

NEWS



AN ELECTRONIC REPORT FROM THE CUNA CHIEF FINANCIAL OFFICER COUNCIL

REGIONAL ROUNDTABLES

CFO roundtable delivers big rewards

"Our jobs become more and more complex every day, and a one-day conference gives us a valuable resource at a very small investment in time," said Brian McVeigh, senior vice president/CFO, State Employees Credit Union, Lansing, Michigan, in his Michigan CFO Roundtable wrap-up.

The CUNA CFO Council, in conjunction with the Michigan Credit Union League, hosted a one-day conference devoted to an economic outlook of credit union financial management strategies May 1, 2003 at the Michigan Credit Union League office.

The conference received high marks from participants. "This was an opportunity for credit union financial officers to compare their assessments of appropriate financial management strategies and to be briefed by top notch industry experts," said McVeigh, CFO Council executive committee member and conference facilitator.

The conference featured a presentation by Kent Sorey, Ph.D., a capital markets consultant for WesCorp, on financial derivatives. Sorey examined the opportunities and operational risk profiles of a derivatives hedging program, including application illustrations for interest rate swaps. Sorey emphasized that the model a credit union uses in pursuing a derivatives program depends upon the complexity of its balance sheet.

Dr. John R. Brick, Ph.D., CFA, Brick & Associates, addressed liquidity implications of the flight to safety. Brick discussed the market environment and deposit growth; market psychology and demographics; the potential for massive withdrawals in the future; and liquidity management strategies.

Brian Paul, Director of Consulting Services for the Michigan Credit Union League, facilitated a discussion to establish an ongoing finance forum.

"We were particularly gratified by the enthusiastic response from participants to these key financial issues for credit unions," says McVeigh. "Perhaps most valuable in a meeting like this one is the opportunity to network with fellow CFOs, and discuss common challenges and opportunities."

Scungio named to CFO Council Exec Committee



CUNA CFO Council Executive Committee Chair Scott Waite has announced the appointment of Louis (Jay) Scungio, chief financial officer of Western Mass Telephone Workers Credit Union in

Springfield Massachusetts, to a position on the CUNA CFO Council Executive Committee. The appointment is effective immediately.

Scungio will fill the un-expired term of Jennifer Lehn, who has been promoted to executive vice president at Numerica Credit Union and relinquished her CFO responsibilities.

Jay has been involved as a sub-committee member of the conference committee for the past several years. Waite has asked Scungio to join the membership and benefits sub-committees. In doing so, he will give up his seat on the conference committee, but will continue to provide input. ♦

HEARD IT ON THE LISTSERV

The CFO Council listserv is an excellent resource through which to obtain advice on pending issues and to network with fellow members. Get up-to-the moment information, make requests, post challenges, and share your experience with other council members. You must be a member of the CFO Council to join the listserv: click on the Community tab at the CUNA CFO Council web site, then on Listserv, and follow the directions to subscribe. This month's hot topics and interesting conversations include:

Asset/liability mix: Do your ALM policies include an asset/liability mix by percent—for example, loans being a specific percentage of total assets, investments being pegged to a specific percentage, and so on? Responses:

- Although an ALM policy should have maximum percentages for riskier asset classes, a set percentage for all classes is not realistic. For some assets, you may want the maximum to be a percentage or multiple of net worth. You could *target* a percent of assets in loans, but you can't *mandate* it.
- Avoid developing an asset/liability mix by percent. According to an NCUA examiner's recommendation, include a percentage of total fixed rate real estate loans to total loans in the ALM policy.
- Set limits on your ALM policy by type of loans. The limits are triggers to review the balance sheet in detail. For example, you don't want all loans in unsecured categories or in real estate.

Check cashing fees: Do you charge a fee for check cashing? Responses:

- We had a check cashing fee, but the practice created problems with consistency. Members resented the charge, and even became

angry in the lobby with other members present. We eliminated the fee a year ago and replaced it with a maintenance fee on our basic share account. About 2,500 of 40,000 accounts were closed because of the fee, but all had balances under \$25 with no activity.

- We are spending money to grow, and trying

to expand our member relationships instead of driving them out. We market free checking, offer incentives for refinancing car loans, and search for other innovative tactics.

- We have a low balance single service fee. Those that average less than \$100 per month in deposits and have no loans are charged a fee of \$2 per month.

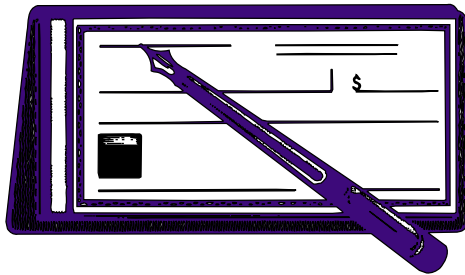
Allowance calculation: Does your credit union use a rolling average rather than full years to compute historical loss ratios.

Responses:

- We use a two-year rolling average, for example, including seven months charge off history from 2001, 12 months from 2002, and 5 months from 2003 in a May 31, 2003 calculation.
- We use a twenty-four-month history rolling average, then divide the twenty-four-month average by two to calculate annual average.
- We use a five year timeline.
- We do two calculations—a one-year rolling average and a three-year rolling average. We then take the higher of the two by loan type and calculate a third number. Our rationale is that different loan types have different trends, and if we improve our underwriting in certain loan types but loosen them in others, a single time frame may not be enough.

Electronic statements: How do you encourage members using home banking to convert to e-statements?

- We are considering charging members for receiving paper statements rather than e-statements.
- Credit unions are required to provide statements to their members on a periodic basis, so that fee-based statements might be difficult to implement. NCUA may object to the practice.
- We offer chances to win prizes for members who sign up for e-statements.
- Fees for paper statements are not advisable. A reasonable alternative is to promote e-statements, particularly their anti-fraud value. We offer free bill pay service with e-statements.
- In January we had 16,500 e-accounts, with 2,304 signed up for e-statements. We promoted the benefits of e-statements for over two years. We notified e-account members that on April 1 they'd be switched to e-statement



only. As of June 1, we have 18,900 e-accounts with 18,300 e-statements.

Teller transactions: Do you think it is necessary to measure teller productivity?

Responses:

- Our tellers open accounts and take loan applications as well as perform transactions. When tellers are processing the drop box or mail deposits they have a higher transaction rate. If they are signing up a new member their transaction rate is lower. Move your desk to the front office for a month and you will see how busy the front office staff is.
- Whether transaction rates are acceptable depends on



what functions tellers perform. If they open accounts, perform loan rework or handle other time-consuming functions, their productivity numbers will be lower. Some of our top performers complete twenty- to twenty-five transactions per hour. I would look at what you are asking tellers to perform and caution you against looking strictly at numbers.

- Some of the measures to consider in evaluating transactions per hour are total branch transaction volume; types of transactions; other duties as assigned away from the teller line; and hours in the shift. Quota setting seems sterile when branch activity and teller duties vary.
- The member service focus at our teller line has for years been transaction based. Tellers are expected to serve the member accurately and quickly so the next member in line can receive service. We have one member service representative who handles new accounts. ♦

White paper examines S&L crisis

As credit unions dramatically increase long-term fixed-rate mortgage lending funded by short-term deposits, the credit union system could be poised for a scenario similar to the 1980s savings & loan crisis.

So says author Brian Hague in his newly-released white paper sponsored by the CUNA CFO Council. *The Savings & Loan Crisis: A Retrospective View* examines the precedents involved in the 1980s savings & loan crisis, and its lessons for credit unions today.

Hague points out that the original purpose of thrift charters was to increase home ownership in the U.S. through affordable financing. Deposit and loan interest rates were regulated until 1980. The deregulation of interest rates, coupled with unprecedented interest rate volatility, led to an earnings crisis in the thrift industry in the early 1980s due to the duration mismatch between deposits and long-term mortgage loans.

To allow thrifts to grow out of their earnings problems and diversify interest rate risk, Congress and the thrift regulator expanded lending and investment authority, relaxed accounting standards and regulatory oversight, and granted broader ownership rules. This only exacerbated the industry's problems.

Attempts to tighten regulation were thwarted by Washington deregulation zeal and lobbying efforts.

Ultimately, thrift failures cost U.S. taxpayers much more than if earlier efforts to resolve the problem had been successful. Most failures resulted from thrift managers' inability to use the expanded powers granted them or from overzealous regulators keen to prevent failures before they occurred. Franklin Savings Association was a classic example of the latter cause and is reviewed in some detail in the report.

In our current financial environment, the credit union system could be poised for a scenario similar to the thrift industry's earlier problems. Interest rates are at historical lows, and the NCUA has proposed expanded lending and investment powers to allow credit unions to diversify their balance sheets. At the same time, industry risk management practices lag those of other financial institutions. Education, prudent management, and strong yet reasonable regulatory oversight will be necessary to avoid a repeat of past mistakes.

To read the entire White Paper, go to: www.cunacouncil.org/research.html (members only). ♦

Make subordinated debt suitable for capital

A new study sponsored by the Filene Research Institute evaluates the mechanisms by which credit unions could issue subordinated debt. *Subordinated Debt as Credit Union Capital: Precedents and Implementation*, draws on the successful experience of small community banks in using these instruments—particularly trust preferred securities (TPS) and pooling mechanisms.

The report provides a thorough treatment of options by which credit unions can issue subordinated debt in ways that minimize both interest and issuance cost. It evaluates this in the context of the market of potential purchasers of such instruments, and covers the ways in

which the issues can be made attractive to a variety of purchasers through credit enhancements and other features.

The report also covers ways that these issues can be made suitable for capital, yet offer appropriate flexibility through maturities used and the appropriate use of call options and call premiums. The research concludes that use of subordinated debt is feasible for many credit unions. This strengthens the case for regulatory reform made in an earlier Filene report, *Subordinated Debt for Credit Unions*. ♦

For more information, call the Filene Research Institute at 608-231-8550; or visit their web site at www.filene.org.

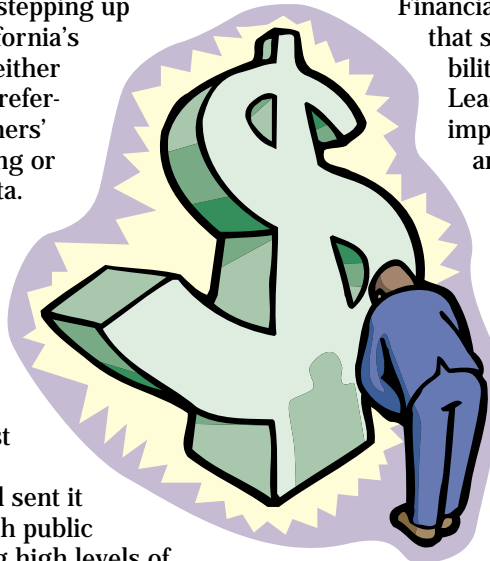
California's struggles preview a national struggle

Privacy advocates are stepping up an effort to require California's financial institutions — either through legislation or a referendum — to get consumers' permission before sharing or selling their financial data.

For the past two years the financial industry has succeeded in killing a privacy measure in the California State Assembly, according to a report in the *New York Times*. Last month the State Senate again passed the bill and sent it to the Assembly. But with public opinion surveys showing high levels of support for financial privacy, a compromise may be in the works.

The bill would require financial institutions to get customers' permission before providing data to other companies and would halt distribution of that data to their affiliates if customers asked them to do so. If the bill fails again, financial institutions will probably have to fight an even stronger measure on the ballot next March.

The developments in California are a preview of a major struggle this year in Congress.



Financial institutions are contending that states should not have the flexibility, provided in the Gramm-Leach-Bliley Act of 1999, to impose privacy requirements that are more stringent than required by federal law.

The popularity of financial privacy measures was shown last year in North Dakota, where privacy advocates won 72 percent of the vote in a referendum even though banking interests had overwhelmingly outspent them.

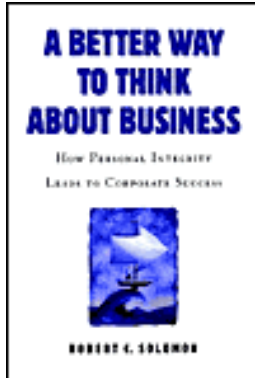
While the North Dakota banking industry is unconcerned, California with 12 percent of the nation's population and above-average household income is a different matter. Its financial services industry has annual revenues of \$32 billion from direct mail, telemarketing and e-mail advertising, all of which might be curtailed under the legislation.

A voters' initiative, which will be on the March 2004 primary ballot if sponsors collect the required number of signatures, would bar sharing among affiliates and subsidiaries unless customers gave permission first. ♦

BOOK REVIEW

Are you concerned about corporate behavior?

A Better Way to Think About Business: How Personal Integrity Leads to Corporate Success
by Robert C. Solomon
New York: Oxford University Press, 1999



“Excellence in business depends on integrity, values and virtues as much as profits,” says philosopher Robert C. Solomon.

In *A Better Way to Think About Business*, Solomon says that business leaders shouldn't be torn between doing what

is right and doing what is necessary to make money. “This is not only personally painful, but it is also bad for business. It leads to inefficiency and distrust. It leads to poor morale, bitter-

ness and cynicism. And it results in a diminished reputation, both of one's own business and of business in general.”

A good corporation fosters an environment that encourages people to develop their skills and their values. A bad corporation, on the other hand, is a “white-collar version of hell” that ultimately pays for its sins through disgruntled employees and unhappy customers, says Solomon, a professor at the University of Texas at Austin.

Solomon spends a chapter debunking the Machiavellian myths that now dominate business. He also argues for integrity in free enterprise. He devotes a third section of the book to describe 45 business virtues, including compassion and trust, and the importance of each. He also provides a historical and philosophical context, citing Aristotle and Adam Smith, among other great thinkers.

A Better Way to Think About Business is persuasive reading for employers, employees, and those concerned about corporate behavior. ♦

Welcome new CFO Council members

The CUNA CFO Council has added forty-three new members to the council roster. These experts have demonstrated their commitment to promoting professionalism among credit union financial officers and to develop-

ing superior skills. In addition, they join others in networking for the free exchange of ideas and improving the overall effectiveness of their credit union's financial operations. We welcome:

Kim Baldasso

Chief Financial Officer
Kemba Indianapolis CU
Indianapolis, IN

James W. Barksdale

Chief Financial Officer
Dallas Telco FCU
Dallas, TX

Robert J. Barzler

EVP/CFO
Point West CU
Portland, OR

Monte T. Berg

VP Finance
John Deere Community CU
Waterloo, IA

John W. Bergman

Chief Financial Officer
First Community CU
Jamestown, ND

Rose Ann Bryant

President
Freedom of Maryland FCU
Edgewood Arsenal, MD

Steve Canfield

VP/CFO
Fresno County FCU
Fresno, CA

Vincent Cerasuolo

President/CEO
Century Heritage FCU
West Mifflin, PA

David S. Collins

SVP/CFO
CU of Johnson County
Lenexa, KS

Catherine Dawson

Chief Financial Officer
St Louis Community CU
Saint Louis, MO

Brenda DeBoer

VP Finance
Sioux Falls FCU
Sioux Falls, SD

Dave Douglas

SVP/CFO
Oklahoma Credit Union
League
Tulsa, OK

Daniel Garrison
Accounting Manager
MidWest Financial CU
Ann Arbor, MI

Matthew S. Grulke
CFO
Oakland Catholic CU
Troy, MI

Randy D. Gunderson
Chief Financial Officer
Verity CU
Seattle, WA

Dena Ivan
Accounting Manager
Public Service CU
Detroit, MI

Timothy A. Keegan
EVP/CFO
NWA FCU
Apple Valley, MN

Ginger Kirshy
VP/CFO
Sarasota Coastal CU
Sarasota, FL

Lisa Landt
CFO
First Entertainment CU
Hollywood, CA

Regina Lewie
VP/Chief Financial Officer
Nationwide FCU
Columbus, OH

Sue Lillich
Chief Financial Officer
Isabella Community CU
Mount Pleasant, MI

Mark Lovewell
VP/CFO
Stanford FCU
Palo Alto, CA

Brian Mann
VP Finance
Argonne CU
Argonne, IL

Margaret C. McCauley
Chief Financial Officer
US First FCU
San Francisco, CA

Joseph C. McGinley
SVP Financial Services
Army Aviation Center FCU
Daleville, AL

Robyn A. McNee
VP Accounting
Raritan Bay FCU
Sayreville, NJ

Erin Mendez
SVP IS/Finance
Orange County Teachers FCU
Santa Ana, CA

James R. Mihills
SVP Finance/Accounting/CFO
Omni American CU
Fort Worth, TX

Sandra K. Mishler
VP Financial Services
Aurora Schools FCU
Aurora, CO

Janis M. Motichka
Assistant Controller
SSA Baltimore FCU
Baltimore, MD

Tonia Niedzialkowski
VP Accounting
Point Breeze CU
Hunt Valley, MD

Michael M. Noborikawa
SVP/CFO
HawaiiUSA FCU
Honolulu, HI

Andrew S. Rains
Executive Vice President
USC CU
Los Angeles, CA

Mindy L. Roark
Finance Manager
OhioHealth CU
Columbus, OH

Jeffrey A. Salamone
Accounting/Admin Dir/SVP
Police and Fire FCU
Philadelphia, PA

Diana L. Scott
Chief Financial Officer
Detroit Edison CU
Detroit, MI

Benjamin Sexton
VP Finance
County of Henrico FCU
Richmond, VA

Michelle D. Stiles
Controller
Bridgeton Onized FCU
Vineland, NJ

Keith Sultemeier
SVP/CFO
Security Service FCU
San Antonio, TX

Kimberly A. Sydebrant
Chief Financial Officer
Martin FCU
Orlando, FL

Chuck Valenti
Chief Financial Officer
Del Norte CU
Los Alamos, NM

Erin Wilson
Accounting Director
Elkhart Co Farm Bureau CU
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Laurie Wilson
Chief Financial Officer
Electra Central CU
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