When I started here 16 years ago, there were already people developing on the previous core system platform.”

Greylock moved its core processing to DNA 10 years ago, when DNA was an Open Solutions product prior to Fiserv acquiring Open Solutions in 2013.

“We committed to learning that environment, which meant retraining our staff to code in the DNA environment,” Zimmer says.

When the DNAappstore launched in May 2011, it spurred Greylock to establish the CUSO and use the store for a direct route to a readymade market.

“I’d been looking for different ways to create a technology CUSO,” Zimmer says. “It wasn’t until DNAappstore came along that I decided it was what we were going to do.”

According to Zimmer, the benefits of GTG are many. The CUSO allows the credit union to do the things its members want on its own timetable. That’s important in an environment where speed to market is huge. And Greylock has found the CUSO is cost effective.

“Yes, there’s investment in people we need on staff and in training and in the development environment,” says the CTO. “But we find that buying customization is even more expensive.”

When Greylock became a DNAappstore developer, it already had a suite of nine apps ready to go. Today, GTG has 14 applications available through the DNAappstore. It also offers six reporting programs. In addition, GTG develops custom applications through its direct consulting work with clients and has dozens of custom reports available for direct licensing.

## CU QUICK FACTS

**Greylock FCU**  
PITTSFIELD, MA

DATA AS OF 06.30.16

**\$1.1B**

ASSETS

**76,593**

MEMBERS

**12**

BRANCHES

**0.26%**

12-MO SHARE GROWTH

**5.09%**

12-MO LOAN GROWTH

**0.41%**

ROA



“If you have core competency in something and want to leverage it to offer service to other credit unions, that’s where you should start.”

— KEVIN ZIMMER, CTO, GREYLOCK FCU



“We thought being able to tweak a system is where it’s all at,” Zimmer says. “There is a lot of flexibility in the DNA system, but to get out of it what we want to get out of it takes some highly skilled people.”

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As software gets more complicated, the number of highly specialized software packages keeps increasing. And they all need to talk to one another.

Zimmer says this is “a huge problem” and characterizes real-time integration between applications as a goal but, for many financial institutions, a struggle.

“With so many systems operating, how do you have a system record?” Zimmer says. “When you have 50 systems, which one do you go to in order to get the picture you want? We funnel everything to the core system, which means integrating all the other systems with it. A lot of that is happening in real-time. This world we live in — everyone expects everything to happen right now. There is no patience.”

This sense of urgency might be why GTG was profitable from its first year. Fiserv’s DNA is in wide enough use to create healthy demand for plug-and-play third-party applications. Through the appstore, GTG has made 200 sales to 32 financial institutions and one data-processing center serving 135 financial institutions. Plus, GTG works directly with 10 financial institutions.

According to Zimmer, the CUSO’s revenue increased 13% in 2015 and he projects a 34% increase for this year. Likewise, net income increased 12% in 2015 and Zimmer projects a 14% increase for this year.

Zimmer says he is looking for “organic growth” to minimize the risk — such as the investment in time and legal expense — inherent in a new enterprise.

“We could hire two more programmers today and hope we make enough in sales to pay for them,” he says. “But we won’t. As the sales grow, we’ll add staff.”

And that investment in time is no small matter. Zimmer admits setting up the CUSO took more time and effort than he expected.

“It took nine months,” Zimmer says. “I was surprised it took that long — the legal structure and formation, the board approval. It was tiring. I just wanted to get the business going and get into it.”

Nonetheless, he says everything has played out the way he expected it to and he wouldn’t do anything differently. But, the credit union had realistic expectations and didn’t overinvest in the beginning.

“You have to decide how much of an investment you want to make and how much risk you want to take,” Zimmer advises. “We used people we already had and tried to squeak out a few hours here and there. We didn’t create a big overhead structure from the get-go. We wanted a low-risk, low-cost approach. We leveraged what we’d built for Greylock and made it work for other financial institutions.”

That leveraging of Greylock’s IT culture is key to GTG’s profitability, Zimmer says.

“If you have core competency in something and want to leverage it to offer service to other credit unions, that’s where you should start,” he says. “I’d be cautious about going into a new endeavor because that’s what’s hot at the moment. It’s better to leverage what you’re good at.”

*This article originally appeared on [CreditUnions.com](#) on May 16, 2016.*

# HOW EDUCATORS INSOURCED FOR CAR-BUYING SUCCESS

*It's taken more than a decade, but this Wisconsin credit union has fine-tuned its car-buying services to benefit members and increase its loan portfolio.*

BY ERIK PAYNE

There've been a lot of twists and turns in Educators Credit Union's drive to provide the best auto-buying experience it can in the seven counties it serves in southeast Wisconsin.

In the past 15 years, Educators (\$1.7B, Racine, WI) has gone from a multi-credit union CUSO, to its own in-house sales operation complete with used car lot, to turning over sales to a third-party operator, a former employee who now works with Educators' own CUSO as his exclusive in-house financing partner.

Jim Henderson, Educators' chief marketing officer, says the journey began when about a dozen credit unions created a CUSO to provide their members with no-haggle pricing and credit union financing from local dealers.

Doing business as the CU Fleet Department, that CUSO grew up to 20 credit unions as more small- and mid-sized credit unions signed on. It worked for Educators for a while, but according to Henderson, the decision was made after several years to move on because of differences over pricing and operating efficiencies.

"We felt it was becoming more like a traditional dealership," the Educators CMO says. "That was the whole reason we went to the CUSO model in the first place."

In response, Educators left the CU Fleet Department and set up its own retail used car operation, taking along one of the CUSO's management employees and a top sales person, Henderson says.

"Although we parted ways with them, we actually got some of their expertise in these two people who shared a similar philosophy to what we wanted to do," Henderson says, adding that one of those employees still oversees the credit union's auto referral and leasing business.

That business structure — which included the credit union buying cars it then sold in a lot at one of its branches — worked well until about 2010, when the state of Wisconsin clarified rules to forbid that structure. So, what to do next?

"We partnered with our former car manager, who got his own commercial loan and rents the retail lot space from us," Henderson says. "He now operates it as a separate, third-party operation called [AutoWerks](#)."

And an in-house CUSO Educators formed originally to handle investments now handles auto financing. AutoWerks, meanwhile, has continued the no-hassle pricing philosophy and other consumer-friendly practices such as a three-day return policy and a 60-day safety net against mechanical repairs.

"Those three things are not common in used car sales," Henderson says.

## CU QUICK FACTS

**Educators  
Credit Union**

RACINE, WA

DATA AS OF 06.30.16

**\$1.7B**

ASSETS

**139,270**

MEMBERS

**22**

BRANCHES

**6.32%**

12-MO SHARE GROWTH

**5.59%**

12-MO LOAN GROWTH

**0.75%**

ROA



“We felt it was becoming more like a traditional dealership, and that was the whole reason we went to the CUSO model in the first place.”

— JIM HENDERSON, CHIEF MARKETING OFFICER, EDUCATORS



Through all these changes, one thing has stayed constant for the Wisconsin credit union.

“We’ve always wanted to help our members in the car-buying process,” Henderson says, “It’s a bit upsetting to see them come in for financing and find they’re paying sticker price for a car they probably could purchase at invoice.”

“Controlling the transaction and getting the member a better deal from the start is easier than trying to change the deal after that fact,” Henderson continues.

To help drive that bargain for members, Educators has four people on staff working with the car-buying service. Two of them are at the branch that shares space with the AutoWerks retail lot in Sturtevant, WI, and two are at other Educators branches.

Henderson says these employees help new and potential new members decide between buying and leasing and also whether the best deal for them is a referral to AutoWerks or one of the dozens of other new and used car dealers the credit union works with in the area, dealers that have agreed to the no-hassle pricing practices.

where to finance their new ride. However, the convenience factor of having the credit union branch on-site adds to the appeal.

“We do pre-approvals and financing and can nearly complete the loan on the spot if the person decides that day,” Henderson says.

Educators overall car-buying program works. Henderson says leasing has been growing at 15% to 20% a year and now is close to 35 vehicles a month. Altogether, 1,700 members used one of the services last year, whether through AutoWerks, leasing through the credit union, or buying at one of the dealer networks.

That accounted for \$34 million in lending activity as Educators grew its auto loan portfolio by 6.40% from March 2013 to March 2016, from \$149.12 million to \$155.60 million.

The credit union philosophy extends beyond the AutoWerks lot, too.

“The agreement we have with all our dealer partners is that if they have some special financing, like 0% for five years or something, we’ll let the member know that’s a potentially better deal for them,” Henderson says.

— Marc Rapport contributed to this article.

*This article originally appeared on CreditUnions.com on November 9, 2015.*



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Those options also include a leasing arrangement in which Educators buys the car and leases it to the member through its own CUSO, ECU Financial Services Inc. Henderson says those four employees actually work for the CUSO, which does business under the name [Educators Auto & Lease](#).

And although Educators is the in-house financing partner for AutoWerks, the dealership also sells cars to non-members and doesn’t make the decision for buyers on

# TIGHTEN, LIGHTEN, AND DOUBLE DOWN

*How better portfolio tracking, a grounded MBL roster, and support from a broad line of CUSOs are helping Mazuma make a mark in the Kansas City area.*

BY MARC RAPPORT

**M**azuma Credit Union (\$570.4M, Overland Park, KS) has shaken up its lending portfolio since 2012, when Brandon Michaels took the helm as president and CEO and built his executive dream team.

Over the past three years, the credit union has tossed outdated lending practices and introduced products and strategies to strengthen the bottom line as well as member bonds. Want to know how the credit union tightened, lightened, and doubled down in all the right ways? Read on.

## TIGHTEN

Product-based efforts such as providing payday lending alternatives, refocusing on auto and home lending, and streamlining fee structures have all been part of the process to reshape Mazuma's portfolio.

Prior to these undertakings, a lack of tracking and communication among departments resulted in critical oversights and unwanted surprises, including issues like business and mortgage portfolios being backed by the same collateral.

"Silos happen because of a lack of trust," Michaels says. "But when you start building trust, you can more easily break down those siloes."

To reduce risk, the credit union sold \$25 million in mortgages and created a risk management committee to work with executives, senior leadership, and the board to categorize, quantify, and assess the credit union's appetite for risk in each area of lending.

In addition to cleansing its loan portfolio, it also simplified its roster of 25 or so fees. It eliminated some fees completely — such as for the purchase of gift cards — and reduced others. The move drove a 7% annual drop, approximately, in fee income as of second quarter 2015. But the credit union plans to replace those earnings in other, healthier ways.

"We're going to a new level by using analytic software to see where our opportunities are for helping members improve their financial lives," says Justin Mouzoukos, Mazuma's chief financial officer.

And better serving these needs is also improving the credit union's financial life as well.

## CU QUICK FACTS

**Mazuma  
Credit Union**  
OVERLAND PARK, KS  
DATA AS OF 06.30.16

**\$570.4M**  
ASSETS

**61,852**  
MEMBERS

**9**  
BRANCHES

**3.69%**  
12-MO SHARE GROWTH

**15.45%**  
12-MO LOAN GROWTH

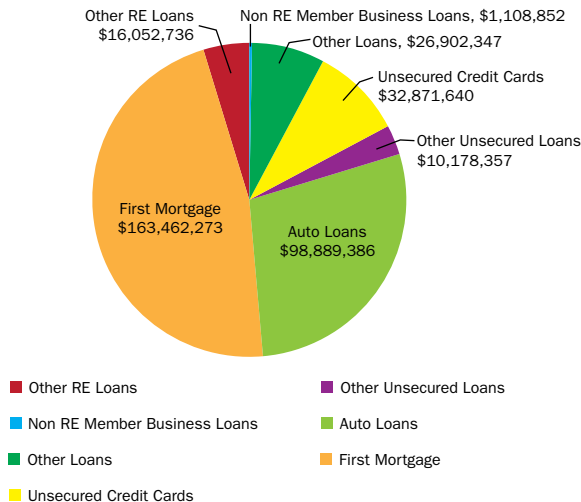
**0.42%**  
ROA



## LOANS PORTFOLIO COMPOSITION

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31.16

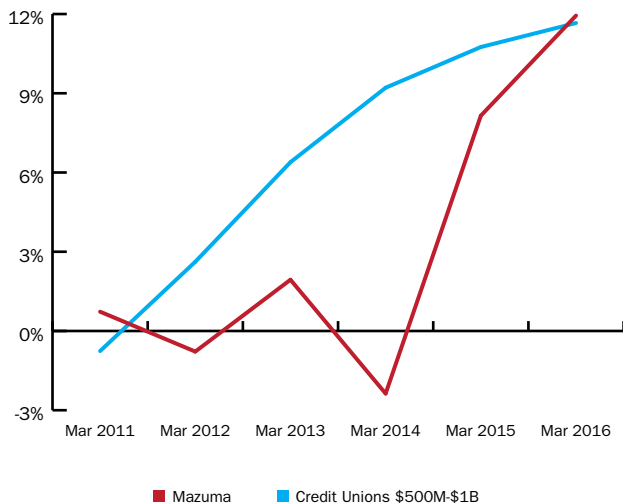
The credit union's two biggest priorities – mortgage and auto – are well reflected here. Yet it's the CUSOs and focus on additional market needs also contribute to a diverse portfolio.



## LOAN GROWTH

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31.16

Mazuma suffered some growing pains during its cultural reorganization, but loan growth is closing in on comparable peers.



Income at Mazuma through June 2015 totaled \$16.9 million, according to Callahan data; that's up approximately 50 basis points from last summer. Loan income was up 12.1% in the same period, driven by a 17.8% gain in auto lending to \$88.8 million and a 5.0% jump in real estate loans to \$158.2 million at midyear.

Overall, loan originations totaled \$61.9 million at the end of June 2015, a solid 24.9% gain over the \$49.6 million posted one year prior.

Share growth was 5.6% in the second quarter while ROA was 0.7%, down from 1.2% at this point last year. Net income, however, was sharply lower this year and operating expenses were up as the credit

Source: Callahan & Associates

union spent heavily on its new headquarters building in Overland Park, KS, and adopted several new tactics to better track income versus expenses.

“We started branch accounting years ago but have since layered on branch profitability, product profitability, and lending analytics,” Mouzoukos says. “To me, it’s all opportunity; however, just reporting numbers has no impact on the direction of the credit union.”

Rather, he adds, it’s up to Mazuma to use that information to figure out what its members need and provide it.

For example, the credit union’s website now includes a “Drive Happy” section that includes auto calculators, rates, and other shopping tools. In addition, its Visa credit card that is affiliated with Kansas City’s professional soccer team offers reward points redeemable for tickets, souvenirs and wearable gear, and exclusive experiences at the team’s stadium. The same location is also now home to the Mazuma Mezzanine, a branded area for enjoying a drink and snack while watching the match.

## LIGHTEN

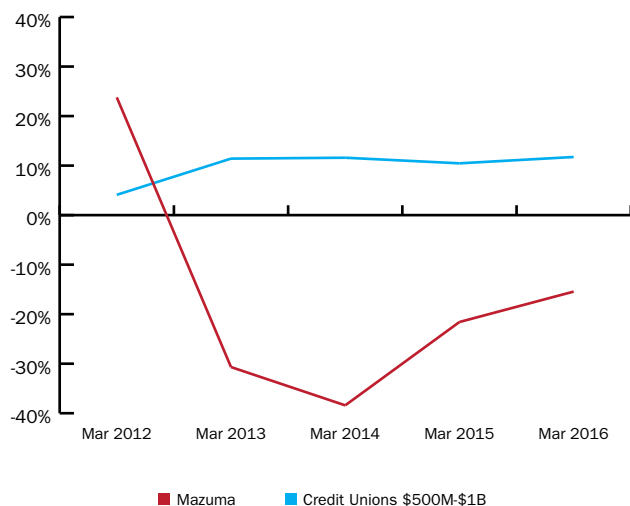
A look at Mazuma’s past performance reveals notable swings in metrics such as loan delinquencies and return on assets throughout 2013. This is the result of a calculated whittling down of the organization’s member business lending portfolio.

As part of the reorganization he led in 2012, Michaels brought in a team of MBL specialists who cut roughly \$45 million in holdings deemed too risky and not local-oriented enough to be a part of the credit union’s new lending strategy.

## MEMBER BUSINESS LOAN GROWTH

FOR ALL U.S. CREDIT UNIONS | DATA AS OF 03.31.16

Mazuma shed nearly 75% of its MBL portfolio in 2013 and has since begun rebuilding with an emphasis on local companies and more secure collateral.



Now, another team of specialists is rebuilding the MBL portfolio by concentrating on the meat-and-potatoes needs of area small businesses, including owner-occupied real estate loans and business equipment leasing.

Mazuma currently holds \$15 million in its MBL portfolio and has \$7 million in the pipeline. Executives expect these numbers to grow in

“People might say, ‘payday loan users should be more financially responsible.’ But then they end up with more month than money and use a credit card to cover it. It’s the same behavior, just stigmatized differently.”

— LARRY HAYES, PRESIDENT & CEO, CU HOLDING COMPANY



both size and stability in the coming months thanks to new guidelines and what Michaels proudly calls “an incredible team of Mazumans.”

For example, the credit union now requires all MBL borrowers to have a deposit account with Mazuma. This sounds like a standard practice, but is something that was overlooked in the past. The credit union also now more consistently offers cards, sweep accounts, and other merchant services to existing borrowers to strengthen their business bond with the credit union.

“We can serve the majority of businesses in our market,” says Jamie Gray, Mazuma’s vice president of business partnerships. “We just have to do our due diligence, ask the right questions, and provide the services they need.”

To do that, Gray and his team spend their days making calls, linking up on LinkedIn, and generally making themselves visible throughout the organization’s market.

## DOUBLE DOWN

When Mazuma hits a wall in its normal lending approach, it looks to its many outside credit union service organizations (CUSOs). To date, Mazuma boasts partial or total ownership in XtraCash LLC, SimpliFast LLC, InsureKC LLC, MemberInsure LLC, TruHome Solutions, TruHome Title Solutions, and the BYM Agency LLC, a well-established industry marketing outfit housed at the credit union’s headquarters.

Most of Mazuma’s CUSOs fall directly under the umbrella of its CU Holding Company, of which Larry Hayes is president and CEO.

The credit union’s market is a mix of low-, middle-, and high-income areas, yet many of its borrowers reside on the D-paper credit tier. These individuals in particular are good candidates for the payday lending alternative offered through Mazuma’s XtraCash CUSO, which patrons can access both online and at Mazuma branches. Then there’s SimpliCash, also a CUSO, which offers credit lines ranging from \$200 to \$1,500 as a next step beyond the \$400 XtraCash limit.

Mazuma doesn’t hold loans from these organizations on its books, but that doesn’t dampen its service standards.

“People might say, ‘payday loan users should be more financially responsible,’” Hayes says. “But then they end up with more month than money and use a credit card to cover it. It’s the same behavior, just stigmatized differently.”

In light of this fact, serving those who would be a no-go for most mainstream financial organizations is a crucial part of Mazuma’s mission. That’s why both the credit union and its payday lending CUSOs are working on a way to identify E-grade paper consumers — those with credit scores in the low 500s — determine whether that

number is rising or falling, and then help those on an upward trajectory continue their success.

“We have the tools, and we’ve made investments in technology so we know when we can take this risk,” CFO Mouzoukos says. “You can price it right. You can.”

A human touch is still needed, particularly in sensitive borderline cases, but for the CUSOs that serve the general membership, automation can help lenders keep better pace with growing demand.

For example, Mazuma is using CU Direct’s Lending 360 solution to ramp up its previously low automatic approval rates of 15-20%.

On the real estate side, Mazuma uses its own TruHome CUSO for origination support. TruHome’s inside sales team are CUSO employees and handle general mortgage inquiries, primarily from phone traffic, while its outside team — employees of Mazuma — handle branch traffic and originate new business through realtor and builder connections.

Originations from both channels funnel in to the TruHome loan origination system, where the CUSO’s support services process, underwrite, and service the loans.

The last of Mazuma’s CUSOs focuses on insurance.

“It’s the most profitable business you can be in,” Mouzoukos says. “We’re offering our members a good product they need anyway.”

Overall, Mazuma’s CUSOs were in a growth pattern in 2014, including the creation of two new service organizations. Altogether, these CUSOs provided \$82,000 in net income in 2014 and now are on target to earn \$671,000 in 2015.

“CUSOs are a natural extension of the credit union philosophy of collaborating for the benefit of the organizations and the members they serve,” Hayes says. “We’re excited about the future here.”

*This article originally appeared on CreditUnions.com on August 1, 2015.*

## CREATIVITY ON TAP

Mazuma frequently counts on the creative services of an outside marketing agency that operates within the credit union’s own walls. Formerly known as Beyond Marketing LLC, the CUSO — which is 90% owned by Mazuma — changed its name to BYM Agency last year. It has its own space inside Mazuma’s headquarters building and specializes in serving credit unions, CUSOs, and other financial services organizations. It has handled merger communications for clients such as FedChoice FCU in Washington, DC, and developed a new media strategy for myCUMortgage. Back home, the agency provided much of the colorful creative associated with Mazuma’s own rebrand.

# CO-SOURCING: HOW 3 CREDIT UNIONS COLLABORATE ON BACK-OFFICE OPS

*Communication and a shared perspective allow this consortium to gain efficiencies in areas that are scalable and manageable with clear metrics and service level agreements.*

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BY SHARON SIMPSON

After collaborating on a shared core system through Open Technology Solutions for more than a decade, Bellco Credit Union (\$3.3B, Greenwood Village, CO), Bethpage Federal Credit Union (\$6.6B, Bethpage, NY) and SECU of Maryland (\$3.1B, Linthicum, MD) asked what other ways they could partner to increase operational efficiency.

Their answer? The S3 Shared Service Solutions, LLC CUSO, which supports collaborative business solutions in the areas of deposit operations, real estate lending, consumer lending, collections, and call center operations. S3 officially launched in 2012 and is the 2015 winner of NACUSO's Innovation & Collaboration Award.

Although the three partner credit unions are each large by industry standards, their combined asset base exceeds \$12.5 billion and their membership tops 630,000. This, along with their existing technology alignment, has opened the door to more cost-effective and efficient operations.

"We are an operations center focused on delivering high-quality and cost-effective services to our credit union partners," says Mike Scully, CEO of S3. "We see ourselves as an extension of these three credit unions, not as a traditional vendor or outsourced provider. We call it 'co-sourcing,' as our goal is to offer the best of both worlds."

## PRE-PLANNING AND STRATEGIC ALIGNMENT

Bellco, Bethpage, and SECU of MD spent a significant amount of time planning for the new CUSO and made key decisions well in advance of hiring any official S3 employees.

According to Scully, sales is the major dividing line between what the CUSO manages versus what each credit union keeps in-house.

"The CUSO doesn't dictate product offerings or influence how the partners market to prospective or existing members," Scully says. "S3 simply does the back-end fulfillment."

This allows the credit unions to maintain their distinct identities within their markets while benefitting from efficiencies in areas that are scalable and manageable with clear metrics and service level agreements.

These fulfillment end services include the call center for all three credit unions. Although some might see the call center as a hybrid between sales and service, the S3 partners view the area as a member service channel that should be housed under one roof.

"Strategically, the decision was made to bring the call center into S3," Scully says. "Over time, our goal is to create a better member experience through the shared systems and tools available and exceed what any of the partners could have provided individually for their members."



“Our goal is to create a better member experience through the shared systems and tools available and exceed what any of the partners could have provided individually for their members.”

— MIKE SCULLY, CEO, S3



### EMPLOYED BY THREE CREDIT UNIONS

Everyone at S3, including the call center agents, receive a lot of information from the three credit union partners.

“We have corporate trainers here that support the entirety of S3 and specific department trainers for the call center who incorporate new product offerings and promotions from the partners into bite-sized training so we are positioned to help the members,” Scully says.

The CUSO is in daily contact with all three credit unions, and although the processes are more streamlined, they are not all that different from what the credit unions were doing before.

“Instead of walking down the hall to your call center, you are calling us before you launch a new campaign,” Scully says.

The “consortium,” as the partnership is referred to internally, focuses a great deal on communication. In addition to S3 employees communicating with each of the three partners, the three credit unions have frequent discussions themselves and keep one another informed of activities. And cross-partner meetings, involving all parties in each business area, occur on a regular basis.

“All of the first mortgage business leads or digital strategy experts will meet to discuss high-level topics or how to improve specific processes,” Scully says. “We’re constantly making adjustments to improve efficiency and enhance partner alignment. It’s an ongoing process.”

### MULTI-LAYERED GOVERNANCE

According to Scully, S3 has several layers of governance. The CUSO’s operating board consists of the CEOs of the three partner credit unions. The board meets on a monthly basis, many times via video conference, and meets in-person at least annually.

In addition to the operating board, S3 has a governing board that consists of six individuals. Two members from each of the credit union’s own board of directors serve on a rotating basis. The governing board meets quarterly, with members being re-affirmed annually and rotating on a two-year cycle. The S3 organization reports to both boards.

### THE IMPORTANCE OF LIKE-MINDED PARTNERS

S3 hasn’t completely ruled out adding new partner credit unions, but the CUSO is not actively pursuing anyone.

“We’re focused on making S3 as productive and valuable as possible for our current partners,” Scully says. “It would take a special partner to enter this group because the three credit unions are so like-minded. Successful collaboration requires partners to be open-minded and make sacrifices for the common good.”

Not only must partners be open-minded, according to Scully, they must also be fully committed for the long-term. This includes setting aside enough time and effort in the pre-planning stage.

“A large part of S3’s ability to get up and running quickly was how much work the credit unions put in before we existed,” Scully says. “They really set the stage for us to be successful.” 🧠

*This article originally appeared on CreditUnions.com on November 9, 2015.*