

NEWS



AN ELECTRONIC REPORT FROM THE CUNA CHIEF FINANCIAL OFFICER COUNCIL

MESSAGE FROM THE CHAIR



In this issue of CFO Council News I would like to share with you some of the activities and initiatives your executive committee has undertaken over the past few months, and bring you up to date on plans for an exciting annual conference in San Diego.

In February, the CFO Council executive committee held its annual planning meeting at the Hilton San Diego Resort, our Tenth Anniversary Conference hotel. We reviewed the conference agenda, and we are confident that this will be an important event in the professional lives of our membership. The executive committee also adopted two bylaw changes which we will place before the membership for ratification at our Conference.

The executive committee believes that one reason for the organization's success is its focus on serving the specific needs of credit union financial officers. Therefore, we have adopted a bylaw change limiting council membership to financial officers in natural person credit unions. The second bylaw change will permit more than one member from a given credit union to participate in the council, provided they have financial responsibilities and fall under the purview of the credit union's CFO. We believe this will enhance professional development opportunities for rising stars within the credit union financial community.

At the annual conference, we will also present the results of two special member surveys currently available on the council website. These two questionnaires address 1) satisfaction with council activities; and 2) compensation issues. I urge you to go to our website and

complete the surveys prior to the conference, so that your views will be counted in the final tally.

Councils Forum

We also had a very productive meeting of the CUNA Councils Forum in Washington, D.C. in conjunction with CUNA's Government Affairs Conference. As vice chair of the Council Forum, it was my pleasure to join CUNA President Dan Mica, CUNA chair Dick Ensweiler, and CUNA senior vice president John McKechnie in addressing 80 attendees at our breakfast meeting. The Council Forum is comprised of the chair and vice chair of each of the six CUNA Councils, and charged with coordinating common interests and initiatives being carried out by the councils.

The industry dignitaries who participated in this meeting applauded the work of the councils in representing critical disciplines within the credit union movement. Each of the speakers recognized the value of the councils in providing input on regulatory and legislative changes being considered in Washington. They requested that the councils continue to be actively involved in this high level decision-making. This demonstrates tacit recognition that many of today's council members are tomorrow's credit union CEOs and that council participation builds relationships that will serve industry leaders well in the future.

I am looking forward to meeting with each of you at the CFO Council Conference in San Diego May 16-19. And I am particularly excited to welcome first time conference participants at our welcome reception for newcomers Sunday evening, May 16. ♦

*Scott M. Waite, Sr. VP-CFO
Patelco Credit Union
May 16-19, 2004*

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*You are sure to find
new ways to learn from
the past and plan for
the future.*

Then. The CUNA CFO Council Conference and Roundtable began a decade-long commitment to education and interaction.

Now. The CUNA CFO Council is ready to reach for new heights with a second decade of Conference and Roundtable events unmatched in the industry.

How. Join the credit union movement's top CFOs in an exciting environment that is conducive to learning with, and from, your peers. Come to San Diego for an eye-opening agenda that will leave you relaxed yet energized.

Click on www.cunacouncil.org/download/cfo_conf04agenda.doc
for the conference agenda

Click on www.sannet.gov/ for San Diego information

Go to www.cunacouncil.org/conf04_reg.html if you haven't registered!



May 16 - 19, 2004 • Hilton San Diego Resort • San Diego, California

Waite Tapped for FASB Small Business Committee

CFO Council Chair Scott Waite has accepted an invitation from the Financial Accounting Standards Board (FASB) to its newly formed FASB Small Business Advisory Committee.

Waite will be the only credit union representative on the committee.

FASB is the primary private-sector organization that establishes standards of financial accounting and reporting in the U.S. Its standards govern the preparation of financial reports for all public and private enterprises. The FASB Board is forming the new committee to obtain more active involvement by the small-business community in developing standards, including issues raised in developing FASB proposals. The committee will be a standing resource to FASB's seven board members.

The committee will consist of about 18 representatives of financial statement users including lenders and analysts, preparers such as chief financial officers, and auditors from different industries within the small-business community. It will meet at least twice a year in public meetings, with its first meeting in May.

Waite, currently serving his second term as CUNA's representative on the FASB Advisory Council, says he looks forward to the opportunity to serve on the committee in its inaugural year. "Board Member George J. Batavick called to extend the invitation personally," says Waite. "He cited my active involvement and standing with the Advisory Council as a key factor in the board's decision to extend the invitation. I'm pleased that they've noticed my contributions, and I'm very excited that the credit union industry will have even greater visibility and influence." ♦



EYE ON WASHINGTON

Check Clearing for the 21st Century Act ("Check 21") Resources

The Check Clearing for the 21st Century Act (Check 21) was signed into law on October 28, 2003, and will become effective on October 28, 2004. Check 21 is designed to foster innovation in the payments system and to enhance its efficiency by reducing some of the legal impediments to check truncation. The law facilitates check truncation by creating a new negotiable instrument called a substitute check, which would permit banks to truncate original checks, to process check information electronically, and to deliver substitute checks to banks that want to continue receiving paper checks.

A substitute check would be the legal equivalent of the original check and would include all the information contained on the original check. The law does not require banks to accept checks in electronic form nor does it require banks to use the new authority granted by the act to create substitute checks. ♦

From *News Now* April 15th
Take advantage of free and comprehensive
Check 21 resources on the
CUNA web site at www.cuna.org/reg_advocacy/member/hot_topic/check21.html

PRODUCTS & SERVICES

401(k) Mutual Funds Picks Under Scrutiny

Federal and state regulators have begun to investigate whether mutual funds are being included in 401(k) retirement plans for the wrong reasons, says the New York Times. Instead of selecting funds because they are the best available, some consultants and plan administrators may be choosing them because of hidden financial incentives.

These inquiries are an outgrowth of long-running investigations into abuses by mutual funds and brokerage firms, according to officials at the Securities and Exchange Commission and the office of Eliot Spitzer, the New York attorney general. The inquiries of both the SEC and the attorney general's office are in an early phase, and no charges have been made against any companies.

One investigative target is a practice known as revenue sharing, in which 401(k) administrative costs are paid from mutual fund fees, some of which may be distributed to administrators, sponsors, and brokers associated with a 401(k) plan. Revenue sharing is used by roughly 90 percent of 401(k) plans, says one expert. Across the country, 401(k)'s have a total of \$1.5 trillion in assets, according to the Labor Department.

Most people are unaware of how their 401(k) plans are paid for, said R. Theodore Benna, a consultant in Jersey Shore, PA, who designed the nation's first 401(k) plan more than 20 years ago. "Participants think their 401(k)s are free because they aren't writing out a check,"



he said. “The costs are actually buried and not revealed to them.”

The SEC is examining whether consultants for both 401(k)s and pension funds are receiving perks from asset management firms for recommending their mutual funds or money management services. The agency is looking into whether consultants are encouraging firms to buy the consultants’ software and ser-

vices in pay-to-play schemes.

Hidden financial incentives may motivate consultants to recommend expensive investment choices for retirement plans because they spin off more cash or other rewards for themselves. There may be parallels with arrangements in which mutual funds have paid brokerage firms for preferential treatment. ♦

Bank Mergers Create Opportunities for CUs



Nationally, the gap between member satisfaction with credit unions and customer satisfaction with banks is shrinking. Banks are gaining on credit unions. Comparing credit union performance against peers can improve the credit union’s competitive position, attract more member business, and draw more consumers looking for a better alternative. And there will be lots of consumers looking for a better deal in the wake of pending bank mergers between J.P. Morgan Chase and Bank One, and also Bank of America and FleetBoston.

Member surveys and surveys of potential members can play an important role in growing service-penetration levels, membership numbers, and bottom line results. But while a majority of credit unions have recognized the value that surveys provide, not all have bought into the concept. Only 58% of credit unions with more than \$20 million in assets have conducted member surveys during the past four years, according to a recent survey by CUNA’s

Center for Research and Advice—up only slightly from 56% in 2000.

Members and nonmembers are likely to jump ship to other financial institutions if they think their needs aren’t being met. This poses both a challenge and an opportunity for the credit union. Many credit unions ask, “Can we afford to do a survey?” But when they take a serious look at the current financial services landscape, they tend to ask “Can we afford not to do a survey?”

While many credit unions conduct surveys every two or three years, there may be issues that warrant more frequent measurement and attention. And whether the research is done by an outside provider or self-administered, the important point is to “just do it.” ♦

This article is excerpted from
*The Point for Credit Union Research
and Advice*

Management Practices Key to Success in Midsize CUs

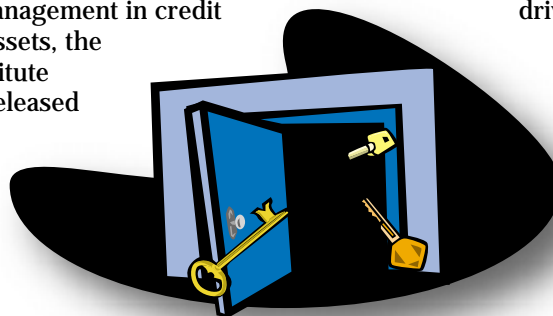
Mid-sized credit unions may not be small enough to know each member personally, nor large enough to reap economies of scale. To examine the special opportunities and challenges of management in credit unions \$50-\$200 in assets, the Filene Research Institute sponsored a newly released study, *Management Practices and Growth at Mid-Sized Credit Unions*.

Researcher Jon Udell of the University of Wisconsin conducted a survey

of CEO’s and compared responses to credit union growth patterns during a recent eight-year period. He found that a combination of management practices appears to drive growth.

High growth credit unions more often use a formal strategic planning process, and have a definite growth strategy.

They focus on particular efforts that give them a competitive advantage, such as high quality service. They are more likely to use market seg-



mentation, and more likely to measure member satisfaction formally via regular membership surveys. They view high quality service and a top notch management team and staff as key elements of success.

High growth credit unions are more likely to forecast loan demand and interest rates, and evaluate their strengths and weaknesses as well as opportunities and threats. While higher growth credit unions increase both membership and assets per member compared to lower growth credit unions, they achieve especially high growth in membership.

The personal backgrounds of the CEO's at higher growth credit unions are more likely to include graduate education, are more likely to come from operations or finance, and more frequently have some management experience outside of credit unions. In addition, these CEO's articulate a clear philosophy of management.

"The results have important implications for credit union CEO's, boards, and those who

aspire to become CEO's," says Bob Hoel, Filene Executive Director. "Some CEO's need to consider incorporating additional elements into their management practices, such as a defined philosophy of management that emphasizes leadership, employee development, teamwork, service to members, and member ownership." Other elements include using a formal strategic planning process and formulating a defined strategy for membership and asset growth. ♦

Management Practices and Growth at Mid-Sized Credit Unions and other Filene monographs are available at www.filene.org/

filene
RESEARCH INSTITUTE

HEARD IT ON THE LISTSERV

Council Listserv Offers New Powerful Features and Functionality

The CUNA CFO Council listserv has been enhanced, and now features a user-friendly format to help you communicate with your colleagues. An upgrade of listserv software offers increased functionality and new features, including the ability to view the messages in a message board/forums environment, a search function for searching the message archive, control of account settings, and a conference tool for live communication among users.

Other new features include archiving of messages and searchable documents by topic, an improved file library that replaces the "Attachment" archive and can be used to look up and share policies on various topics, a suggestion box, a job search function, and more.

Our web site features a tutorial and a tour of the new features at

www.cunacouncil.org/newlist_launch.html

Capital ratio

A council member asks whether others have a method to determine an appropriate capital ratio for their institution.

One respondent suggests using NCUA guidelines (Reg 702.102) on adequate capital levels, with 7% and above considered "well capitalized", and 6%-7% considered adequately capitalized. "Much of what constitutes an appropriate capital level depends on future plans," the respondent says. "Do you plan to grow assets or take on more risk to enhance yield? Do you plan to remain the same size, and wish to distribute more of your income to your members? Essentially, the less risk you plan to take on, the less capital you need. Our ALM policy sets 8% as the minimum capital ratio we will accept under any interest rate scenario. No formula was used, just our board wanting to achieve a CAMEL 1 for capital adequacy."

Accounting department structure

A council member asks for information on staffing and areas of responsibility for accounting departments in credit unions \$40-\$70 million in assets.

Some typical replies: "We are \$62 million and I have one aide whose time is split between three people. He helps me in accounting, performs loan audits for our VP of Lending and is in charge of our Intranet. I am also the ALCO chairman."

"We are \$44 million, and have three staffers in the accounting dept. I oversee all functions and do ALM, reports to the board and some reconciling, while my two employees do the day-to-day ACH, drafts, payrolls, and other duties."

"We have one full time person balancing, handling travelers checks/money orders, supplies, and financials; one full time person doing ATM balancing, share drafts, A/P, and daily posting; and a third full time person doing ACH and payroll. I handle ALM, budget, investments, building maintenance, and ATM/Debit/Credit card."

"At \$83 million, we cannot justify more than the three employees, including me, that we had when we were at \$59 million. We represent approximately 10% of the credit union workforce."

Charge offs and recoveries

A credit union in the process of a reorganization is assessing departmental functions, and asks who handles the posting of recoveries and charge offs in other credit unions.

Most respondents report assigning charge offs to the collections function. Typically,

charge offs are posted by collections. Details of the procedure differ, however. In one credit union collections are taken to the tellers for posting. In another, as a control measure, the collections person is not able to post entries or adjust account status. Tellers may actually receive the recovery payments but notify the collection department when the payment occurs. In several responding credit unions, the collection department posts recoveries and the accounting department does charge offs.

Dress code

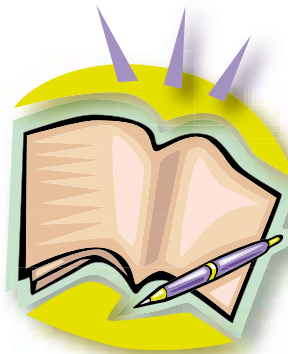
A question on dress codes generates a spirited discussion, with more than 30 council members responding. The inquiry comes from a credit union reviewing its dress code, and asks what is appropriate at other institutions.

Many respondents report policies requiring corporate dress two or more days each week. While some codes require professional dress, the trend to casual or corporate dress appears to be gaining adherents. One respondent says: There are times when we need to remind folks what business casual is and what is not acceptable on Fridays/Saturdays however, overall, I think the change has had a positive effect on morale and the way employees interact with each other. For more detail on this subject, visit the council listserv. (CUNA's 2003-2004 Environmental Scan also addresses the subject in its section on Human Resources & The Workplace.) ♦

BOOK REVIEW

The Innovator's Solution: Creating and Sustaining Successful Growth

In this highly acclaimed new volume, authors Clayton M. Christensen and Michael E. Raynor analyze the strategies that allow corporations to successfully grow new businesses and outpace the other players in the marketplace. An earlier Christensen book examined how focusing on profits can destroy even well-



run corporations, while this book focuses on companies expanding by being "disruptors" who are able to outpace their entrenched competition.

The authors (Christensen is a professor at Harvard Business School and Raynor, a director at Deloitte Research) examine the

nine business decisions integral to growth, including product development, organizational structure, financing, and key customer base. They cite such companies as IBM, AT&T, Sony, Microsoft and others to illustrate their points.

The writing is clear and specific. For example, in discussing whether a company has the resources necessary for growth, the authors say, "In order to be confident that managers have developed the skills required to succeed at a new assignment, one should examine the sorts of problems they have wrestled with in the past. It is not as important that managers have succeeded with the problem as it is for them to have wrestled with it and developed

the skills and intuition for how to meet the challenge successfully the next time around"; they then provide a real-life example of a software company.

Similar important strategies give readers insights that they can use in their own workplaces. People looking for quick fixes may find the charts, diagrams and extensive footnotes daunting, but readers familiar with more technical business management tomes will find this one both stimulating and beneficial. ♦

*Book review was contributed by
Dick Radtke, credit union
marketing consultant*

CURRENT AFFAIRS

Legal Counsel Work, Fees Need to be Managed

When a credit union engages the services of an outside legal counsel, it faces the same challenges present in hiring any outside consultant. The work and fees of the firm cannot be left to chance: they must be managed.

A recent roundup of issues faced by small business in the New York Times includes a feature on some things to guard against in working with lawyers. One small business owner, for example, had this assessment of his legal consultant's work: "They tend to fascinate themselves with all of sorts of trivial things," he said.

Every business needs lawyers for employment, real estate and corporate work, and most face lawsuits as well. But there is a yawning gap between their practical

requirements and the legal culture. Small companies must watch costs and focus on cash flow, while law firms can lose sight of the cost effectiveness of their work and may be driven by the perverse incentives inherent in hourly billing.

The solution, according to many executives and some lawyers, is not always easy or pleasant, but it is straightforward. Lawyers must be managed closely. Defining the scope of the

lawyer's role is half the job. The other half is keeping legal fees under control.

In-house lawyers at big companies, who hire and supervise outside lawyers for a living, say that all sorts of ground rules should be made explicit at the outset, especially for smaller matters. Here is what they recommend:

- Ask for a flat fee. If the lawyer will bill only by the hour, get a cap. Request frequent updates on how much time has accrued.
- Insist on approving all staffing. Require the lawyer you hired, rather than a green associate, to do the important work; a busy, but experienced lawyer will generally be cheaper than an underused young lawyer, even at a higher hourly rate.
- Do not allow more than one lawyer to attend a hearing or deposition. Do not pay for travel time or for ordinary overhead like photocopies and phone calls.
- If the bill contains the names of lawyers and paralegals you have never met, work you did not ask for or fees out of proportion to the problem the lawyer was hired to solve, do not be afraid to question it.

It is also vital to remember that the relationship is a professional rather than social one. For some lawyers, the meter is always running. If you want to talk about your kids or your vacation, don't do it with your attorney. ♦



Jobs Surveys Turn Bullish

For the first time in at least a year and a half, more executives plan to increase employment in the United States over the next six months than plan to cut jobs, according to a survey by the Business Roundtable. Thirty-three percent of the executives said they would add jobs, up from just 12 percent in October, while 22 percent said they would reduce the number of employees.

“CEOs believe that the U.S. economy is on course for continued steady improvement,” says Henry A. McKinnell, chairman of the Business Roundtable.

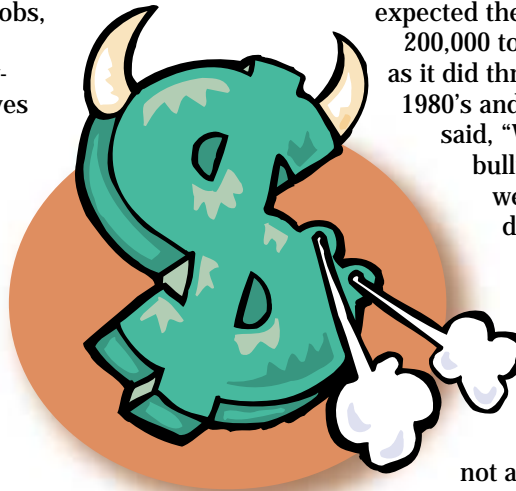
A separate survey of midlevel managers in the service sector and a Federal Reserve report on regional economic conditions suggest that employment continued to grow slowly in recent weeks.

McKinnell says that he still does not expect job growth this year to reach the levels of past

recoveries, largely because companies have become more efficient and can produce more goods with fewer hands. Asked whether he expected the economy to add 200,000 to 300,000 jobs a month, as it did through parts of the 1980’s and 1990’s, McKinnell said, “We’re not quite that bullish at this point. But we’re headed in that direction.”

The survey of purchasing managers at service companies suggests that economic growth remains healthy but that companies are still not adding large numbers of workers. The Institute of

Supply Management’s index of economic activity in the service sector fell to 60.8 in February, from 65.7 in January. The employment index for the sector dropped slightly, to 52.7 from 53.4. A reading above 50 suggests growth. ♦



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Alliance CU
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David C. Schmitt
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