CREDITUNIONS.COM

CUSP

CREDIT UNION STRATEGY & PERFORMANCE

CUSP COLLECTIONS

CUSOs

CUSO EDITION | PROVIDING DATA-BASED INSIGHTS THAT MOVE CREDIT UNIONS TO TAKE ACTION

CALLAHAN & ASSOCIATES

FOR MORE CREDIT UNION STRATEGY & PERFORMANCE VISIT

CREDITUNIONS.COM

Editor | Alix Patterson

Media Director| Rebecca Wessler

Creative Director| Michelle Hoopes

Contributors
Thomas Cullen
Aaron Pugh

Advertising Inquires (800) 446-7453

PUBLISHED BY

CALLAHAN & ASSOCIATES

1001 Connecticut Ave, NW Suite 1001, Washington, DC 20036 Ph: (800) 446-7453 | F: (202) 223-1311
Editor@CreditUnions.com

Callahan.com | CreditUnions.com

TABLE OF CONTENTS

CUSOS COME IN ALL SHAPES AND SIZES, YET ALL PROVE HELPFUL IN IMPROVING EARNINGS AND SAVING MONEY.

The past few years have presented credit unions a handful of challenges to overcome, but credit union service organizations have pioneered a number of new earning opportunities made possible through the evolution of the co-operative model. In addition to being a viable strategy for diversifying a credit unions' earnings, CUSOs are also proving to be a source of cost savings and efficiency enhancement. In this *Best of CUSP Collection,* Callahan Media profiles CUSOs, young and old, that are making a difference for the credit unions they serve.

WHAT YOU'LL LEARN

- How CUSOs can help credit unions diversify their revenue sources and expand into new markets.
- Why participating in CUSOs can lower costs and improve productivity.
- When to turn to a CUSO for some or all of a product's service delivery chain.
- What to consider about your potential partners when joining or starting your own CUSO.
- How different CUSOs have addressed staffing needs, from the startup phase to expansion and maturity.

By Aaron Pugh

CUSOs Make Industry Advancements Accessible

Service organizations undercut the dangers involved with innovation, create widespread industry advancement, and utilize credit union strengths to take regional co-operation to the next level.

CUSP Archives

Network Collaboration 3.0: The Next Generation of CUSOs outlines how collaborations, through CUSOs and otherwise, hold the promise of earning non-interest income from non-traditional financial products and of significantly reducing operating costs. Both opportunities are welcomed in an industry where the average net interest income is less than the costs of running a credit union. If collaborations are not extensively used by credit unions, the survival of most credit unions is at substantial risk.

The Paper Trail: Documenting CUSO's Earning Opportunities brings light to evidence of heightened CUSO profitability and increased return on investment that springs from their synergistic nature.

Charts and Tables:

Top Credit Union Investors and Lenders to CUSOs

Leading Credit Unions By Participation

Credit unions surpass other financial institutions when it comes to seeking out and meeting the needs of their members. Although their strong community ties and manageable sizes play a part in connecting them to their roots, their responsiveness is also a result of their overreaching philosophy of "people helping people," a trait found among even the largest of credit unions.

In many ways, credit unions' size is both an advantage and a hurdle in working against larger FDIC competitors. Credit union service organizations (CUSOs) are a valuable resource that helps put credit unions on an even playing field. They allow even the smallest credit unions to reach far beyond the capabilities of the single institution to make a big impact on local, national, or global markets.

As examples from across the country demonstrate, an effective CUSO not only opens opportunities and revenues beyond traditional capabilities but also diffuses the risk associated with new innovations or market outreach, which furthers the whole industry.

Diffusing Risks

Midwest-based Mazuma Credit Union ($412.5M, Kansas City, MO) created the CUSO holding company, CU Holding Company, LLC, in 2003 to "deliver economies of scale and offer incubators for innovation to the CUSO's credit union owners and clients," says Lisa Renner, CU Holding Company chief executive officer. Currently CU Holding Company comprises five subsidiaries that span several fields, from marketing, payroll services and research and development to payday lending and mortgage origination and serving.

The company's subsidiaries share capital, employees, and brick and mortar, and although CU Holding pays taxes on its income, its subsidiary companies, which are LLC partnerships, do not.

"This diversity has served the CUSO well," Renner says. "When the lending subsidiaries are having a rough year, the operational ones tend to do well and vice versa."

Likewise, the diversity within CU Holding fosters greater overall stabilization, allowing each individual CUSO to approach the risk required for innovation with a wider safety net.

"Because the subsidiaries are consolidated into CU Holding Company, the older, more established companies in essence fund new opportunities," says Renner. She estimates CU Holding has generated a return on investment of 324% in consolidated income to Mazuma's bottom line; in turn, its subsidiaries have returned impressive dividends for CU Holding.

Identifying New Markets

Because CUSOs can diffuse individual venture risks, they are better able to pursue the developing fields and new technologies that keep credit unions on the cutting edge.

One environmental difference between CUSOs and credit unions is the fast-paced nature of service organizations. That pace "can't be stifled with normal policy and procedure," Renner says. "If it's stifled, it loses its start-up drive and energy. This thwarts the creativity needed for finding unique solutions to the industry's needs."

Purdue Employees Federal Credit Union ($611.2M, West Lafayette, IN) is one example of a credit union that uses its CUSO to work beyond the "normal" bounds. In the course of expanding its Intranet in 2002, the credit union discovered two student software developers with big ideas and untapped potential.

"Together, these two had developed software for an Intranet portal for financial services companies," says Gail Koehler, PEFCU executive vice president and head of IT. The two men "demonstrated the viability of the product" but fell short in their "business plan, financing, and management experience."

The credit union invested in the portal through its mortgage CUSO, CU Channels, which took minority ownership but management control. The joint venture between CU Channels and the two young developers paid off. Passageways LLC became a booming new service offering for area credit unions and provides a strong return for the credit union, says Koehler.

"Passageways has been quite successful," Koehler says. "It has sold more than 200 portals to financial services organizations, most of them credit unions."

The portal now offers 28 modules with solutions in areas such as email, human resources, and teller communication. It's an award-winning company whose entrepreneurial co-founders have been recognized in Inc. Magazine and Bank Technology News.

"Passageways contributes significantly to our CUSO's bottom line, which then flows directly to our credit union's net income" says Koehler. Its cumulative contribution exceeded $1 million in 2003. One lesson the credit union learned from expanding into new markets with its CUSO: "Keep out of the way of the creators," says Koehler. "Let them follow their vision."

"Our feeling was that Passageways would go best if the two creators kept developing the product in the way they envisioned," Koehler says. "A lot of people would not be comfortable with this approach, but it worked for us. If you want a CUSO to earn money in the traditional way, set up a traditional product or structure."

Expanding Existing Strengths

For some credit unions, CUSO opportunities do originate from a traditional product or structure. Instead of focusing on developing a new technology or service, some credit unions take what they already do best and use their CUSO to expand those services to new segments of the industry.

Ken DeMello, chief financial officer for FedFinancial Credit Union ($60M, Rockville, MD) says his credit union expanded its CUSO through an existing service the credit union had perfected, in the form of an especially talented collection agent. What began as the credit union lending a collections agent to other area credit unions blossomed into a full-fledged CUSO, Innovative Strategic Solutions. ISS now services 20 credit unions that cannot hire full-time bilingual collectors on their allotted budgets.

"The collections portion especially has been doing well," says DeMello. "Its clients on average have a combined delinquency/charge-off rate 25 basis points below that of their peers."

ISS has also partnered with a conference and training company called InnerShift to provide "high level training for credit union leaders with top business experts in a foreign setting," says DeMello. That collaboration has spawned two local divisions, CU Developments and CU Philanthropy, which offer training and team building exercises that benefit local and global causes.

The CUSO doesn't stop at just bringing coworkers together, however. "Another aspect of ISS is establishing partner relationships with companies that have a great offering but are little-known among credit unions," DeMello says.

To effectively transition your initial strengths into a large-scale CUSO approach, be organized and clearly set the goals you want to achieve, advises DeMello. But this advice is a "best practice" for any CUSO adventure.

"Understand that you are taking a risk," Koehler advises. "Your venture could be a failure."

"Recognize that the entrepreneurial environment is much different from the credit union one," echoes Renner. "There's far more risk, but of course the reward can be far greater, too."

By Thomas Cullen

The Big And Bold

Mortgages are an exciting component of the credit union loan portfolio. These four CUSOs enter the industry from different access points.

CUSP Archives

Calling All Mortgage CUSOs calls out the fact that the 5300 Call Report contains valuable, but somewhat limited, information on credit union participation in Credit Union Service Organization (CUSOs).

Michigan Mortgage CUSO Navigates Rough Terrain highlights how one CUSO Mortgage helps it members manage all of their mortgage needs.

10 Ways To Improve Your Mortgage Portfolio gathered the top ten benefits of joining a CUSO from the mouths of industry insiders. Credit union service organizations offer a variety of perks to credit unions and their members including enhanced expertise to reduced overhead and stress.

Rules, regulations, and the dreams of regular people. In order to succeed in the mortgage business, credit unions must be able to navigate a dense, intimidating environment. Luckily, a CUSO can point a credit union and its members in the right direction.

As entities designed to provide services for credit unions, CUSOs offer an array of characteristics for credit unions' disposal. No single attribute creates a perfect fit, but Tower Title Services, CU Realty Services, Prime Alliance, and myCUmortgage are four examples of the different ways in which CUSOs help credit unions access the real estate world.

Tower Title Services

Maryland-based Tower Title Services is a small CUSO that serves its parent credit union, Tower Federal Credit Union (Laurel, MD, $2.2B), as well as six others. It offers title insurance and real estate settlements to real estate buyers and sellers. And it does so with fewer than 10 employees.

"The real estate loan is a product, but it's really more of a service," says Barry Stricklin, manager of real estate lending at Tower Federal Credit Union. When considering how to supplement TFCU's real estate portfolio, Stricklin and his colleagues examined the industry to locate areas in which he thought they could deliver service and value to members. Title services popped into view.

But before diving in, Stricklin and his colleagues did their research. They looked at liabilities. They looked at pro forma financials. They looked at how scalable a title program would be. Once they decided their plan was doable, they launched Tower Title Services as a wholly-owned CUSO, which allowed them offer their services to other credit unions.

Having an experienced leader on board early was critical, Stricklin says, and today, a real estate attorney manages Tower Title. Stricklin encourages any credit union that wants to start a company such as Tower Title to zero in on experience when evaluating potential hires. The expertise will add immediate credibility to the company and help in early negotiations with people such as underwriters.

Stricklin says the goodwill between Tower Federal Credit Union and its members made opening the title company a viable endeavor. If the employees at Tower Federal Credit Union recommended Tower Title, Stricklin felt like members would listen. He was right.

Tower Title captures 90% of the loans that are originated at TFCU.

"I believe other credit unions can achieve that," Stricklin says.

Tower Title further guarantees success by offering two value-added propositions. First, convenience. The staff brings the transaction to members whenever and wherever they want at no additional cost beyond the base fee. Second, simplicity. Tower's fee structure is straightforward, and Tower doesn't pass costs onto the borrower.

Tower Title might not be the biggest CUSO, but it makes a big impact.

Prime Alliance

With headquarters in Tukwila, WA, and an office in Edina, MN, Prime Alliance operates under two fundamental objectives. The first is to create the best possible borrowing experience for credit union members, says Dan Green, vice president of business development for the CUSO. The second is to create leaner lending practices for credit unions.

Prime Alliance, a one-stop-shop for credit unions in need of lending solutions, achieves these objectives by bringing uniformity and control to the business. It keeps all documents and data related to a mortgage transaction in one computer system, which reduces confusion and errors. The company focuses only on the mortgage transaction and offers support for its solutions.

"We're in the mortgage lending solutions business," Green says.

Prime Alliance also offers expertise.

"One of the reasons for our success is our staff is experienced," Green says.

And all of the methodology and experience is aimed at creating a CUSO that can best serve its members. For Green, a successful CUSO is one that demonstrates a strong value proposition and maintains efficiency.

By encircling the mortgage transaction with its offerings, Prime Alliance shows how a CUSO can reduce the stress on member credit unions that want to enter the mortgage business but lack the resources to do so.

CU Realty Services

Although CU Realty Services does not originate or process mortgages, the California-based CUSO keeps mortgages in the credit union industry by connecting members to a critical component of the mortgage business: agents.

"CU Realty helps credit unions position themselves as a first point of contact with their members before they connect with realtors who direct them elsewhere for their mortgage," says Tina Powers, chief operating officer for CU Realty Services.

The CUSO tends to 56 credit unions nationwide. One benefit of this wide-reaching coverage is the ability to increase the visibility of a credit union's mortgage offerings in the hopes of increasing the flow of mortgage services into the industry, Powers says.

Once the process of finding a home begins for a member, CU Realty Services opens up its network of Approved Agents. Working with one of these agents nets the credit union member a 20% rebate and a reliable realtor that has the member's best interest in mind.

CU Realty Services' approach to the mortgage industry is an exciting one. It works with three of the major players (finance providers, home buyers, and realtors) and works to benefit them all.

myCUmortgage

myCUmortgage puts credit unions in the driver's seat. The CUSO, which is owned and operated by a division of Wright-Patt Credit Union (Fairborn, OH, $1.9B), delivers exactly what a credit union wants during the mortgage process.

Its results are resounding. The Ohio-based CUSO and its credit union partners increased closed loan production by more than 180% from 2008 to 2009.

Knowledge of the industry, expertise for credit unions that already have mortgage departments, and top-shelf pricing and customization all make myCUmortgage an attractive mortgage CUSO option. And even though it works with nearly 120 credit unions, it aims to make each deal more beneficial than the last. myCUmortgage even partners with Prime Alliance for software access. Apparently, great minds think alike.

CUSOs are a viable option for credit unions that want to enter the mortgage business. And there's no wrong choice when it comes to choosing a CUSO. The bottom line is each credit union must make the decision that best serves members. The size of the CUSO doesn't matter nor does the number of credit unions it serves.

Tower Title Service offers convenience. Prime Alliance offers efficiency. CU Realty Services offers access. And myCUmortgage offers customization. Each offers much more, too. The only question left for credit unions considering a CUSO is "Which one works best for your members?"

By Thomas Cullen

Collaboration from the Ground Up

California CUSO CURoots sprouted from diligence and cooperation to reduce back-office expenses for credit unions.

CUSP Archives

CUSO Expansion Fosters Collaboration discusses how the industry nurtures and supports credit union service organizations as a solution to business and regulatory constraints.

Grow UP provides a timeline of what to expect from the different stages of your CUSO. Like people, CUSOs face different challenges as they age. To learn what a newborn CUOS can expect, we talked to professionals who run organizations of varying ages.

First, it was a committee looking for answers. Next it became one of a few options on the table. Then it became a credit union service organization.

There were questions during the whole process. What services would it provide? Answer: Initially, it would offer compliance.

The brainstorming committee faced obstacles, but it pushed through. And in January 2011, CURoots will launch out of an Ontario, CA, office. In 2008, the California and Nevada Credit Union Leagues was curious about its credit unions' spending strategies, back-office efficiencies, and growth initiatives. To learn more, it distributed a summer survey that addressed these issues and more. When the responses came back, the need was apparent: Credit unions could benefit from collaboration.

As 2008 wound down, the Leagues formed an ad hoc committee, also known as the Statewide Collaboration Committee (SCC), to discuss collaborative possibilities. The SCC comprised seven credit union CEOs [see sidebar] and was tasked with figuring out how to best generate productive collaboration. The group brainstormed ideas on how to foster relationships that offered the maximum takeaway for the highest number of credit unions. Initially, the group met on a quarterly basis, but as the possibility of a new CUSO took shape, the meeting schedule intensified. Eventually, the executives were meeting on an almost monthly basis.

Predictably, the economic climate was a recurring theme in the survey responses; economic concerns were also a main driver behind the formation of the committee.

The distance between net interest margins and operating expenses made for a tough environment for credit unions, says SCC committee chair and USC Credit Union CEO Gary Perez. "When margins were at 5%, we didn't have a need to collaborate," he says. "Collaboration is hard."

He's right. Teamwork is responsible for some of history's greatest architectural, scientific, and athletic accomplishments. But that doesn't mean it's a process without obstacles.

> "With [the] back office services [we offer] to credit unions, they can focus on their core business: serving their members."
>
> Linda White
> CEO, United Health Credit Union

From the outset, the committee had to overcome the considerable differences among its members, who were CEOs of credit unions ranging in asset size from $9 million to $646 million. The first hurdle was to create a meeting environment that fostered cooperation. That obstacle didn't take long to clear.

"We had seven people who were committed to the objective," Perez says.

Committee member and Eagle Community Credit Union CEO Joe Schroeder agrees. "[The meetings] were open, they were free-wheeling, and everybody admitted that nobody had the right answer because everybody's crystal ball was foggy."

Inside the meetings, ideas and variations on how to collaborate swirled. A CUSO isn't the only way for credit unions to join forces, and the committee considered several options.

The committee considered possibilities that offered an informal structure for working together. It looked into the kinds of arrangements that allowed credit unions to share resources to meet expanding and contracting demand. An example would be partnering one credit union that has too much of Service A and too little of Service B with a credit union that has the inverse. Such sharing would be mutually beneficial, but how beneficial and for how long? And was that arrangement sustainable?

The committee also considered how mergers would play into the collaborative model. A merger is a sound option for reducing costs, but credit unions also stand to lose a lot in the process.

"Most credit unions would agree that the most powerful thing they have is their brand and its connection with their members," says Lucy Ito, who is today the CEO of the newly formed CURoots. In a merger, only one brand can survive. In a collaborative relationship, both can prosper.

The committee wanted to reach as many credit unions as possible and have as big an impact as possible. It wanted all 470 credit unions in California and Nevada to prosper. Ultimately, it decided a CUSO represented the best opportunity to maximize reach and impact.

"The real benefit will come from scale," Perez says.

Once the committee settled on a model, it needed to whittle down the CUSO's objectives and services.

"At the end of the day, the benefit to member credit unions is better price, better systems, and better processes," says committee member and California Credit Union League president Diana Dykstra (Dykstra was the CEO of San Francisco Fire Credit Union during the planning of CURoots).

The team decided the CUSO's focus would be on back-channel services such as compliance, asset and liability management, collections, and benefits management.

Why back-office services? Two reasons. One, it's an area that frequently suffers; two, the committee had a member-centric attitude.

First, back-office services are often the first to suffer from a credit union's limited resources. Lack of money and personnel are significant hurdles for small and mid-size credit unions. These credit unions often stretch to make compliance a part of their business, Perez says. For example, a front-line employee attends a one-week CUNA class and becomes the credit union's compliance "expert." Can that strategy work? Absolutely. Does it maximize efficiency? Probably not.

CURoots reduces costs, alleviates stress, and supplies expertise all at once. According to Perez, a compliance services CUSO brings several opportunities to the marketplace. USCCU has $334 million in assets and one compliance officer. Therefore, 20 comparable credit unions would have almost $7 billion in assets and 20 compliance officers. Compare this to SchoolsFirst Federal Credit Union (Santa Ana, CA) which has $8.4 billion in assets and just seven compliance officers. The comparison shows how valuable a compliance services CUSO could be for smaller credit unions that want to reduce costs and maximize performance.

CURoots is dedicated to helping as many credit unions as possible, a mindset that springs from the diversity of the SCC. Each member offered perspective from a credit union of a different asset size.

"I know what I need, but that might not be what someone else needs," says Bill Birnie, CEO of $187M Eagle Community Credit Union.

Perez, whose credit union is almost double that size, says the varying viewpoints are a necessity.

Along with the diverse perspectives, the executives brought the running-the-show mindset that comes with

The Roots of a CUSO

These seven executives were charged with turning the idea of credit union collaboration into tactical reality.

Bill Birnie, CEO, Eagle Community Credit Union ($187M, Lake Forest, CA)

Diana Dykstra, Former CEO, San Francisco Fire Credit Union ($674M, San Francisco, CA)

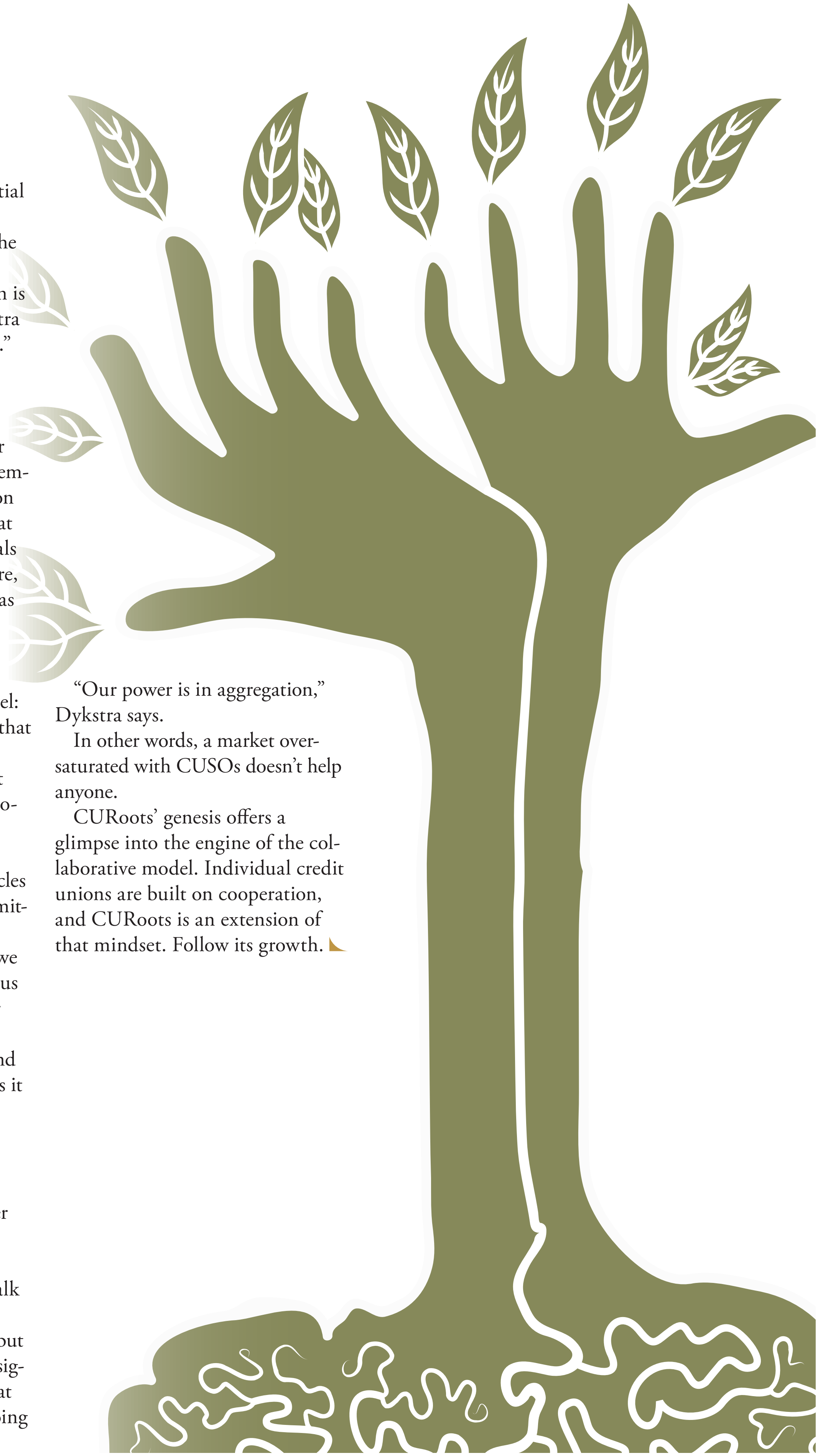
Jon Hernandez, CEO, Mattel Federal Credit Union ($25M, El Segundo, CA), City of Downey Federal Credit Union ($9M, Downey, CA) , CalCom Federal Credit Union ($58M, Torrance, CA)

Larry Palochik, Jr. , CEO, Alta Vista Credit Union ($144M, Redlands, CA)

Gary Perez, Committee Chairman, CEO, USC Credit Union ($335M, Los Angeles, CA)

Joe Schroeder, CEO, Ventura County Credit Union ($496M, Ventura, CA)

Linda White, CEO, United Health Credit Union ($41M, Burlingame, CA)



being a CEO, which had the potential to create a powder keg of powerful personalities. But by all accounts, the leaders handled the situation well.

"The hardest part of collaboration is we have to give up our egos," Dykstra says. "And we have to develop trust."

Such thinking pervaded the committee.

"As I've heard it said many times before, everyone needs to leave your ego at the door," says committee member and United Health Credit Union CEO Linda White. "Remember that you may be working with individuals that you've never worked with before, but everyone has a good idea and has something to add. Otherwise, they wouldn't be there."

The leaders relied on the fundamental idea of the cooperative model: Working together can yield results that working alone can't approach.

We wanted to form a CUSO that would allow credit unions to collaborate on anything that doesn't touch members, Ito says.

That member-centric attitude circles back to the second reason the committee chose back-office services.

"With [the] back office services [we offer] to credit unions, they can focus on their core business: serving their members," says White.

CURoots is a growing CUSO, and the best interest of the credit unions it serves has fueled its expansion.

"It's more of a cooperative than a revenue generator," Birnie says.

In the spirit of cooperation, the CUSO's purpose is to include rather than exclude.

"If we're going to talk about collaboration, we're going to have to talk about inclusion," Dykstra says.

Forming a CUSO is an arduous but rewarding process that can lead to significant gains for credit unions. That said, forming one for the sake of doing so is counterproductive.

"Our power is in aggregation," Dykstra says.

In other words, a market over-saturated with CUSOs doesn't help anyone.

CURoots' genesis offers a glimpse into the engine of the collaborative model. Individual credit unions are built on cooperation, and CURoots is an extension of that mindset. Follow its growth.

By Thomas Cullen

Inside (or Outside) Job

Whether casting a wide net or focusing on specialization, CUSOs use a variety of tactics to meet their staffing needs.

CUSP Archives

Attitude Adjustment shows how going after big sales doesn’t mean leaving members behind. Learn how one San Diego-based collective is mixing the best of both worlds to meet staffing demands and generate a stable, vibrant business. This CUSO knows credit unions are driven by collaboration and a members-first attitude.

Incentive-Based Pay and CUSOs gives insight into how to manage incentive programs to create smoother CUSO operations. It’s important to understand how incentive pay plays into the overall management of your credit union and CUSO to make sure you’re not creating conflict of interest.

Most problems have multiple solutions. Credit union service organizations (CUSOs) face issues that are both similar to and different from those that credit unions encounter. Credit unions deal with consumer members; CUSOs, as business-to-business organizations, generally work with credit union members. They must consider how their fixes will address the business and operational needs of credit unions as well as how their solutions will improve the experience of credit union members. They have to think about the big picture and the details.

Staffing is one area of operations that is critical for both credit unions and CUSOs. Who will hold which roles? Where they will be physically located? How will the organization be structured? These are just three of the questions CUSOs must answer. A CUSO also must address how it will hire employees and organize workflow.

CUSOs have built-in staffing advantages. The pooling of credit union resources affords opportunities such as geographic flexibility. Some CUSOs have a regional brick-and-mortar presence; others hire employees located across the United States and allow them to work remotely.

Predictably, not all CUSOs are flush with resources. These organizations rely on ingenuity and efficiency to drive performance.

A look at four CUSOs illustrates the staffing challenges, approaches, and resolutions these distinct businesses face. Credit Union Student Choice, a student lending CUSO, decentralizes its operations and employs talent around the country. Tri-CUE, a data management collective, employs staff with hyper-focused knowledge and the ability to adapt to changing requirements. Member Loyalty Group harnesses the power of its Board, member credit unions, vendor partners, and contractor workers to maximize its potential. And CU*Answers, a Michigan-based data processing CUSO, applies a temporary-to-permanent hiring approach for its programmers, which allows it to fill gaps as needed and vet employees before bringing them aboard full-time.

Each CUSO has different needs and a distinct operations strategy, and each has found a way to make its model work.

credit union StudentChoice convenience | trust | value

CU*Student Choice

When CU Student Choice started its employee search in 2008, it used traditional job postings. When that didn’t generate results, the CUSO took its search national and accepted recommendations from trusted industry contacts. Its goal was to hire the best employees possible and allow them to work from wherever they lived.

The CUSO’s current staff reflects the breadth of its search: Student Choice has employees in Iowa, Dallas, New York, Pittsburgh, and Chicago, among others.

Working from home isn't for everyone, and not everyone can do it effectively; so, determining whether a prospective hire can perform outside a traditional office is a critical part of the interview process.

"We want to make sure they're going into it with eyes wide open," says Jon Jeffreys, president and CEO of the student lending CUSO. Jeffreys makes sure interviewees know that the CUSO is virtual, that they will be working from home, and that it's a substantial challenge.

The CUSO's networked operations rely on partners, many of which are also CUSOs, to handle the mechanics of the business. PSCU Financial Services runs the applicant's credit, CUDL processes the documents, and the school confirms how much money the student needs and alerts the lender to disburse the funds.

The spread-out work process falls in line with the spread-out staff, but there are potential problems.

One downside of the model is the absence of office camaraderie. People gain value and purpose from their place in a physical office, and the CUSO has to compensate for the absence of a shared space. The relationships among staff members are important.

"Our staff has been proactive about talking with one another on an informal basis," Jeffreys says. Without a common workspace, employees can benefit from regular informal talks for trust building or socializing.

A common question about virtual staffing is: How does leadership ensure what needs to get done actually gets done?

Fundamentally, Jeffreys is looking for people who can do three things: 1) Perform their job at a high level, 2) Work from home, and 3) Mesh with the CUSO's culture.

At CU Student Choice, there are no end-of-week emails about completed tasks or phone calls. That's why the CUSO has hired experienced, talented people, Jeffreys says. Too many processes can be counterproductive and bog down the workflow. It appears the CUSO's model is working. It has almost non-existent turnover.

TRICUE a technology CUSO

Tri-CUE

One way to get hired is to know a lot, but specialized knowledge plus a wide skill set makes a prospective employee even more attractive. The staff at Tri-CUE has the elusive contribution.

The Colorado-based data management CUSO sprang from an unlikely source.

"The impetus of it was at a sales presentation," says Kent Richard, the CUSO's president. Three Colorado credit unions were considering purchasing the ULTRADATA host processing system (at the aforementioned sales presentation) and decided to collaborate to decrease their investment risk.

Aside from risk mitigation, the collaboration gave the trio the ability to negotiate as a group and secure what Richard calls enterprise pricing for the data-hosting system, which performs functions from accounting to loan processing to marketing.

"This allows Tri-CUE's credit unions to aggregate their respective sizes and transaction volume to compete on a pricing level with credit unions well in excess of $1 billion in assets," Richard says. The CUSO can then pass the savings on to clients.

Before the CUSO could help any credit unions, it needed to nail down a staffing model. The leadership elected to look around the country for employees. A national search, which included places such as California and Detroit, was essential because of the sophistication of the ULTRADATA system; the costs of missteps are considerable because it's difficult to train someone to replace existing staff, Richard says. Plus, CUSO leadership wanted Tri-CUE to be stable and rich with expertise.

> "We all kind of do everything."
>
> Kent Richard, Tri-CUE

The CUSO is now owned by four credit unions (two of the original three were merged and one failed). Today, the four credit union owners are Sooper Credit Union($234.2M, Denver, CO), Warren Credit Union ($364.6M, Cheyenne, WY), Denver Community Credit Union ($218.3M, Denver, CO), and Public Service Credit Union ($1B, Denver, CO).

The CUSO also has four full-time employees. Along with Richard as president, there is an information technology manager, an operations manager, and a senior support analyst. They're a versatile bunch. Each employee has work-related systems installed on his or her home computer in order to problem-solve or help clients whenever necessary. "We all kind of do everything," Richard says.

The CUSO's call center is a perfect example. Each of the four employees takes a shift at the center from 6:30 a.m. until 6 p.m. After hours, the employee on duty carries a pager to receive alerts about service needs.

CUSOs are created to meet a specific need for multiple credit unions, which can breed hyper-focused employees. But the mix of specialization and versatility at Tri-CUE gives

Heed the Hiring Advice

Each of these CUSOs finds and deploys its workforce differently. Here's a quick look at each CUSO, its method, and the benefits.

Credit Union Student Choice

Area of expertise: Student lending
Staffing method: Virtual

Pro: Hiring is based on talent not location. Employees can work in their own environments and within their own style.

Member Loyalty Group

Area of expertise: Member satisfaction and experience
Staffing method: Virtual with a mix of full time, contract, and partnerships

Pro: The CUSO can lean on its member credit unions to provide services such as accounting and HR.

Tri-CUE, Inc.

Area of expertise: Data hosting
Staffing method: A mix of specialization and versatility within its small full-time staff

Pro: Employees can quickly complete technical work because of hyper-focused knowledge.

CU*Answers

Area of expertise: Data processing
Staffing method: Temporary-to-permanent with its programmers

Pro: The model allows the CUSO to vet prospective full-time employees before making a commitment.

it all of the expertise with a helping of dynamism, too.

Member Loyalty Group

Members are the pulse of a credit union.

To get an accurate reading, some cooperatives turn to Member Loyalty Group (MLG), a CUSO that transforms member feedback into actionable initiatives through its use of benchmarking and real-time data delivery.

The CUSO launched in March 2008, and its first credit union went online in July of the same year. It is owned by six credit unions and operates as a limited liability corporation.

To get off the ground, the CUSO called upon a familiar resource: its members.

"Relying on the expertise of our credit unions has been really important," says CEO Michelle Bloedorn.

Bloedorn, along with program director Rebecca Secor, serves as the backbone of the CUSO. Each has a credit union background (Bloedorn at Baxter Credit Union, Secor at Educators Credit Union), which allowed for a smooth transition into another sector of the world of cooperatives.

"I didn't find it that challenging," Bloedorn says of the move from a credit union to a CUSO. That said, she did have to adjust to not having on-site access to assorted departments for operations support. Instead, MLG employs a networked staffing model, which leaves it well-positioned to attract the industry's best talent.

Bloedorn works from downtown Chicago, and Secor lives in Wisconsin. With plans to hire a third full-time employee in the works, the two oversee program development and make sure member credit unions have the necessary resources to track and report member loyalty information. The CUSO uses contract employees for its analytics and marketing. For accounting and human resources, it relies on two of its credit union partners.

The CUSO also partners with Satmetrix to operate its Net Promoter Operating System, and other partners execute other functions.

In totality, MLG's structure is powerful: Bloedorn and Secor serve as the nucleus and surround themselves with skilled and nimble partners. The CUSO is a solid illustration of the potential gain from mixing small and large.

CU*Answers

The software programmers are a critical sector of CU*Answers' staff. The Michigan-based data processing CUSO relies on them to take care of the platforms that allow credit unions to perform at their highest levels.

The workload for programmers is steady, but sometimes the CUSO needs more capacity. So, since the late '90s, CU*Answers has used a temporary-to-permanent hiring strategy for this sector of its workforce.

One distinct advantage is the clearly defined relationships the arrangement yields.

"There is a mutual understanding that the temporary employee must perform to be offered a permanent position," says Katie Smigiel, manager of human resources at CU*Answers. The practice also minimizes overhead and reduces the negative effects of an employee moving on.

To fill its needs, CU*Answers uses

a staffing agency. Smigiel cautions against hastily opting for that route. She recommends long-term thinking (how will the staff and company mesh?) and a frank cost-benefit analysis (employment agencies can be expensive).

"In temp-to-hire scenarios, the most important thing to understand before entering a contract is the conversion fee," she says, in reference to the money paid to the staffing agency should an employee convert from temporary to full time.

"The organization should understand the options available to them through these agencies," she adds. "What will the standard agreement between the two organizations look like?"

Trusting an outside source to funnel employees into a CUSO means giving them considerable power. Smigiel recommends establishing clear expectations for communications and authorization. Ultimately, the CUSO uses the strategy because it works.

"Staffing is strategic and should be viewed as such by the organization," Smigiel says.

How a CUSO chooses to staff, and how well that decision meshes with the rest of its goals, directly informs the health of the organization. It must answer important questions: Will the employees work in a central office or at home? How will workflow move through the business? How should the CUSO be organized? What role does temporary labor play in the business model?

Do not underestimate the importance of these decisions. Consider every option and understand the benefits and downsides. When aggregated, it's the tiny staffing decisions that become the face of the CUSO.

> "Staffing is strategic and should be viewed as such by the organization."
> Katie Smigiel, CU*Answers