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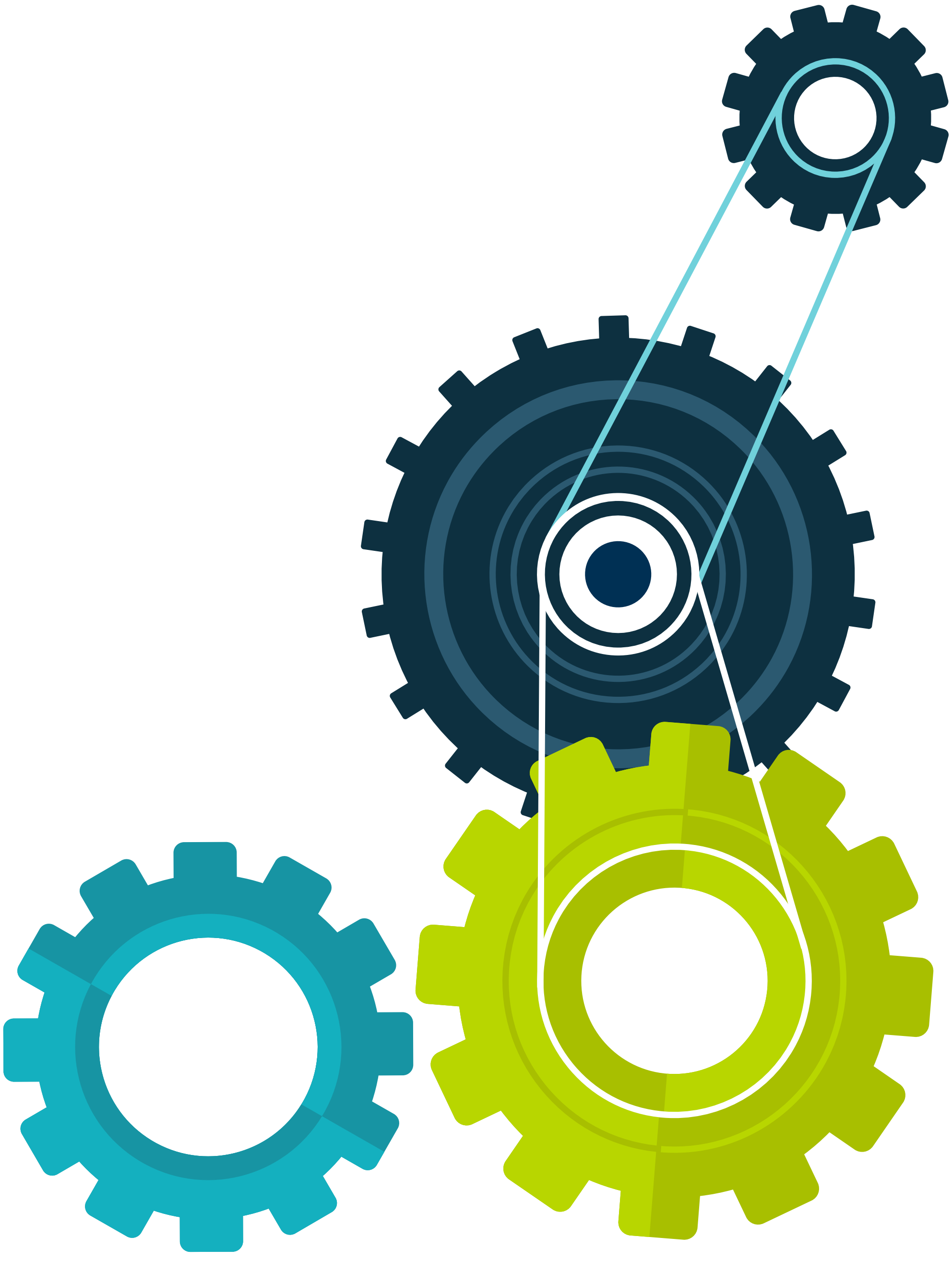
edition 1

TECH AT THE TABLE



FOR MORE CREDIT UNION STRATEGY & PERFORMANCE VISIT

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TABLE OF CONTENTS

PAGE 4 — **TECH AT THE TABLE**

By Scott Patterson

After attending the Finovate Fall conference, Callahan's Vice President of New Business, Scott Patterson provides insight into the technology trends discussed; specifically, the importance of leveraging technology solutions to serve members today and into the future.

PAGE 6 — **THE ROLE OF TECHNOLOGY IN CREDIT UNION MANAGEMENT**

Interview By Sharon Simpson

In this Q&A, Doug True, chief executive of FORUM Credit Union in Indianapolis, IN, talks to Callahan about the changing role of technology in the workplace and how his experience in IT has influenced his current CEO position.

PAGE 8 — **CLOUD STORAGE ADDS VALUE TO ONLINE SERVICES**

Interview By Sharon Simpson

In this Q&A, David Araujo, vice president of information systems at Digital Federal Credit Union, talks to Callahan about his institutions' Virtual Strong Box cloud storage system and the challenges associated with a membership that is primarily outside it's branch network.

PAGE 10 — **TODAY'S TECHNOLOGY HELPS MITIGATE LOSS AMONG RISKIER BORROWERS**

By Erik Payne

This article profiles two credit unions, DOCO Credit Union and America's Federal Credit Union who leverage technology to help mitigate risk in the auto portfolio. Here we look at America's GPS tracking and DOCO's starter interrupter technologies that each gives to high risk borrowers.

PAGE 12 — **ADDRESSING THE PAYDAY PROBLEM**

Interview By Drew Grossman

In this Q&A, Mark Allen, chief credit officer of Washington State Employees Credit Union, discusses his institution's efforts to utilize technology to combat local payday lenders. The credit union saw that much of its membership took out high-rate loans from payday lenders and developed Q-Cash as its own automated "payday" product.

PAGE 14 — **TOPPLE BIOMETRIC BARRIERS**

By Aaron Pugh

In this article, Callahan profiles Service Credit Union's biometric authentication technology whereby the credit union installed fingerprint readers for every personal computer and laptop in order to safeguard against fraud and other malicious activities to which credit unions are susceptible.

TECH AT THE TABLE

As credit union services and solutions become increasingly tech-focused, you need the right people helping to make the best business decisions.

BY SCOTT PATTERSON

In September, I attended the Finovate Fall technology conference in New York City. This annual, demonstration-focused event is one in a series of yearly conferences hosted by Seattle-based Finovate Group. I've attended the group's flagship two-day showcase a few times and always look forward to penciling it into my calendar (FYI, the 2014 New York conference is scheduled for Sept. 23-24).

The last time I wrote for The Callahan Report, I discussed the "5 Areas Of Innovation All Credit Unions Need To Monitor" based largely on my experiences at Finovate. Even though presenters, which ranged from established companies to startups, had only seven minutes to sell a discriminating audience on their financial and banking technology innovations, many managed to make a lasting impression.

But I don't want to rehash what I saw on stage. Instead, I want to talk about what I saw in the audience: Hundreds of attendees that have a deep interest in technology and financial services. Finovate attendees are there to see the latest and greatest in technology and are savvy enough about the field to develop a business case for why their organization might or might not want to adopt a new solution. They are business people who understand how to translate their technology know-how into bottom-line opportunities.

If a credit union wants to leverage the best technology solutions to better serve its members, then it must cultivate this kind of skill set. These people aren't as rare as you might believe; they exist at your credit union. The question is, have you identified them? Do they have a seat at your planning table? What about among the executive rank?

THE BUSINESS CASE FOR ADDING A SEAT TO THE TABLE

No credit union can adopt every technology product or solution that comes to market, so how do you build a dynamic organization that can continually filter through the options and identify the best path forward?

American Banker ran an interesting piece earlier this year about the mindsets that hold back financial institutions. One of those mindsets is the Jetson who is "convinced the bank's existence rides on the latest technology craze." A credit union — or any financial institution, for that matter — shouldn't follow a trend merely because it's hot. Likewise, it shouldn't reject an opportunity out of hand simply because it has already decided to do something else. Rather, you need a process embedded in the organization wherein you look at new opportunities and decide whether and why you want to move forward with one.

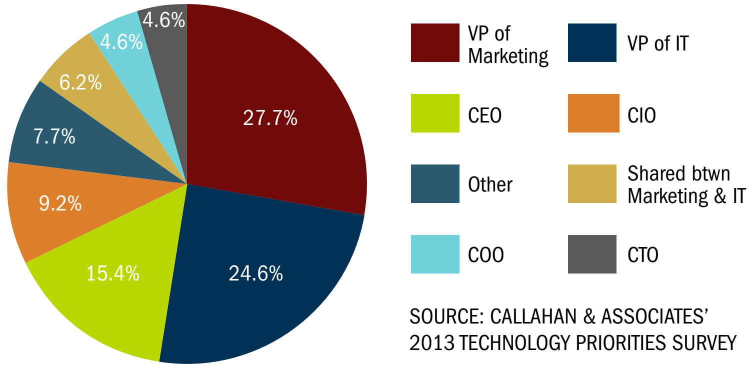
The days of the three-year or five-year technology plan are over. Things are changing too fast. A high-level roadmap that accommodates for changing opportunities, however, will allow the credit union to pivot, adapt, and change course as necessary. To thrive in this new era of financial services requires representation from a mindset that has not traditionally been included at the executive level — a technology-oriented mindset coupled with a fundamental understanding of the credit union's core business needs. People with this kind of mindset can help build a road map. Foster them. Encourage them to explore emerging technologies. And if they discover something is more important than what the credit union is currently working on, then elevate that project and change course. It's this kind of flexibility that ultimately will set you apart.

WHY NOW?

Even before the Internet became the omnipresent tool it is today, credit unions were wrestling with how to best harness technology. It's been at the forefront of strategic planning for more than 30 years — remember the debates over credit union ATM adoption — but today technology is a linchpin in how credit unions interact with members as well as how they differentiate themselves from competition. For example, it is likely you have new members with whom you will never interact face-to-face. If it is a young new member, they might be with the credit union for decades and never walk into a branch. And if that's okay with them, you need the kind of business model in place that makes it okay with you.

Technology has come further, faster than we ever could have predicated, and it's not slowing down. But instead of being overwhelmed at the breadth of possibilities suddenly at your doorstep, ask yourself a few simple questions:

1. How do we choose the solutions that will have the most impact on the credit union as a cooperative?
2. How do we position the credit union so what we adopt provides distinct value and services compared to our competitors?
3. Is there revenue potential? Yes, technology can be — and for many credit unions already is — a significant core competency and a catalyst for meaningful growth in areas such as attracting new members, loans, deposits, and non-interest income.



SOURCE: CALLAHAN & ASSOCIATES' 2013 TECHNOLOGY PRIORITIES SURVEY

IF NOT IT, THEN WHO?

Who is ultimately responsible for making major technology decisions at your credit union? According to the 2013 results from Callahan's annual Technology Priorities Survey, the people who are closest to the organization's technology plan are typically two or three positions removed from the senior managers making the most important decisions (see graph). Technology is no longer solely a back-office function, and to turn it into a forward-looking business competency you need someone who understands what is happening at the cutting edge of technology, someone you believe would be comfortable working at a Silicon Valley startup. After all, financial startups are where exciting stuff is happening. Make sure you have people on staff who are watching and learning from these external forces because that kind of second-hand observation will help put your organization on a flexible, cost-efficient path forward.

Of course, in addition to being hip to technology, this person must also understand, and ideally have had experience in, the business side of the credit union. They then need to be able to balance their knowledge against the needs of the member and translate all that into a technology strategy that can fuel growth for the organization. In my 15 years in the industry, I've seen these people in almost every organization. Surprisingly, often they are not part of the technology team or IT department. Instead, they are technology evangelists who work in all areas of the business. They haven't necessarily pigeonholed their career in technology.

So how do you identify the best candidates within your credit union? Start by asking who has the reputation around the office. Who is attending conferences like Finovate or reading up on Silicon Valley innovations and startups? Who has such a case of technology fever, or fervor, that they always have the latest gadget? Who talks about — and uses — new resources, solutions, apps, and websites to help them better manage their own finances?

There is generally someone in every office that is constantly floating around new ideas. They are genuinely interested in helping the credit union evolve and succeed, but they are frequently in a position where all they can do is suggest ideas. They also are likely to be reporting up to someone who doesn't have the same grasp of technology potential that they do.

WHAT YOU CAN DO TODAY

It is easy to get caught up in the enthusiasm of your potential tech giants, that's why it is imperative you look for a balanced skill set. You need to make decisions based on solid business practices, not fads.

If you're not comfortable promoting someone who offers these additional skills, then consider creating a technology strategy working group and ask for volunteers. This will help you evaluate internal talent and identify possible future executive candidates. Just be sure the right person is leading the charge. You want a mentor for this group who has a handle on technology and the authority to make decisions.

If you've identified the perfect person, they why wait to promote them? Investing in him or her today could have a significant positive, measurable impact on both the credit union and its leaders. The complementary skills they bring to the executive table need to be embedded in the senior team at some point and likely are creeping in already. Give the new leader objectives, listen to their ideas, and hold them accountable. Let them make a business case and be open to new directions. Perhaps most importantly, give yourself permission to, on occasion, fail to meet your goals — that's an unfortunate possibility when you are striving to adopt the next great thing.

Finally, tap your membership. Survey your members to get a better idea of their member experience. Ask them what they believe their needs are. What services or solutions do they use at other financial institutions? What have they experienced at other institutions that can help define opportunities for the credit union? Once you've identified your tech-savvy members, further engage them. Form a focus group or member committee that allows them to identify or vet ideas and act as a sounding board for leaders.

WHAT YOU WANT FOR TOMORROW

A technology seat at the executive table isn't about changing your core values or goals. It's about thriving, not surviving, in a new era of financial services. You need products and services that differentiate and generate value for the credit union and its members. To thrive at this endeavor requires a complementary technological skill set. Start cultivating that skill set today for continued success tomorrow.

THE ROLE OF TECHNOLOGY IN CREDIT UNION MANAGEMENT

Doug True, CEO of FORUM Credit Union, talks about the role of technology in the modern financial services landscape.

INTERVIEW BY SHARON SIMPSON

Indiana-based Forum Credit Union has more than $900 million in assets and serves more than 110,000 members. Doug True, who has served as the credit union's CEO since 2011, began at the credit union 25 years ago as a management trainee. During a stint in the lending department, he helped write code for lending programs, first for Forum members and then for a CUSO. In this Q&A, True discusses the changing role for leaders of technology and reflects on how his time leading FORUM's IT department enhanced the skills he brings to the role as CEO.

IS IT IMPORTANT TO HAVE A TECHNOLOGY LEADER ON THE EXECUTIVE TEAM? WHY?

DOUG TRUE: Yes, it is important to have a teammate at the executive level that is responsible for the technology function at the credit union. We have an executive team composed of six teammates; one of these is our chief technology officer. It is important to have this role represented on the executive team because each area of the credit union uses technology now in its pursuit of member service and will likely leverage technology even deeper in the future. Most technology decisions involve more than just the chief technology officer, so we need a collaborative approach to make the best decision for the credit union. The chief technology officer being a member of the executive team promotes such collaboration.

IS THE ROLE OF THE TECHNOLOGY LEADER EVOLVING IN CREDIT UNIONS? HOW?

DT: The role of the technology leader is rapidly evolving at many credit unions. In my opinion, the ideal candidate for the role is a business leader who understands technology and knows what new technology is capable of doing for the membership and the credit union. This business leader should have a capable technology team that manages and develops the technology on a day-to-day basis. I believe credit unions today should strive to have a business leader that has a keen understanding of the operations at the credit union instead of a pure technologist. This might be a shift for some credit union IT leaders, who in the past have tended to be more technical versus business-oriented.

ARE THERE NEW OR DIFFERENT SKILLS YOU THINK FUTURE IT LEADERS WILL NEED TO BE SUCCESSFUL?

DT: Yes, I believe future IT leaders must possess both a higher level of business acumen and a deeper understanding of the credit union's operation. For example, FORUM encouraged its chief technology officer to pursue an MBA, and he did so. This business acumen complements his technology expertise, and I believe it will help FORUM implement better solutions for our members over the long term.

OPERATIONALLY, DO YOU EXPECT THE STRUCTURE OF THE IT TEAM TO CHANGE MOVING FORWARD? PERHAPS, BEING MORE INTEGRATED OR EVEN SPREAD THROUGHOUT OTHER AREAS?

DT: Structure is important but not as important as a collaborative culture at the credit union. There is no magical template as the ideal structure depends on your team's skill sets and your credit union's objectives. A truly collaborative culture allows the appropriate teammates to work together on a project regardless of where they are sitting on an organizational chart. That type of collaboration is what we focus on here at FORUM.

HOW DOES FORUM ENCOURAGE COLLABORATION AMONG EMPLOYEES?

DT: One way we provide staff the opportunity to collaborate and develop as professionals is through a program we call Forum Future Leaders. This is a

Q&A

DOUG TRUE
CEO, FORUM CREDIT UNION

"The role of the technology leader is rapidly evolving at many credit unions. In my opinion, the ideal candidate for the role is a business leader who understands technology and knows what new technology is capable of doing for the membership and the credit union."

group of approximately a dozen employees who serve one-year terms to help the credit union implement groundbreaking tasks, many of which are related to technology. Any of our 300 employees can apply, and the goal of this program is to develop future leaders and ensure FORUM continues to implement the best solutions to serve our members.

We encourage ideas and feedback from all employees, but one result of this group in particular is that we continue to research fresh ideas and, when applicable, implement them through a collaborative process.

DO YOU SOLICIT IDEAS FROM MEMBERS?

DT: Absolutely, we encourage members to suggest new technologies or solutions they would like us to present. Some are eager to do so; it gives them a sense of participation and pride if one of their ideas develops into one of our services. Our front-line staff receives a lot of informal feedback during one-on-one conversations with members. We also have an advisory council of members; these are people who enjoy making suggestions and reviewing our offerings.

We don't find that technology ideas bubble up solely from young people — on either the membership or the staff side. We see them coming from all age groups, and of course we listen to all age groups. Anyone who has encountered a new technology, a new app, or a new approach can suggest we incorporate it for the benefit of our members. Technology is advancing at lightning speed and is becoming more critical in how we deliver service to our members. Having a technology leader who understands the credit union's business and is able to help the team identify the right solutions to implement is critical.

DO YOU THINK YOUR TECHNOLOGY BACKGROUND HAS BENEFITTED FORUM?

DT: Yes, I believe my technology background has been a benefit in performing my role as CEO at the credit union. My educational background, both undergraduate and MBA, is in business and I have been fortunate to work in a variety of roles at the credit union, including time leading the technology team. Understanding how technology works and, most importantly, how it can make the experience better for both members and teammates is a valuable skill.

CLOUD STORAGE ADDS VALUE TO ONLINE SERVICES

Digital FCU's VP of Information Systems discusses the technology that allows members to conduct business from anywhere in the country.

INTERVIEW BY SHARON SIMPSON

With a tech-savvy membership base and nearly half of its 400,000 members living outside its branch network, New England's Digital Federal Credit Union ($5.1B, Marlborough, MA) has made technology a high priority for some time. The credit union's focus on remote services and accessibility has helped it operate more efficiently than its asset and regional peers. At midyear, its 57.64 % efficiency ratio bested the averages for all U.S. credit unions nationally, 79.24%, Massachusetts credit unions, 82.71%, and credit unions with more than $1 billion in assets, 72.41%.

In this Q&A,David Araujo, vice president of information systems for DCU, discusses how the multi-billion-dollar credit union has incorporated secure cloud storage into its overall strategy of serving members no matter where they are.

WHY DID DCU IMPLEMENT SECURE CLOUD STORAGE FOR MEMBERS?

DAVID ARAUJO: We looked at where the market was going and recognized that many people are using cloud storage on a fairly regular basis already. For our members' sake, they'd prefer to get something from their trusted provider — DCU — that includes the type of security and controls they are used to from their credit union. We provide the storage, in the form of Digital Mailer's Virtual Strong Box, a bit differently and only make the virtual strong box storage available through our online banking channel.

HOW LONG HAS THE CREDIT UNION OFFERED THE SERVICE?

DA: It's been just over a year. We had a marketing push when we first delivered the offering and had another round of marketing earlier this year. We've already doubled the number of members who have taken advantage of it since the beginning of the year.

IS THERE A FEE FOR MEMBERS TO USE THE SECURE STORAGE?

DA: We currently offer the storage box for free. When you look at other cloud storage providers, consumers are used to paying a nominal fee or getting the space for free. It's tough to say we are going to charge you for coming through the credit union. We look at this as a value-added service from their trusted provider. It is different than other cloud storage solutions in terms of the level of security and privacy. Members know we cannot view their documents, which gives them greater peace of mind.

HOW MUCH STORAGE DO YOU PROVIDE?

DA: When we first went live we offered up to 100 megabytes per storage box. We increased that to 500 megabytes for anyone who had taken advantage of the service. We will continue to monitor when members hit a certain percentage of their storage and then increase it if needed. If people are finding value in this service, then we want to give them additional space.

HOW DOES THE SECURE CLOUD STORAGE FIT INTO YOUR BROADER TECHNOLOGY STRATEGY?

DA: We have more than 400,000 members and roughly 40-50% are outside of our physical footprint. This means remote channels and online services are the most important thing we can provide to serve all members. We've always focused on the ability to deliver technology solutions so members can do business with us anywhere in the country. We want them to know they can do business with us 24x7 and they have the tools they need to interact with us online. Currently, 220,000 are considered online members out of the 400,000. So while we have a good penetration, there are still a large number of members who aren't interacting with us online yet.

Q&A

DAVID ARAUJO
VP OF INFORMATION SYSTEMS,
DIGITAL FEDERAL CREDIT UNION

"We've always focused on the ability to deliver technology solutions so members can do business with us anywhere in the country. We want them to know they can do business with us 24x7 and they have the tools they need to interact with us online."

WHAT OTHER INNOVATIVE TECHNOLOGY PRODUCTS HAS DCU LAUNCHED RECENTLY OR FOUND MOST SUCCESSFUL?

DA: We launched mobile deposit early and were the first credit union to hit $1 billion in mobile deposits in March of 2011. Today, we have more than 100,000 mobile deposit users, so that has definitely been popular among our membership. We also offer mobile banking apps for iPhone, Android, and iPad. Members can pay bills through the apps, use remote deposit, and access our account manager, which is a self-service tool.

TELL ME MORE ABOUT YOUR ACCOUNT MANAGER; WHAT CAN MEMBERS DO WITH IT?

DA: DCU's account manager is a homegrown product where we deliver a lot of services to members. Members can do everything from uploading loan documents to filling out wire transfer forms. We have an inbox that is a one-way communication to our members. We use it for both operational and marketing messages such as notifying members of alerts on debit or credit cards or wishing a member a happy anniversary. We can also share pending authorizations on accounts so they know what holds are impacting their balances through the account manager functionality. All of this happens behind the PIN to ensure member security.

HAS YOUR TECHNOLOGY STRATEGY IMPACTED HOW YOU MARKET?

DA: When we do a targeted marketing effort, we discuss the right channels. We typically do a soft rollout through our account manager. It's amazing how people just find the new functionality or message. We often see in the range of 30-40% of members taking advantage of pre-approvals, raffles, and other marketing messages, so we don't always need to complement that with an email or direct mail offer.

DO YOU FIND THAT BRANCH TRAFFIC HAS DIMINISHED WITH SUCH A STRONG MENU OF ONLINE SERVICES?

DA: No, people still like to use physical locations. I don't know that we're ever going to get to the point that we see a downward trend in our foot traffic because we're always growing. The audience that is coming into the branch is the younger demographic, which is somewhat counterintuitive. I've heard recently that they feel more comfortable coming in to get a loan, even though they are comfortable with technology for other types of transactions.

TODAY'S TECHNOLOGY HELPS MITIGATE LOSS AMONG RISKIER BORROWERS

Credit unions are using resources such as GPS tracking devices and starter-interrupt systems to help members with low credit scores and questionable histories purchase cars.

BY ERIK PAYNE

Credit unions make money in three ways: interest on loans, interest from investments, and non-interest income. According to midyear data from Callahan & Associates' Peer-to-Peer analytics, average interest on loans for credit unions nationally represented 62.58% of total income. Unfortunately, the credit scores of many would-be borrowers tumbled as a result of the economic downturn, and along with those drops in credit scores went their chances of taking out a loan and contributing to a credit union's interest income. Although many members are working their way back into financial shape, credit scores are notoriously slow to recover, which means a once at-risk member's ability to borrow is still hindered.

Credit unions, sensitive to member needs, have created lending programs geared toward members with lower credit scores. Such loans might carry a higher risk, but credit unions are continuously working to mitigate that in a way that does not disrupt member service.

AMERICA'S GPS

Located on Fort Lewis McChord, America's Federal Credit Union ($400.0M, Fort Lewis, WA) understands how tough the transition period can be for families that have lost a job or left the military. That why two-and-a-half years ago the credit union, which primarily serves a military membership, started its Member Assurance program. Based on feedback from the collections department, the program asks members who are struggling with car payments to return the vehicle to the credit union, at which point America's sells it. The proactive sale protects the damage that would be done to a member's credit should the credit union have to recover the asset, and it saves the credit union the resource expenditure involved in a repossession.

Unfortunately, the vehicles America's tries to sell often are worth little in equity. So the credit union takes its auto strategy one step further back in the process by connecting with the member before they get into a loan they can't afford. To help members with impaired credit get into a car that's affordable and reliable, America's offers a loan with a one-and-a-half point bump over its standard auto loan rate. The loan also comes with a requirement that the credit union install a tracking device under the dashboard that allows it to track the car's movements if the member defaults on the loan.

According to Diane Branson, America's executive vice president and chief operating officer, choosing the right GPS tracking vendor is important, as credit unions want one that keeps up with tracking technology and offers a product with longevity. Branson declined to name the vendor America's uses, but said the credit union has had to deal in the past with devices that go bad, in which case the credit union must work to quickly repair them.

America's purchases three years of airtime on the devices and can renew if necessary. When the member pays off the loan, the credit union stops renewing airtime and the device goes off the grid, meaning it can no longer be used for tracking purposes.

In the meantime, though, members "get a quasi LoJack deal without paying for it because we can track that car if it needs to be tracked," Branson says.

Unlike America's other auto loans, the decision-making process behind the GPS loans take longer than the credit union's standard 10 minutes.

"There's more hand-holding, fact-checking, and underwriting that goes into making these loans," Branson says.

The technology takes additional time to install as well. The credit union buys the devices, but it is the auto dealer — the credit union only works with dealers with which it has a good relationship — who installs them after determining expenses and costs with the credit union.

Branson admits its GPS program is not right for every credit union. However, America's has experienced only a quarter of the risk it anticipated. According to the most recent data provided by America's, its GPS tracking loans had a 1.62% loss ratio and a 1.39% delinquency ration. These figures stand in comparison to Callahan & Associates' most recent Peer-to-Peer data, from June 2013, which show that delinquent loans made up approximately 1.04% of total loans for all credit unions nationally, while the average delinquency ratio for America's loans outside the program as 0.77%.

Although both the rate and the potential for repossession are slightly higher with the loan, members appear to be happy to drive a car they can afford and rebuild their credit.

"[Our members] know what their credit is," Branson says. "They know what their opportunities are."

DOCO'S STARTER-INTERRUPT STRATEGY

According to the 2010 U.S. Census, 31.9% of families and 39.9% of the population of Albany, GA, fall below the poverty line. Accordingly, the credit scores of members of DOCO Credit Union ($202.7M, Albany, GA) are lower than the national average.

To meet the demand for cars in Albany, DOCO carries a large proportion of auto loans on its balance sheet. The credit union carries $72 million in total new and used auto loans, a large difference from is Georgia state peers who carry just $32 million in these areas, according to Callahan & Associates' Peer-to-Peer data. Many of the area's "Buy Here, Pay Here" car dealerships charge interest rates of up to 28%; by comparison, DOCO's rates typically range from 12.25% 18%.

The credit union separates potential borrowers into tiers, considering metrics such as loan-to-value ratio and length of employment in addition to credit scores. The lowest credit score a borrower can have and still qualify for a standard loan is 570. Any lower and the member falls into the DOCO's Fresh Start program, which, among other parameters, requires all vehicles be equipped with a device that can interrupt the electrical flow to the car's starter.

"It's their best chance to get a reasonably priced loan on a vehicle without having to go to a 'Buy Here, Pay Here' or a finance company," says loan manager Daryl Salter. "You have people say 'I've had bumps on my credit score; I just need someone to give me a chance.' If they really feel that way, this is an opportunity to do that."

The credit union introduced starter-interrupt devices in 2006 when SureTrack, the vendor who makes the devices, suggested DOCO install them as a way to mitigate the risk of lending to lower-tier members. SureTrack installs the device and DOCO controls it. And although every situation is different, Salter says the credit union generally disables a car when a loan payment is more than 15 days late. If a member cannot restart their car, they generally call the credit union first. DOCO usually restarts the car if the member promises to make a payment, and the credit union cannot disable a car while it is in operation.

After it launched the strategy, it found members elevated their DOCO auto loan to their top priority. Of course, members must initially agree to allow the credit union to install the device, and DOCO does make exceptions for long-term members.

"I don't want to punish the tried-and-true members who, for whatever reason, still have a low credit score but have always taken care of us," Salter says. "We still want to help those folks."

On average, the credit union installs five starter-interrupt devices a week and makes one repossession per month. Midyear delinquent loans and net charge-offs at DOCO are higher than peer and national averages, 1.49% and 0.78%, respectively. The starter-interrupt loans, however, are performing better than their lower-risk counterparts. According to Salter, starter-interrupt loans have a 0.5% delinquency on a portfolio of more than $4 million, a figure that has remained steady over the life of the program.

DOCO does experience issues with the program, however. Enterprising members can find ways to take off the device. In those cases, DOCO — who ultimately just cares about repayment — must decide whether it wants to repossess a vehicle from a member who is making timely payments.

"The starter-interrupter is not a magic bullet." Salter says. "It's not the perfect solution for everybody, but it is a great tool."

Member reaction to the program has been surprisingly positive.

"I thought it would be a terrible thing," Salter says. "I thought there would be folks saying this is crazy. But a majority of folks want to pay. I think that is their nature — they want to pay."

ADDRESSING THE PAYDAY PROBLEM

Mark Allen, chief credit officer at WSECU, talks about the credit union's automated quick loan product.

INTERVIEW BY DREW GROSSMAN

In the mid-2000s, Washington State Employees Credit Union ($1.9B; Olympia, WA) received a wake-up call when it discovered members were taking out high-rate loans from payday lenders and quick cash shops. The information prompted the northwestern credit union to create its own, lower-rate payday loan product. The result, Q-Cash, provides up to $700 with a 60-day repayment term and $12 fee for every $100 borrowed. The offer is so popular that in 2012, WSECU introduced Q-Cash Plus as a way for members to borrow more money for a longer duration.

Over the past decade, WSECU has automated more and more components of the Q-Cash loan process, which in turn has lowered costs and, when coupled with the growing number of loans taken out, increased revenue. Here, WSECU's chief credit officer, Mark Allen, discusses Q-Cash and the benefit of automation.

WHY DID THE CREDIT UNION DECIDE TO OFFER A QUICK CASH PRODUCT?

MARK ALLEN: About 10 years ago, we realized our members were using payday lenders and high-rate quick cash options. We did some analysis to determine how many of our members were going outside the institution to secure this type of financing and realized we had a hole in our product repertoire. We weren't meeting members' needs in terms of convenience, speed, and availability, regardless of credit. The genesis of the idea was to offer an alternative we felt would be better for our members.

IS IT BAD TO HAVE MEMBERS TAKE ON HIGH-RATE LOANS OUTSIDE THE INSTITUTION?

MA: I don't know if it's bad or good. It's not our choice, it's the member's choice. We're just trying not to ignore a portion of our membership that has a need we were basically not fulfilling in the past. Our goal is to make products that are well priced, fair, and available to all our members and then let them make choices on what they feel they need.

TALK TO ME ABOUT THE TERMS FOR Q-CASH.

MA: A few years ago, the state of Washington passed a law that requires a minimum of 45 days to repay a payday-type loan. It used to be 15. Our product is 60 days, so we give people a little more time than we need to under state law. It's a 60-day term with a $12 per $100 fee. Our typical loan is close to $500, which means our typical fee is close to $60 for each loan. It's pretty simple.

If members can't pay it back in 60 days, we will extend their term and a number of people pay us back in three months or four months or another period of time. We do take losses though. We write off $10,000 to $14,000 a month in loans that aren't paid back.

IS IT AN AUTOMATED SYSTEM?

MA: We've been using it since '04 or '05 and over the years we've automated more and more of it. With the build-out we're working on this year, it's fully automated to make it deliverable and able to plug in to other cores. We're also adding the mobile feature so people can get the loans directly from their phone with immediate funding. We're testing all of the new systems right now.

Over the years, we've done a few updates onto the core, I'd call it almost duct tape solutions internally to make it work, and it's worked fine. The fully automated product, with mobile included, will allow us to commercialize it. Not only will it work for us, but we can make it available to other credit unions looking for a way to drive cost out of the equation in offering this product. With a lower cost, credit unions can price it wherever they want. By fully automating everything, we're hoping we can provide a solution to

Q&A

MARK ALLEN
CHIEF CREDIT OFFICER,
WSECU

"We weren't meeting members' needs in terms of convenience, speed, and availability, regardless of credit. The genesis of the idea was to offer an alternative we felt would be better for our members."

credit unions that only want to charge, or only can charge, 18% interest and a $20 application fee.

WHAT'S THE TIMELINE TO ROLL THAT OUT?

MA: Our goal is to push it out to our members after the first of the year if possible and then give it the first couple of months, the first quarter, to work out the bugs. We want to work out whatever bugs we might have missed in the testing and get everything working well. Then we'll start to make it available to others starting in the second quarter.

WHAT ARE THE TERMS AND PRICING FOR Q-CASH PLUS?

MA: The pricing on the Q-Cash Plus loan is different than the standard Q-Cash loan. Q-Cash Plus has a $25 application fee and an APR of 36%. The dollar amount can go up to $4,000, and the term can go out to three years, so it's a longer term. It's a product we put out in mid-2012 to give people access to more money, give them more time to pay it back, and lower the effective APR from Q-Cash. It's been pretty well adopted.

DO THESE PRODUCTS MAKE A PROFIT FOR THE INSTITUTION?

MA: The first five years we didn't make any money. We started making some money with Q-Cash in '08 and now we actually generate a pretty nice chunk of net income off those loans despite the fact we're offering them at prices well below what traditional lenders in the marketplace are offering.

HOW DID THE LOANS BECOME PROFITABLE?

MA: When we started automating more and more, we brought the cost down. We had a lot of people processing a lot of loans, and the process was clunky. These are small loans, $50 or $60 a pop, so if it costs you $40 or $50 to put them on the books and service them, and then you have losses on a few, you're not going to make money. So taking out the cost was one piece of it. We effectively reduced our staff over the next five years by about 50% and increased our volume of loans by about 200%.

The other thing was adding Q-Cash Plus. Today, that product is more profitable than Q-Cash even though we've only offered it for about 17 months.

Our hope is as we automate more and perhaps drive more volume because of the mobile, we'll be able to reduce the pricing to make it more affordable to members.

TOPPLE BIOMETRIC BARRIERS

Service Credit Union demonstrates the value of enhanced authentication and explains how to make biometric measures work for your institution.

BY AARON PUGH

Despite the wealth of physical resources and electronic access points that modern credit unions must monitor, it's important to remember that all security-related issues — both positive and negative — start with people. Perhaps that's why some credit unions are harnessing biometrics — a merger of both biological and electronic information — as a way to help lock down potential vulnerabilities.

NO TIME FOR DOWNTIME

With 38 branches — including 17 in Germany — Service Credit Union ($2.3B, Portsmouth, NH) is essentially a 24-hour operation. Despite its size, the credit union relies on one-on-one interactions to identify choke points in process and security. When chief information officer Bill Arnold joined the credit union in 2009, he asked IT staffers to use their on-site visits with the front line to proactively identify minor, yet recurring, pains that could — in aggregation — negatively impact service and security across the institution.

"As technologists, we sometimes make the mistake that our people are plug and play just like our solutions," Arnold says. "We need to take the time to really identify and understand any needs our fellow employees might have."

One issue that immediately sprang to the forefront during these visits was the number of credentials employees needed just to do their jobs.

"We had employees with 30 different username and password combinations," Arnold says. "They would have them all written down on a pad that they kept in their desks or in their cash drawer."

In addition to posing a security risk, this environment was also generating a steady stream of account lockouts, password resets, and other account access issues that were consuming a disproportionate amount of the IT help desk's time.

USE WHAT YOU'VE GOT, LITERALLY

Prior to joining Service, Arnold served as vice president of IT at Purdue Federal Credit Union ($786M, West Lafayette, IN), which was the nation's first financial institution to incorporate biometric access for member accounts.

Given his background, Arnold quickly identified how a similar solution might remedy the employee-facing issues at his new institution. After surveying available options, Service moved forward with a system from California-based Digital Persona in 2010. By first quarter 2011, it had deployed fingerprint readers for every PC and laptop at the institution at

"As technologists, we sometimes make the mistake that our people are plug and play just like our solutions. We need to take the time to really identify and understand any needs our fellow employees might have."

a cost of roughly one-eighth of a new help desk hire.

Each time an employee scans their fingerprint, a client on each PC connects to the Digital Persona server, which then searches for a match and bridges back into the credit union's active directory of authorized user accounts.

"Today, almost every internal and web-based system used by our staff is enabled for biometric authentication," Arnold says. "You can forget passwords or lose access cards, but it's really hard to forget to bring your finger to work."

The number of client support requests has dropped significantly since implementing this system, which allowed Service to eliminate the department altogether.

"We still do some of our user access management activities manually, but we've been able to move the three people who were in client services to new areas and have them focus more on other critical issues," Arnold says.

Biometrics has also helped Service control and limit the spread of sensitive information that could be exploited to hurt the credit union.

"Employees don't actually know or have access to their passwords anymore, so we don't have to worry about where that information ends up," Arnold says.

And although the education and training required to onboard employees on the use of this authentication technology is fairly streamlined compared to offering the same service to members, Service is open to that option in the future.

"Even if you have thousands of members, you can still use a one-to-one authentication formula, which means the system looks for and compares information only on the specific profile for the name given," Arnold says. "A one-to-many system, like those used by law enforcement, searches through the full database and feeds back several likely matches, but there's a real cost and extra time associated with that."

BEST PRACTICES FOR IMPLEMENTATION

Despite its many advantages, biometrics is still a hard sell for some, admits Arnold. Here, he highlights three common concerns a credit union might encounter with biometrics and the education and approaches that are helpful in addressing them.

#1 — OUCH, THAT'S GONNA LEAVE A MARK

Injuries or alterations can temporarily or permanently alter the physical traits used for biometric authentication. And in colder climates, an issue as simple as dry skin may also cause problems.

To address these variations, credit unions need to find an acceptable balance in selecting their confidence threshold, Arnold says.

"You can set a system to look for a 100% match, but a 95% match is sophisticated enough for one-to-one authentication and it still provides enough wiggle room to limit unnecessary user headaches."

#2 — THE MAN WITH THE GOLDEN THUMB

"Due to extreme wear on the ridges of the finger, an injury, or some other factor, a very small section of the population has prints that will never be scannable," Arnold says.

For this reason, he recommends member-facing biometrics only as secondary form of authentication and advises institutions to keep ready alternatives in place when such cases do come up.

#3 — CONSPIRACY THEORISTS AND HOLLYWOOD HEISTS

Given rapid-fire revelations about the extent of the government's reach into supposedly secure networks, consumers might harbor concerns that their biometric profiles could somehow be accessed without their permission or even used against them.

"The good thing is that these readers just establish a string or a number of points that describes your fingerprint," Arnold explains. "It's a one-way system that can't be reversed engineered to recreate a fingerprint."

And don't let members or employees believe what they see in the movies. Most modern readers scan under the first layer of skin to the capillaries beneath to check for liveness — body heat, pulse, etc. — so a severed finger or an artificially produced decoy would not fool the system.