



NEWS



AN ELECTRONIC REPORT FROM THE CUNA CHIEF FINANCIAL OFFICER COUNCIL

Chair's Update

Your executive committee has been very busy during the last year. Many of our initiatives are underway or have been completed. For example, the conference committee has put the finishing touches on a wonderful agenda for our 8th Annual Conference in June.

"Revolutionize Your Financial Future" is this year's theme, with many topics of educational value. We also plan a special recognition of our long-standing council members. I urge you to attend the Annual Conference in historic Williamsburg, Virginia. You can review the agenda and register online at our web site.

Our membership and benefits committees have been recruiting and retaining members, enhancing membership benefits, and conducting regional roundtables. The communications committee has also addressed several issues.

Our web site and listserv provide round-the-clock information and networking opportunities. Our regulatory comment committee has facilitated two comment calls with you. The committee works with CUNA's Washington office, and is developing additional comment calls. These committees are made up of council members—including executive committee representatives—who have volunteered their time and energy. My sincere thanks to all.

Executive Committee Update

We recently completed the annual election of executive committee members. Five candidates contended for three seats on the committee, comprising a fine slate of individuals willing to promote the CFO Council movement. I hope you took the time to vote.

In February, I appointed Brian McVeigh, SVP-CFO of State Employees Credit Union, in Lansing, Michigan to fill a vacant seat on the executive committee. We are happy to have Brian on our team and look forward to working with him. This year, Judith Hillock, CFO of Research Federal Credit Union in Warren, Michigan will vacate her spot on the committee. Many of you know Judith and are familiar with her valuable contributions to the council over the years. Please join me in expressing gratitude for the wonderful job she's done.

Organization of Choice for CFOs:

It's been an exciting and productive year for the CUNA CFO Council. Our mission is to be the professional organization of choice for credit union CFOs. To reach that goal, we must continually work to provide value to our membership. The talented financial professionals that make up our committees are working hard to enhance membership services. I have challenged each of them to contribute their vision and time towards this mission. I'm proud to say that they have responded with intelligence and energy. It's a genuine pleasure to work with them.

I appreciate the opportunity to serve as chair. If there is anything I can do to enrich your experience with the CUNA CFO Council, please let me know. ♦

Sincerely,

Scott M. Waite

Chair, CUNA CFO Council

*Senior Vice President/Chief Financial Officer
Patelco Credit Union*





Dennis Dollar



Cathy O'Dowd



Bill Hampel



Steven Sobel

Conference Committee Completes the 2002 Conference Agenda

We are pleased to announce that the Eighth Annual CUNA CFO Council Conference and Roundtable will be held at the Williamsburg Lodge in Williamsburg, VA on June 2-5, 2002. The agenda for the 2002 CUNA CFO Council Conference is set. Committee Chair Alan Wade, along with committee members Judith Hillock, Frank Vassallo, Jay Scungio and our CUNA administrative manager, Pam Frey, have created a compelling conference schedule.

The agenda is available on the CUNA CFO Council web site. NCUA Chairman Dennis Dollar will discuss trends emphasizing regulatory empowerment and how initiatives such as RegFlex, Access Across America, and incidental powers revisions contribute to stronger credit unions.

Also featured are Cathy O'Dowd, Bill Hampel and Steven Sobel. O'Dowd is the first woman to climb Mt. Everest on both sides. Her presentation is titled "Strive for the Summit of Success." Hampel is senior vice president, research & policy analysis, and

chief economist for the CUNA & Affiliates. Hampel will talk about the economic outlook for credit unions in 2002 and 2003. Dr. Sobel will challenge us to "Laugh More, Live Longer"—a magnificent experience for all. You'll be treated to insights and ideas to add joy, levity and laughter to your life.

The committee also discussed sponsorships. The Partners in Finance program has yielded several key vendors. However, more sponsors are needed to help meet our budget goal. If you have suggestions for potential sponsors, please forward them to awade@memberonefcu.com.

The 2002 CUNA CFO Council Conference Roundtable is sure to be a memorable one. Don't miss this excellent opportunity to network with your peers and other leaders in the credit union industry. For more information, visit the conference section at www.cunacfoCouncil.org. ♦

Respectfully,
Alan S. Wade
Chair, Conference Committee

CUNA Councils Launch Regional Roundtables with Credit Union Leagues

As part of a strategic initiative for 2002, the CUNA councils are reaching out to leagues across the country to develop and implement regional roundtables for credit union professionals. During the first quarter of 2002, CUNA councils staff met with representatives from the Texas and Oklahoma Credit Union leagues to identify best practices for the formation and development of regional councils.

The CUNA CFO and HR councils sponsored regional roundtable discussions and workshops in Texas, Ohio, and Michigan. Council regionalization highlights the value of peer networking among credit unions, and offers affordable educational opportunities.

The CUNA Council Forum identified regionalization as a key initiative at its annual planning session in San Francisco, CA, in June 2001. The Council Forum is comprised of the chairs and vice-chairs of each of the six CUNA councils - CFO, Lending, Marketing, HR, Technology, and COO - as well as the forum chair, Gayle Gustafson, vice president of finan-

cial services at Safeway Northwest Credit Union, Beaverton, OR.

In February, CUNA Council Managers Pam Frey and Cheryl Sorenson, along with Director Michael Millis, met with Amber Hughes, Carol Luebke, Susan Looney, and Bob Gallman of the Texas Credit Union League; and John Bock, SVP/CIO, Community Credit Union, Plano, TX, to identify the complementary and unique features of the six CUNA councils and the eight Texas councils. The group identified local networking, inexpensive travel, and the opportunity for larger credit unions to mentor smaller credit unions as primary strengths of the local councils.

The strengths of the CUNA councils include contact with credit unions in other regions, the comprehensive listserv, research and discussion generated through white papers, and the annual conference. Dual membership in both the local and national councils was considered to be the best option for credit unions, because it provides a dual support system and rein-

forces the credit union system structure.

The first joint regional sessions between CUNA councils, the leagues, and CUNA Mutual Group took place during the first quarter of this year. On February 12, over 40 representatives from credit unions in Texas, Oklahoma, Colorado, Louisiana, and New Mexico participated in a regional CUNA CFO Council roundtable to discuss regulations, investments, accounting, and asset-liability management. Liquidity was a key issue, since many credit unions margins have been under pressure during the past several months.

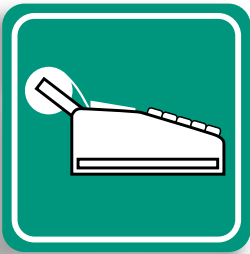
On March 5, twenty representatives from credit unions in Ohio participated in a regional HR issues seminar offered by the CUNA HR Council, the Ohio League, and CUNA Mutual

Group. On March 7, the seminar was repeated for 30 credit union representatives in Lansing, MI. Participants discussed developments in employee benefits management, human resource administration, and staff training and development.

With three successful regional programs already held this year, CUNA councils are moving forward with scheduling additional sessions for HR professionals, CFOs, and lenders. Watch for more information as dates and locations are confirmed. For more information about the CUNA councils, visit our web site at www.cunacouncils.org. ♦

Michael Millis
CUNA Councils Director

NCUA Revises its Accounting Manual and Requests Comments



NCUA has revised its *Accounting Manual for Federal Credit Unions* as required by the 1998 Credit Union Membership Access Act. The draft manual is to be used by credit unions with under \$10 million in assets. Credit unions with assets of \$10 million or more are required to follow generally accepted accounting principles (GAAP) on their call reports. Credit unions with assets under \$10 million also have

the option of following GAAP. The draft manual will be posted on NCUA's web site so credit unions can comment on it before it is published in six months. CUNA will issue a comment call to get credit unions' input on the draft manual. To get a copy of the draft manual, visit the Reference Information section at www.ncua.gov. ♦

Catherine Orr
Senior Regulatory Council, CUNA

Revised AICPA Proposal on Loan Loss Reserve Expected This Fall

The American Institute of Certified Public Accountants (AICPAs) accounting rulemaking panel and the Accounting Standards Executive Committee (AcSEC) recently gave tentative approval to a draft proposal on the reporting of loan losses by financial institutions and other organizations. The proposed *AICPA Statement of Position, Allowance for Credit Losses*, has been in the works for three years. The proposed *Statement of Position* is intended to clarify how generally accepted accounting principles apply to financial institutions' loan loss reserves. AcSEC says the planned rules will improve accounting practices regarding the impairment of creditor's recorded investment in loans, and will result in a more narrow and consistent application of GAAP.

The working draft standard is based on an incurred loss model rather than an approach keyed to losses that are merely expected.

AcSEC states in the draft document that "an allowance for credit losses should be established only if an assessment of current information indicates that it is probable that an asset has been impaired as of the balance sheet date and the amount of loss can be reasonably estimated." The document emphasizes that judgment is involved in determining the appropriate allowance for credit losses.

At the same time, it further notes that "impairment should not be recognized before it is probable that impairment has occurred," even though it is probable that such impairment will occur in the future. This standard is more flexible than earlier versions of the proposal, which could have prevented credit unions from recognizing losses that could be reasonably estimated and lead to inadequate loan loss reserves. In AcSEC's view, the proposed rule would result in creditors

increasing their provision and allowance for credit losses “in periods of weakening portfolio credit quality” and decreasing such allowances in periods of improving credit quality.

The draft proposal will be refined before a more definitive positive clearance by AcSEC in coming weeks. AcSEC plans to issue a formal proposal by September. Final rules, if approved by the Financial Accounting Standards Board, could be issued sometime in 2003 and would

be effective in 2004 for organizations reporting on a calendar year basis. CUNA will continue to monitor the progress of this accounting proposal and inform credit unions when a proposal is finally issued for public comment. ♦

Catherine Orr
Senior Regulatory Council, CUNA

Update ALM Policy to Control Risk

An effective asset-liability management (ALM) policy is critical to a credit union’s long-term success. With decreased regulation and more flexibility comes increased potential for risk, and CFOs need to use this valuable tool to define the credit union’s operating procedures relative to assets and liabilities.

Each credit union is responsible for developing its own ALM policy. The major components of this policy include:

- **Mission statement.** A mission statement is a declaration of purpose. It helps management analyze and adapt future plans of action for the credit union. Major components of mission philosophy are directed at defining service to members, financial stability, and other significant elements of credit union purpose.
- **Authority for managing the credit union’s assets and liabilities.** The board of directors is ultimately responsible for ALM practices of the organization. Credit unions with board approved business plans can delegate day-to-day ALM decisions to the credit union’s management team.
- **Legal compliance.** All policies and practices governing asset-liability management must be in full compliance with applicable state and federal laws, rules, and regulations.
- **Objectives and goals.** Successful ALM requires managers to identify key financial goals and objectives. Examples of financial objectives include:
 - Manage interest margins and gross margins; identify the financial return the credit union wants to achieve on its average asset base minus interest return on loans and investment, less dividends paid to members.
 - Maintain an adequate liquidity position.

- Attain adequate capital and reserves.
- Protect loan and investment principal through sound loan and investment policies.

Financial goals should include ALM objectives as well as financial performance goals.

- **Management information.** Credit union management needs pertinent information to make routine ALM decisions. These information needs include, but are not limited to
 - key ALM and financial performance goals;
 - trends in interest margin or gross spread for the preceding two years;
 - current pricing data on all loan and savings products;
 - competitive pricing data on like products and services;
 - current yield trends for earning assets and savings;
 - cash flow analyses to identify liquidity issues;
 - member core savings analyses;
 - expected charge-offs vs. allowance for loan losses;
 - ALM reports on changing market interest rates;
 - balance sheet and income statement comparison to asset-liability goals.

Each credit union must decide on the total level of risk it is willing to assume. Generally, a credit union tries to control its risks while pursuing acceptable methods of achieving maximum yields from earning assets. Other aspects of credit union management, such as policies dealing with investments, lending, savings, and pricing are integrated into the overall ALM policy.

For more information on credit union asset-liability management, see *Managing Credit Union Finance*, by Glenn Strebe, published by CUNA’s Center for Professional Development. ♦

Account Aggregation: Online Mortar to Build Member Relationships

Account aggregation appears to be one of the next big technological developments for consumers and their financial institutions. An effective account aggregation program enables a credit union to use the Internet to provide more and better services to its techno-literate members. Key steps in launching a program include finding a technology provider, marketing the new service, and using aggregation to complement online member service.

With account aggregation, members can view financial accounts from multiple providers with one login to a single web site.

Pennsylvania State Employees Credit Union, Harrisburg, launched its account aggregation service, provided by Yodlee Inc., Redwood City, Calif., in August 2001. The credit union relies on remote channels to meet the needs of its 265,000 members, with two branch locations. By mid-February 2002, 2,259 members had enrolled in account aggregation, with about one-third signing up in the first six weeks of the year.

These early adopters already have strong relationships with the credit union, based on its primary financial institution (PFI) scoring system. The system assigns a point value to each of its products, then totals points for individual members to determine overall score. Account aggregation users score an average of 15.12, compared to an average member score of 7.47. The higher score means aggregation users are more likely to use “sticky” services that increase their attachment to the credit union, such as online services and check cards.

David Jamison, Pennsylvania State ECU e-services manager, says information technology, marketing, and auditing staff joined the aggregation project team early to adapt the service to meet the credit union’s needs and introduce aggregation to members.

The team scrutinized Yodlee’s privacy policies, because aggregation users share highly sensitive information to enable the aggregator to display account data. The team also examined Yodlee’s internal controls and security,

using a checklist the credit union’s internal auditor created to meet regulatory guidelines.

During summer 2001, the credit union launched a marketing campaign to let members know aggregation was coming soon, with online messages to home banking users and messages in newsletters, statement stuffers, and direct mail to online users.

“The theme of everything we did was ‘Do you have too many passwords you’re trying to remember?’” Jamison says. “That strategy worked well.” Messages also reassured members about privacy and security.

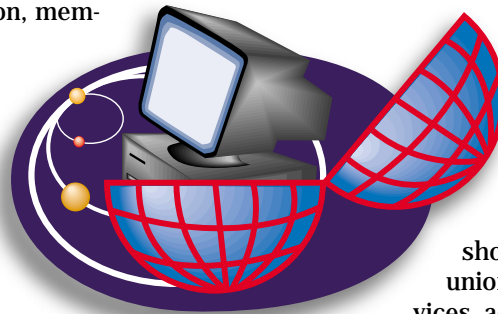
Aggregation services should complement the credit union’s home transaction services, according to Dinesh Sheth, president/CEO of aggregation provider uMonitor Inc., Germantown, Tenn. Most credit unions offering account aggregation already have an online transaction program and want to deepen member relationships by encouraging members to visit the credit union’s site often, Sheth says.

In uMonitor’s experience, members visit credit union sites more often when they can combine online transactions with aggregation functions, allowing them to check account balances, review the status of reward programs, and gather information from web sites. Use of a credit union’s online services climbs significantly when members begin using aggregation to monitor five or more accounts.

“The member coming to the credit union site an average of three times a month now will visit 12 to 15 times, even as many as 20 or 25 times or more,” Sheth says.

The cost of providing aggregation varies based on credit union size, Sheth says, with credit unions less than \$100 million in assets paying an initial fee of approximately \$10,000 and a monthly fee of roughly \$500. Depending on size and functionality, the cost can range up to \$100,000 initially and \$5,000 monthly. ♦

Excerpted with permission from CUNA’s Credit Union Executive Center. <http://cucenter.cuna.org>.



Small Business Offers Opportunity for CU Services

Serving small businesses gives credit unions significant opportunities to create new revenue streams and to serve their members with a more comprehensive spectrum of products. In a new monograph sponsored by the Filene Research Institute, the opportunities for business lending and other services are examined on both a macro and case study level.

Small Business: The New Frontier finds that credit union members have developed more diversified lives. Young people are increasingly mobile and entrepreneurial. Experienced workers take on self-employment in addition to their regular jobs. Individuals downsized from major corporations find a demand for their services in the larger community. And early retirees increasingly embark upon second or third careers as business owners.

These members need and deserve financial services beyond the traditional range of credit union products. In addition to auto loans, home mortgages and vacation or education loans, small business owners need financial backing to help their business grow. On the deposit side, they need not only passbook savings and checking accounts, but cash receipt depository, lock box, estate planning and trust services as well. And growing businesses need payroll processing services, merchant credit cards, and insurance.

Small Business: The New Frontier looks at the size and scope of the potential for member business services, and examines the statistics behind some key findings of this research. For example, a broad range of sources confirms that the market for small businesses totals millions of units. The small business market is a major component of the U.S. economy. And one half or more of total U.S. job growth is in small businesses. This growth has been generated across many industries.

“Small business services are among the most promising areas of growth for credit unions,” says Bob Hoel, Filene Executive Director. “Yet most credit unions have not taken advantage of the strategic opportunities presented by small business relationships. Those who step up to the plate and construct a workable overall

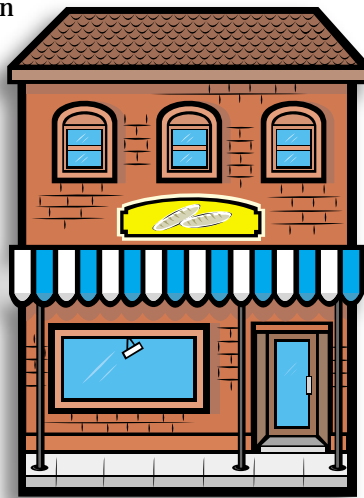
program to serve the needs of these firms are sure to reap an important competitive edge.”

Small Business: The New Frontier also examines five credit unions whose small business service programs serve as models for others to use in designing their own approach to this market.

The credit unions profiled feature unique approaches to business lending and other services. Each has a specific vision and mission that drives its service to members. Their combined experience provides a platform to use in developing a strategy to reach out to this new market. While each credit union’s mission and membership is unique, the cases presented are sure to provoke creative thinking regarding opportunities for member business services.

Each of the five credit unions has distinguishing characteristics:

- Business Lending Group (BLG) is a CUSO formed by three central Wisconsin credit unions that felt they lacked the critical mass necessary to enter the market on their own. The three credit unions have combined assets of a little more than \$500 million and serve the seven counties comprising the Fox River Valley. All three credit unions have community charters.
- The \$280 million Dupaco Community Credit Union has carved out a niche for itself in the Dubuque, Iowa business community, and is recognized as a formidable competitor in small business lending. As a community credit union, Dupaco perceived a need to broaden its business charter, and look at new ways in which to serve its community.
- Progressive Credit Union, New York, has both a unique field of membership and a unique business lending opportunity, serving its members with loans that make it possible for them to enter into business on their own. Progressive CEO Robert Familant’s rationale for offering business loans is simple: “Credit unions should acknowledge that members need these loans,” he says. “You’re serving your members’ basic interests by providing them with a small business program.”



- Evangelical Christian Credit Union, Anaheim, Calif., matches its spiritual mission with financial advice and counsel to help build churches and schools throughout the country and around the world. Since 1964, Evangelical Christian has been serving the financial needs of the evangelical Christian community including churches, schools, ministries and individuals. Its members reside in all 50 states and in more than 100 countries.
- Vancouver City Savings Credit Union, Vancouver, British Columbia, is the largest credit union in Canada, with assets in excess of \$7.3 billion Canadian and 39 branches. VanCity offers a wide range of business services to members, from a unique peer review program to for-profit lending and socially responsive loans to nonprofit groups. In addition to its business lending division,

VanCity also created a wholly owned subsidiary called VanCity Capital Corporation, that provides subordinated debt, a risk oriented financing product.

Small business services are an important and profitable undertaking for credit unions. The market is enormous, and competition is less intense than in consumer markets. Small business services have the potential to bring in many new members, and constitute a tremendous community service. Additional information on providing service to small business is provided in Management Enrichment Training Program (MERIT) module *M29 Providing Loans to Small Businesses*, by Sue Eckenrode, CUNA & Affiliates, 2000.

For more information on *Small Business: The New Frontier*, call the Filene Research Institute at (608) 231-8550 or visit on-line at www.filene.org. ♦

WELCOME NEW MEMBERS

Sharon Giles
Family Trust FCU
Rock Hill, SC

Eric Hardman
Electro Savings CU
St. Louis, MO

Richard Simonton
Bell Tel CU
Orlando, FL

Barbara Scavone
AM Community CU
Kenosha, WI

David J. Jurczynski
Capital Communications FCU
Albany, NY

Jeff T. Shaw
Tooele FCU
Tooele, UT

W. Hall Barker
TRI CO FCU
Randolph, NJ

Robin Stevens
Williams Employees CU
Tulsa, OK

Bridgette Stephens
URW 831 MFCU
Danville, VA

Jana Heaton
Members Choice CU
Houston, TX

John Elliott
C-Plant FCU
Paducah, KY

Shawn Christie
CP FCU
Jackson, MI

Teri Vanderpol
Members 1st FCU
Redding, CA

Rick Hanson
Union Square FCU
Wichita Falls, TX

John Dichiaro
General Technologies FCU
Irving, TX

Debra Jordan
Safe Federal CU
Sumter, SC

Jean Goodman
Toyota FCU
Torrance, CA



CFO News is a web-based newsletter published quarterly by the CUNA councils. Send news and CFO Council information to Mike Lord, SVP/Comptroller, State Employees CU, Raleigh, NC, phone (919)839-5084; fax (919)839-5100. For council membership and administration information, call Pam Frey, manager of CUNA council administration, at 1-800-356-9655, extension 4141 or e-mail her at plfrey@cuna.com.

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