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CREDIT UNION SERVICE ORGANIZATION PRODUCTS
AND SERVICES: IMPLICATIONS,
DECISIONS, AND STRATEGIES

A Project
Presented to the
Faculty of
California State University,
San Bernardino

In Partial Fulfillment
of the Requirements for the Degree
Master of Business Administration

by
Michael Burnett Bare

June 2005
CREDIT UNION SERVICE ORGANIZATION PRODUCTS
AND SERVICES: IMPLICATIONS, DECISIONS, AND STRATEGIES

A Project
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June 2005
Approved by:

Dr. David Schalow, Chair, Acctg & Finance
Dr. Sue Greenfeld, Management

Dr. David Schalow, Chair, Acctg & Finance
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ABSTRACT

This Project provides a general background on L.A. Financial Credit Union’s Credit Union Service Organization (CUSO) and the methodology that is used to create this Project. As a result of the research that was done, an important implication was derived to continue the operation of the CUSO. This Project creates a CUSO Business and Marketing Plan Framework to better align the CUSO and the Credit Union’s objectives. The significance of this Project comes from: (1) the author’s contribution of a series of questions that creates a process for evaluating new offerings of Credit Union and CUSO products or services; (2) If it is determined that the product or service should be offered, then the author has created a Decision Tree to help determine which business activities should be operated or created within the Credit Union and which business activities should be operated or created within the CUSO environment. By using the plans and guides in this Project, rather than the current ad hoc process used by the Credit Union, it is hoped that better decisions will be made on what products and services should be offered, and by determining where best to offer the product or service, that resources will be used more effectively.
ACKNOWLEDGMENTS

Thank you to Dr. Greenfeld, Dr. Schalow, and the graduate advisory committee for their assistance in the completion and reading of this project.
DEDICATION

To my wife Sheila, for putting up with me during this project and especially during the entire MBA program.
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CHAPTER ONE
INTRODUCTION

L.A. Financial Credit Union does not currently have a true Business or Marketing Plan for its Credit Union Service Organization (CUSO): CRFCU Insurance & Financial Services, Inc. Nor does the Credit Union have an overall guide to help manage the general operations of the CUSO in regards to how it should help meet the Credit Union’s strategic directives. The Credit Union does not use a formalized approach in evaluating whether or not to offer a new Product or Service. In addition, if the Credit Union decides to offer a new product or Service, there is no methodology used to determine if it should be offered through the Credit Union, the existing CUSO, or through a newly created CUSO.

This Project started out in the direction of focusing on the viability of the continuance of L.A. Financial Credit Union’s CUSO and providing a Business Plan based upon the findings. But based upon the background research, the fact that many products and services can be offered equally from within the Credit Union or the CUSO, and the current ad hoc approach used by the Credit Union, it became evident to the author that more value could be
provided in changing the focus of the Project. The author concluded that the most value would come from first creating a series of questions to guide the Credit Union through the process of deciding whether or not to offer a particular product or service. Then, upon making the decision to offer a product or service, the author has designed a decision tree that will determine through what entity is the best way to offer the product or service. This could be the Credit Union, the existing CUSO, or lead to the creation of a new CUSO. In addition, because of the lack of any Business or Marketing Plan for the CUSO, the author has created a framework that has some sections already completed and other sections that would be completed in conjunction with working with the CUSO Board of Directors.

Because of the technical nature of this project, it may use terms specific to the credit union or financial industry that may not be commonly known outside the industry, and because some company names may appear to be abbreviations when actually they are indeed the names of the entities, a "Glossary of Terms" section is included at the end of this report in Appendix A to help readers. It may be useful to scan this glossary prior to reading through the project.
With this type of a project, there are many ways that it could be organized. The author has chosen to discuss the purpose, background information, research methodology, project significance, and project limitations within the introduction section. Within the next section, titled "Literature Review, Data Gathering and Discussion," is the review and findings of various articles and interviews held. This section also looks at the various rules and regulations governing CUSOs and credit unions, industry trends, and possible tax and incorporation structure consequences. Based upon this information and the implications created from the research, the author makes various conclusions and recommendations leading to the creation of a Business and Marketing Plan Framework for the Credit Union's existing CUSO. This is followed by the creation of a series of questions included in Chapter Four on Strategic Decisions for the Future regarding whether or not to offer a new Product or Service. If an affirmative decision is reached to offer the new Product or Service, the author has created a decision tree to help decide whether to offer the new Product or Service through the Credit Union, its existing CUSO, or through a newly created CUSO. By following a consistent methodology for evaluating a new product or service and by offering it in
the proper entity, it increases the likelihood that the product or service will successfully help the Credit Union meet its strategic directives by using resources in a more efficient manner.

Purpose

As stated in the introduction, this project will create strategic tools for the Credit Union and CUSO to use in order to best create a more symbiotic relationship between the two entities. This will enable the CUSO to be more successful and better reach the overall goal of achieving the Credit Union’s strategic directives.

This has important short-term implications by looking at current products and services of the CUSO and determining whether they should be continued to be offered from within the CUSO or moved to the Credit Union in order to achieve maximum profitability. It also has long-term implications by creating a structure for evaluating future business opportunities that the Credit Union might or should consider. In addition there needs to be a methodology created to guide the decision making process in the future when evaluating new products and services. For any product or service where it has been determined to move forward and offer, there then exists the need to
evaluate whether the Credit Union should offer that product or service directly through the Credit Union, through its existing CUSO or through a newly created CUSO.

There are many legal, organizational, cultural, and financial factors that need to be considered in determining the best strategy to follow. There are many rules and regulations that impact current and future CUSO operations as well as various tax implications associated with how a CUSO is structured. In addition, credit unions are being granted more authority and approval to offer various products and services directly within the credit union, whereas they have been prohibited in the past (hence the original need to create a CUSO). There are many new product and service opportunities being offered through CUSOs every day. There are also legal and marketing issues, such as "branding" that need to be considered.

The research portion of the project attempts to gather enough information in order for the author to determine important implications, come to some conclusions, and make various recommendations.

This information will be used by the President/CEO of L.A. Financial Credit Union, the Credit Union Board of
Directors, the CUSO’s Board of Directors, and Senior Management of the Credit Union.

Background

CRFCU Insurance & Financial Services, Inc. was created in 1999 as a “traditional” CUSO offering financial brokerage and financial planning services through CUNA Brokerage and Members Financial Services. Many credit unions created CUSOs for this same purpose and this was the most common reason behind the many CUSOs that exist today. Other miscellaneous insurance products have been added and offered through the CUSO as time has gone on. In addition to Financial Services, the CUSO also offers Auto Brokerage Services, Auto-Home-Property-Casualty Insurance, and Long Term Preferred Care Insurance. The CUSO has never had a Business Plan nor has the Credit Union ever fully supported the CUSO with the resources necessary to allow the CUSO to be more successful.

A separate CUSO, Financial Data Partners - Online, Inc. was established by L.A. Financial Credit Union in January of 2003 for the purpose of offering online service bureau data-processing services to other credit unions operating on the same core operating system as L.A. Financial Credit Union. The core operating system is made
up of the primary member loan and deposit programs of a credit union. A separate CUSO was created because the liability that arises with this business function was very different than from the existing CUSO. The core operating system vendor, FiTECH, would have signed up the client and then would have subcontracted the core system servicing to the CUSO. Essentially, FiTECH and the CUSO would have partnered together in order to create a better data-processing solution for smaller credit unions (Gentile, 2003).

This separate CUSO entity was in the process of being created when the author arrived at the Credit Union. One risk associated with this venture involved the long-term viability of the core processor FiTECH. FiTECH had been around a long time and was running on "older" technology. A year earlier Liberty Systems had purchased FiTECH and the hope was that Liberty would invest enough capital to bring FiTECH more up to date in regards to technology and service. Upon arrival at the Credit Union and after performing an evaluation and an analysis, the author recommended that the Credit Union should be careful in proceeding forward with the partnership arrangement. It appeared as though the situation with FiTECH was worse than Liberty thought and the amount of money needed for
infusion was much larger than what they had anticipated. Strategically Liberty had acquired FiTECH as an "umbrella" for all of Liberty's technological products and services. However, they had underestimated how technologically far behind the times FiTECH was. A new President had taken over at Liberty a few months earlier. The author thus made the recommendation to the Credit Union that, if an agreement was made, it should be made with FiTECH and the Parent company, Liberty, rather then just FiTECH alone. In this way if FiTECH was sold by Liberty the Credit Union would have an "out" and could spin off any credit unions signed with the service bureau back to FiTECH's service bureau. This recommendation was made based upon the assumption that a new President generally has about one year to dump any problem units or else it then becomes his or her own problem going forward. In July of 2003, Liberty announced the sale of FiTECH to Open Solutions Incorporated (OSI). Fortunately the Credit Union had not yet signed a client and so an agreement with Liberty FiTECH had not yet been entered into.

With the change of ownership, the original intent of the CUSO changed. The main purpose could still exist with OSI if the Credit Union chose to change its core processing system from the FiTECH platform to the more
robust and technologically advanced OSI platform. However, because of the length of time it would take the Credit Union to convert and become proficient on the new system platform, it was decided to close the CUSO at the end of 2003. The Credit Union will evaluate the situation again after being on the OSI platform for a period of time.

In September of 2001, credit unions were granted authority through the National Credit Union Association’s (NCUA) Incidental Powers Act to directly provide many more products and services than they were previously allowed. Prior to the Incidental Powers Act, many credit unions were running various products and services through a CUSO because this was the only way that the credit union could offer these products and services. Because this Act has had a significant impact on credit union and CUSO operations, it will be discussed in more detail in the CUSO Rules and Regulations section.

In July of 2004, L.A. Financial Credit Union was granted a charter change by NCUA to include all persons who live, work, or worship in Los Angeles County. Along with already serving the Lake Havasu community, this addition of nearly eleven million people created a
tremendous opportunity for both the Credit Union and the CUSO.

Methodology - Plan of Action

The research for this project comes from various credit union and CUSO industry articles, Internet articles, CUSO research information, NCUA Rules and Regulations, and interviews with CEOs and people involved with successful CUSOs as well as other people who have experience with CUSOs.

The research sets the background for reaching the first major implication of this project: that the CUSO should not be dissolved. The CUSO can provide a better way for the Credit Union to reach its strategic directives and the research helped create a Business and Marketing Plan Framework for the CUSO, including a recommendation on how best to structure the CUSO. The research also leads to the development of a methodology for analyzing new Products and Services and helping to quantify various goals and milestones for each proposed product or service. Finally the research leads to the creation of a decision tree that determines whether it is best to offer the new product or service from within the Credit Union itself, the existing CUSO, or through a new CUSO.
If the first major implication had determined that the CUSO should be dissolved, then the research would have set the background for creating a business plan that would have provided a guide for transferring all existing products and services over to the Credit Union, and how best to dissolve the CUSO.

Significance of the Project

A successful startup of our recent CUSO, FDP - Online, Inc., under the original premise, did not work out. The President/CEO of the Credit Union has expressed that maybe the Credit Union needs to look at dissolving the original CUSO, CRFCU Financial & Insurance Services, Inc. because it is not making a lot of money, and so it seems to be more of a bother than a benefit. However, there has never been a true business or marketing plan created looking at the rewards that could be achieved with the proper amount of resources committed. There possibly could be great potential for success if the proper resources are dedicated in an efficient manner. This project examines this issue and creates a Business and Marketing Plan Framework for the CUSO that would be completed based upon input from the Board of Directors of the CUSO.
In addition, this project creates a methodology to use in evaluating any new product or service by answering a series of questions. The Credit Union currently lacks a methodology for looking at new products and services and evaluating whether it helps the Credit Union maximize member satisfaction and/or Credit Union profitability. This guideline will also help to quantify and detail specific goals and milestones in order to properly measure the subsequent success, or lack thereof, of the new product or service implemented.

Finally this project creates a decision tree to use in deciding whether it is best to offer the new product or service through the Credit Union, existing CUSO, or a new CUSO.

Limitations of the Project

Much of this project was doing research on the viability of CUSOs in light of all of the new Credit Union regulations and on offering various products and services through our CUSO as a delivery channel. A methodology was created for evaluating proposed new products or services and a decision tree was created to provide a guide on whether to offer the new product or service through the Credit Union or CUSO. Thus, this project is more general
in nature covering several areas in the Credit Union that need to be addressed and so the business and marketing plans for the individual CUSO is a work in progress plan and not as comprehensive as if the project had been focused solely on the creation of a CUSO Business and Marketing Plan. The Business and Marketing Plan Framework is to be completed at a later date by the author working with the CUSO Board of Directors so that the plan is supported by the Board.

Another limitation is that regulations and business conditions are changing very rapidly. During the course of this project alone came the full implementation of the Incidental Powers Act, a new CUSO was started and closed, and the Credit Union was granted a charter expanding to all of Los Angeles County. The author has created plan frameworks that can be adapted to changing conditions, but a regulatory or business change could mean that the recommended strategies would need to be further modified.

The next chapter compiles the more pertinent information found in all of the research that the author completed and creates the foundation leading to important project implications, for creating needed strategic frameworks and guidelines, and for creating a Business and Marketing Plan Framework for the CUSO.
CHAPTER TWO
LITERATURE REVIEW, DATA GATHERING, AND DISCUSSION

This chapter covers information and data gathered through the Internet, through interviewing people associated with successful CUSO operations, various articles, internal documentation, and from Business and Marketing Plan models and methodologies. The author has gathered information that will lead to important implications on the viability of the Credit Union's CUSO and on various CUSO product and service offerings that could enhance that viability. Data are also gathered to lay the foundation for creating a strategic methodology for evaluating new products and services that the Credit Union may evaluate, and how to best offer those products or services.

Credit Union Service Organization
Literature and Data Gathering

A member who uses a service or product being offered by a credit union CUSO typically will associate the transaction with the Credit Union rather than the CUSO. NACUSO Director Tom Davis, president of Davis & Company, a
management consulting firm that specializes in project management and strategic planning development services for credit unions and CUSOs, says that in focus groups he has conducted with members, "When members talk about a specific product or service, they don't talk about the CUSO. They refer to the credit union." It is as if, said Davis, "... the CUSO is transparent to them" (Barr, 2003).

This creates a marketing paradox. Usually a company wants to establish a "brand" name or identity for people to associate with, because this typically leads to better loyalty. However, this requires a lot of effort, time, and money and so therefore, given all that it takes to establish a "brand," this could end up being an overwhelming task. Thus, a CUSO may be better off simply marketing itself under the umbrella of the parent credit union.

Credit unions typically have a strong image of "trust" by its members. By using the credit union's name, brand, and image, the CUSO gains instant credibility. One alternative is to make sure that the credit union's name, and possibly logo, is somehow incorporated into the CUSO's name. Martin Breland, President/CEO of Tower FCU, says,
Branding is important, but it depends on what the product and service is and what you want to reinforce. It's very important when trust is involved and becomes part of the equation. At its core, a brand is a promise. It says 'when you see this mark, it means something.' What makes a brand stick is whether you fulfill what you promise and claim. If you do, you develop a relationship and build trust, and that's what you want to reinforce. (Barr, 2003)

It is an oft-heard, albeit whispered remark coming from certain corners of the credit union community, that the time for CUSOs has come and gone and that we are at the dawn of a new age of expanded powers for credit unions, ushered in by the relatively recent advent of Incidental Powers bestowed on federal credit unions by an enterprising regulator (Joiner, 2003). Because of this, many feel as though functions that have been offered traditionally through the CUSO can now be offered through the credit union and that the CUSO can be closed down. With this line of thought, it means that the credit union believes that everything is best kept within, and
controlled by, the credit union. But, is this what is really best?

Business management consultants and gurus often share one ultimate belief that a company or business unit needs to concentrate on their core competencies. An organization that focuses on what it does best tends to be far more productive and effective than those that try to stretch beyond the strengths of the organization. According to Steven Joiner, President of Truliances,

This model plays itself out in the credit union world as well, where placing products and services outside the essential and traditional strong suits of credit unions, deposits, loans and the financial services that support those activities, into a CUSO, where more appropriate attention and concentration can be mounted, is the preferred business strategy for many credit unions. Insurance services, investment advisory, car buying, all manner of ancillary services outside the realm of conventional credit unions are better placed in a service organization that focuses on these services, acquires the specialized talent to best operate them and that works in close harmony with the
parent organization to market them, and to position them within the larger context of the credit union’s mission. (Joiner, 2003)

CUSOs can be used to experiment with products and services just as a new entrepreneurial start-up company would, separate from the credit union, so as not to impact its operations. Within the credit union, there can be set ways to do things or the Board of Directors or members may want something to be a particular way because “that’s the way we have always done it” mentality. With a separate business structure, there may be more leeway to do new things.

Thus, the CUSO provides the credit union with a closely held innovator, yet one which provides sufficient distance to allow for some institutional stretch and a certain willingness to push the member service envelope. (Joiner, 2003)

Another advantage to offering products and services through a CUSO versus the credit union is the fact that a credit union cannot serve non-members. Credit unions are continuing to gain more expansive charters allowing more
people to qualify for membership. This is evidenced by L.A. Financial Credit Union's recent charter approval of all of Los Angeles County. However, enough of a potential non-member market opportunity remains to preserve the CUSO structure.

The Incidental Powers Act has created an additional decision in the strategic planning of a credit union. If a product or service is permissible within the credit union, it does not necessarily mean that it should be offered through the credit union. As a result of the Incidental Powers Act, some credit unions are rushing to transfer all products and services into the core business of the credit union while others are standing firm behind the value of their CUSO (Dorsa, 2004b). Dorsa asks, "Is this new regulatory environment the beginning steps of a descent into a financial services netherworld...or is it a stairway to heaven?" It would seem that for the latter to happen credit unions will have to look to the creation of an entirely new business model than simply altering the old one. Dorsa points out that,

   Because today's highly competitive marketplace and the changing credit union and CUSO regulatory terrain require businesses to work faster and smarter, the synergy between CUs
and CUSOs has never been more important. (Dorsa, 2004b)

As I celebrate another anniversary in the credit union industry, I find myself asking the same question I have asked over and over again, where are the "new" credit union member’s coming from? (Dorsa, 2004a)

It is estimated that the credit union industry has approximately 88 million members, which would mean there are still 2 3/4 times that number of people who do not yet belong to a credit union. So how can credit unions reach and attract these potential members? The answer is not easy.

The competition for consumer and business financial products and services has never been greater. Add to this the incredible changes taking place in the distribution methods as well as newly developing business models and advertising strategies and the question looms even larger. (Dorsa, 2004a)

Credit unions and CUSOs have historically experimented with various non-traditional products and
services with existing members as the focus. Thus, credit unions are only marketing to a small share of the potential market. Dorsa points out the example of automobile insurance premiums.

The aggregate amount does not even amount to enough to measure against the leaders. Yet a credit union’s primary lending product is auto loans. Where is the disconnect? Why can’t we place more emphasis on packaging auto insurance with credit union auto lending? (Dorsa, 2004a)

Dorsa also points out that through the Incidental Powers Act a credit union could either offer this auto insurance product through the credit union or through a CUSO.

Joiner (2003) also points out that,

Overlooked in the rush to pronounce CUSOs as superfluous, is another element that should be duly considered and weighed: does the credit union really want to assume the risk inherent in offering investment (and other) products, and, almost inevitably, investment advice, without benefit of the buffering insulation that housing
the investment services offerings in the CUSO
affords? (Joiner, 2003)

It seems clear that there exists a very material
liability and exposure risk to the credit union setting up
such business ventures within its own credit union entity.
It would seem to be more prudent to take the more
conservative approach and create a separate entity apart
from the credit union to offer these products and services
through. A credit union has to weigh the reduction of
risk against the extra time and maintenance that is
required to operate a CUSO. Risk aversion alone may be
the initial reason for creating a CUSO. Nevertheless, it
is probably not enough of a reason to sustain this
structure (Joiner 2003).

The CUSO structure lends itself to create joint
venture and partnership opportunities with other CUSOs and
other credit unions. This would not be as easy if the
functions were being offered from within the credit union.
Also, from a regulatory standpoint, some of the business
aspects of these functions may not lend themselves to the
highly regulated credit union environment. The financial
industry is one of the most regulated industries in the
United States. It is sometimes joked about by insiders
that the only industry more heavily regulated is Nuclear Energy. Joiner’s view of the future CUSO is,

A future where much of the value of what is brought to members is brought to them through a vibrant, prosperous CUSO working hand in hand with the organization that gave it life and fostered its success. Different construction, diverse materials and distinct design usually produce different results. And so it is for CUSOs. (Joiner, 2003)

With all of the outsourcing, multiple-owner CUSOs, and business agreements springing up in the credit union world, it isn’t any wonder some of the arrangements turn out to be flops. Finding the right partner is a skill in itself (Arnold, 2001). Rae Miles, one of the panelists covered by the article, states “No matter how good you think your partner is, no matter how good the vendor, make sure you have an exit strategy” (Arnold, 2001).

Guy Messick points out that a major reason why CUSOs were originally formed was to enable the payment of revenue in excess of expenses (Messick, 2002) as CUSOs were not subject to the group purchasing rule (prior to September 2001 and the Incidental Powers Act, credit
unions were limited to reimbursement of expenses under the former group purchasing regulation Part 721 of the NCUA Regulations). Additionally Messick states that another reason to form CUSOs was that most states require an insurance license to share insurance commissions and federal credit unions and most state chartered credit unions were not empowered to obtain insurance licenses. He points out that the year 2001 brought significant changes in the rules applicable to the credit unions and their options to provide investment and insurance services. The most significant change was the amendment to Part 721 of the NCUA Regulations that replaced group purchasing powers with Incidental Powers. This change allows credit unions not to be limited to simply reimbursement of expenses as it was before. Under this new amendment, credit unions are also able to obtain insurance licenses that they were not previously able to do. In addition to creating regulations that favor and allow credit unions to deliver products and services more easily within the credit union versus the CUSO, Messick says “that the intent of the NCUA is to provide a dynamic regulation to expand the specific types of permissible activities for CUSOs” (Messick, 2004). Messick lists
several reasons why CUSOs will continue to be used as a delivery model option for many different services:

- **Legal Need for Some Services.** There are still some services and products that cannot legally be offered through the credit union (Messick 2004).

- **Serving Non-Members.** If a credit union wants to include non-members in the target market, CUSOs are needed (Messick 2004).

- **Risk Management.** CUSOs provide a layer of protection for the services rendered (Messick 2004).

- **Raising Capital.** Raising capital in a collective entity requires a CUSO (Messick 2004).

- **Creating Marketable Value.** The ability to sell a portion of the CUSO to raise capital or realize a profit for the investing credit unions can be extremely beneficial (Messick 2004).

- **Entrepreneurial Culture.** A CUSO provides credit unions with options to innovate and motivate that are hard to replicate in a non-profit organization (Messick 2004).
Attracting Experienced Managers. Investment and Insurance services are highly specialized businesses and an experienced manager is required to run them well. These types of positions match up culturally better in a "for profit" CUSO (Messick 2004).

Sharing Risks and Rewards in a Cooperative CUSO. As costs of new opportunities escalate, credit unions are looking at cooperative CUSOs to share risks and costs (Messick 2004).

No Tax Disincentive. There are no tax disincentives to using a limited liability company CUSO (Messick, 2004).

Messick concludes his article by stating that,

In the delivery of investment and insurance services, credit unions have new choices in the delivery model. These choices will enable credit unions to custom design the delivery model that best fits their needs. In many cases, credit unions will provide some services through a CUSO and other services through Incidental Powers. (Messick, 2004)

One of the primary reasons to create a CUSO is to help increase membership growth and increase product and
service penetration of existing members. Bob Dorsa (2002a) suggests that there are five strategies that a credit union can do to jump start member growth. They are as follows:

- Carefully examine what is available to your credit union under Incidental Powers. Ignoring the integration of dynamic financial products into your credit union's product menu is unacceptable and will inevitability leave you at a disadvantage when compared with other financial providers. If you are unable to offer these products on your own, affiliate with a credit union or CUSO who does offer these products. Don't send members seeking another financial institution because your organization has not addressed key issues (Dorsa 2002a).

- Examine how your credit union's brand, name, image and awareness can be disseminated throughout your community or member service area. Check out local cable advertising or other dynamic methods of "spreading the news." How much does your credit union participate in charitable events in your community? (Dorsa 2002a)
• Review your organization’s sales and marketing strategy related to training of staff. Often due to the fact that your staff is not properly prepared to properly solicit the business from your existing members or unable to obtain your appropriate "share of wallet" when new members join (Dorsa 2002a).

• Conduct market surveys or consumer focus groups to determine what consumers in your market service area want (Dorsa 2002a).

• Always remember to communicate, communicate, and communicate. Don't be afraid to tell your members how good your products and services are. However, make sure that when you tell them how good you are-be sure to live up to their expectations (Dorsa, 2002a).

Charles (Chip) Filson is President of Callahan and Associates, a credit union organization focusing on data gathering, strategic planning, consulting, and reporting. Filson does a lot of strategic planning sessions for credit unions including CUSO strategic planning. In an interview with Filson, he stated that there are both advantages and disadvantages to bringing typical CUSO
business activities into the credit union. Filson says that "the overriding factor is how the credit union can best integrate the member's credit union account relationship with the member's investment planning relationship." Because of the recent trends in the stock market there has been a shift from buying and trading stocks to more of a financial planning, buy and hold strategy by members. Filson states that the majority of CUSOs offering investment services only achieve a 1% portfolio penetration rate. A penetration rate of 9% is considered exceptional. This means that, although it is a very tough market, there is a huge market potential if a CUSO can tap into it. Filson states,

A CUSO's main emphasis needs to be in fully integrating the member relationship. For example, sweeping account monies between money markets, investments, and checking accounts even if those accounts are held at various institutions.

Filson also talked about "the critical need to hire the expertise necessary to properly run CUSOs and that this is an area that many credit unions are deficient in." He also talked about data processing CUSOs.
Many data processing CUSOs get into this business model in order to facilitate and encourage mergers. If a credit union is already processing another credit union's data, then it makes a merger very easy.

Credit Union Service Organization
Rules and Regulations

CUSOs of federally insured credit unions are regulated through Part 712 of the NCUA Rules and Regulations for Credit Unions and as corporations through the individual state laws under which the CUSO is incorporated. Privately insured state chartered credit unions are guided by the individual state regulations that the credit union is headquartered and chartered in. L.A. Financial Credit Union is a federally chartered and insured credit union and as such this Project focuses on federal regulations.

Part 712 establishes when a Federal Credit Union (FCU) can invest in and make loans to CUSOs and the permissible activities that a CUSO can operate. A FCU can invest an aggregate 1% of its amount of capital in CUSOs and can lend another Aggregate 1% of its amount of capital to CUSOs. The CUSO must operate as a separate entity in
structure and form. The complete NCUA Regulation PART 712 is shown in Appendix B including §712.5 which lists the specific activities and services that are currently pre-approved for CUSOs by NCUA.

Even though there are many approved activities, traditionally CUSOs have only offered a select few of these activities, concentrating on financial counseling/brokerage services and insurance products and services. There are very few specifically prohibited activities. For activities not specifically listed, there is an approval request process available for credit unions to petition for the offering of a specific product or service.

There is one restriction that exists in the regulation that the author believes is the most responsible for why CUSOs do not perform as well as they could. The regulation specifies that no credit union Senior Management employee may be directly compensated by the CUSO. A startup CUSO does not normally have the capital or resources to hire a CEO or high level Senior Manager who would have the ability to manage the CUSO effectively, and so the typical situation is to assign the CUSO to a Senior Manager within the credit union on top of his or her normal credit union responsibilities.
Therefore, the CUSO takes a backseat to normal credit union operations and becomes an afterthought instead of being somebody's main focus. The way to increase a CUSOs success would be to tie in performance levels to incentives for a Senior Manager that would be substantial enough to motivate the individual to put in extra time above and beyond the normal responsibility of simply managing the basic operation of the CUSO. A credit union is forced to informally recognize this situation. On the flip side, if the CUSO hires an experienced manager it will operate with a loss at the beginning of operation. Negative net income tends to make the credit union nervous that it has made a potentially bad investment. Successful companies evolve from the entrepreneurial stage to the small business growth phase with a strong CEO and evolve again into a major corporation by building a strong Senior Management team. CUSOs get stuck in the startup stage because the credit union does not hire or assign the entity to an entrepreneurial type of manager to get it going.

There have been two major occurrences within the last three years that are changing the way that credit unions choose which activities to run through a CUSO and which activities to run directly through the credit union. The
first has to do with the Securities and Exchange Commission (SEC) reviewing whether a CUSO needs to be a registered securities company in order to offer financial brokerage services. By offering these investment services directly from within the credit union, normal operations can, for the most part, continue without any changes from the front end sales aspect. However, back office operations, such as accounting and compliance, become much more complex for the credit union. In addition, by offering the investment operations from within the credit union, the credit union is prohibited from offering these investment services to non-members. The movement of these investment programs to credit unions raises three issues: (1) How will credit unions deal with the risk management issue? Credit unions have gained a comfort level with the risk involved in providing investment programs through CUSOs, which have provided a layer of liability protection for credit unions. Credit unions will need to be extra diligent in disclosing that the investments are not issued by the credit union or insured by share insurance; (2) how will non-members be served? Credit unions will need to create some sort of referral programs and (3) how will CUSOs that serve multiple credit unions operate? CUSOs can continue to be the method for providing common
management and administrative services of the investment programs to increase expertise and effectiveness (Messick 2002).

This situation is still under review and the SEC has not officially ruled one way or another. In March 2005, the SEC strongly recommended that all investment programs be moved to within the credit union. This is because there is a strong possibility that, if the final ruling is made, such that a CUSO must register, that this ruling would not have a "grandfather" clause. As such, CUSOs would be subjected to an immediate $250,000 registration fee. This fee, for all but the largest of CUSOs, would not be feasible. Because of the uncertainty on whether the ruling, whenever it comes, would apply only to new CUSOs, be grandfathered in, or in a worst case scenario be retroactively applied to all CUSOs, many Credit Unions are not waiting and are moving these functions to within the credit union.

The second occurrence was, as has been previously discussed, that NCUA responded to the SEC situation by updating Part 721 of the Credit Union Rules and Regulations that applies to Incidental Powers. As mentioned earlier, the complete Part 721 is included as Appendix B. An Incidental Powers activity is one that is
necessary or requisite to enable a credit union to carry on effectively the business for which the credit union is incorporated. The services that are included in this definition were greatly expanded by NCUA. Prior to this, the activities that were approved by NCUA as incidental were very few. This is what prompted the explosion of CUSOs within the credit union industry. Remember that one of the top two reasons that CUSOs were created was to offer financial planning and security brokerage services and also to offer insurance products and services. Now most of these can legally be offered through the credit union.

Guy Messick is an attorney and one of the foremost sources of information regarding CUSOs. He states that the reasons for continuing to use a CUSO are:

1. A CUSO is still needed to legally provide some services. For example, if a credit union desires to provide non-depository trust services or to be engaged as an active mortgage broker, these services require powers that credit unions do not have and therefore the services must be through a CUSO. This is also true for a credit union that wants to be an active property and casualty insurance agency. If the goal is to
have direct appointments from insurance carriers and actively sell insurance, this is not an activity that credit unions are empowered to do, so an active insurance agency must be a CUSO. Note that the credit union is only permitted to enter into an agreement with an insurance agency for the sole purpose of referring business to the insurance agency. If the credit union had an insurance license or is otherwise permitted to receive commissions under state insurance laws, the insurance agency could send a portion of the commissions to the credit union as a referral commission. This situation would not require the credit union to be an active insurance agency (Messick 2004).

2. There is a desire to leverage the advantages of scale by having other credit unions join in a cooperative model. CUSOs are the model for cooperative arrangements among peer credit unions. If a credit union intends to bring in other credit unions as partners in the delivery of a service, the CUSO model should be used. Note that a credit union has the option of providing services to other credit unions
without the need of a CUSO, but the other credit unions would not be able to have an ownership interest without a CUSO. Sometimes the ownership interest is a necessary strategic step to attract and retain key credit unions as customers of the CUSO. These cooperative arrangements can be very powerful tools to create economies of scale and economic power in the marketplace (Messick 2004).

3. There is a need to raise capital outside of the credit union. Credit unions are limited by regulation as to the amount of capital that it can invest in CUSOs. By having multiple investors, credit unions may draw upon the capital of others. These other investors could be other credit unions or even non-credit unions. Caution should be taken with non-credit union investors as their goals, especially on the importance of the profit margin, may ultimately conflict with the credit union investors. Also note that senior officials of the credit union may not own CUSO shares under the conflict of interest prohibitions (Messick 2004).
4. There is a desire to build equity that the credit union can sell in whole or in part at a future time. A successful CUSO will generate equity growth, which can be sold in whole or in part as other investors buy in. This can be very profitable to the credit union, as many credit unions have happily learned (Messick 2004).

5. There is a desire to create a for-profit, entrepreneurial sales culture that can attract and retain a talented and creative staff and complement the credit union's mission. There are only so many opportunities to advance within the credit union. A CUSO provides alternate and additional career paths to attract and retain quality staff. A for-profit CUSO can attract a sales-oriented staff that can assist the credit union compete in the highly competitive financial services marketplace (Messick, 2004).

6. The target market includes significant non-member business. A CUSO may serve non-members as long as the majority of its business is with members. If the target sales market includes non-member business, a CUSO should be used. For
example, an insurance company could have some clients who are credit union members and also clients who cannot qualify for membership in the credit union. Since Incidental Powers does not permit the sharing of revenue for non-member business with a credit union, the revenue from the non-member business can only be realized in a CUSO (Messick 2004).

7. There is a desire to isolate liability away from the credit union. If the credit union has liability risk concerns for these ancillary services, a CUSO can help manage the risk outside of the credit union (Messick 2004).

Some reasons to use the credit union's Incidental Powers are:

1) The credit union wants to receive a referral fee for offering the alternative financial services to its members without it actually providing the alternative financial services. Incidental Powers permits a Finders' Activity fee that is paid by a third party vendor to a credit union for access to its members. Incidental Powers do not empower credit unions with the ability to
provide any expanded financial services. Note that credit unions may be required to obtain appropriate licenses to receive income for some services, e.g. insurance commissions (Messick 2004).

2) The credit union thinks that the integration of alternative financial products can be better achieved by having the services "in the credit union." As separate entities, CUSOs were often a structural hindrance in achieving full integration of the alternative financial services with the traditional credit union financial services. The removal of the CUSO is regarded as a plus by many credit unions in their quest for full integration. It removes some psychological barriers (Messick 2004).

3) If the credit union desires to provide some services to other credit unions as customers but does not want to take on partners, there is no need for a CUSO (Messick 2004).

4) The credit union is comfortable with the risk management issues of running the services within the credit union (Messick 2004).
5) The credit union's target market is overwhelmingly member only business (Messick 2004).

6) Forming and running a CUSO is a distraction that the credit union desires to avoid (Messick 2004).

Trends

One of the most unique traits that the credit union industry has been known for historically is the willingness of credit unions to share information and resources with other credit unions. Whereas in the banking industry there is fierce competition and very seldom will two institutions share information, it is not uncommon for one credit union to share its policies and procedures with another credit union.

However, this author was witnessed that over the past several years that credit unions have become more competitive and less willing to share and help other credit unions. This is because, in the past, credit unions were primarily Select Employer Group (SEG) based and thus direct competition was not that prevalent. Now there are many credit unions serving entire communities and so the overlap of membership and thus competition has
increased. With more direct competition, credit unions have become less inclined to directly share and help. But as direct help and sharing has decreased, formal partnerships that are being created for the mutual benefit of the participating credit unions have increased. This has increased the value and importance of CUSOs.

Credit unions’ net interest rate spread margins have been continually decreasing because of competitive pressures. The net spread is the difference between what credit unions can charge on loans (and earn on investments) and what it must pay out in dividends. In order to remain competitive in making loans, credit unions have had to reduce rates offered. This decreasing spread has meant that credit unions have had to look to increase fee income in order to continue to cover operating expenses. CUSOs can play a big role in helping to increase fee revenues for credit unions. CUSOs also can play a role in reducing operating expenses. Both of these can lead to a better bottom line for the credit union.

More credit unions are starting to exploit strategic advantages that they have created by partnering and selling their services through CUSOs that they have created. This helps them to achieve a quicker payback on
their investment and allows them to leverage the expertise that they have developed in creating the CUSO.

As more and more credit unions have expanded their fields of membership into community based rather than SEG based, this has meant that typically a credit union has more potential members than actual members. CUSOs give these credit unions a way to reach out and serve those non-members with the strategic goal of converting many of those into actual members. In the meantime, if the CUSO can generate additional revenue by serving these non-members, then this translates to a benefit for the credit union.

Another very disturbing trend within the credit union industry is one that many other industries have already experienced: consolidation. Credit unions are being merged, or more appropriately acquired, by larger and more profitable credit unions at a faster rate with each passing year. If a credit union wanted to avoid the threat of being approached by a larger credit union looking to "acquire" them, it was commonly thought that a credit union had to reach the $500M in total assets level. Today it is seemingly approaching closer to $1B in total assets. L.A. Financial Credit Union is only at $300M and so, if it cannot grow or be looked at as an industry
leader, they are putting themselves into a position whereby it may not be in total control of its future.

Structure Consequences

The major factors to consider when organizing a CUSO are whether the Credit Union is federally or state chartered, the type of businesses that will be run through the CUSO, and whether the CUSO will be wholly-owned by the parent credit union or whether the credit union will want to allow other credit unions as investors or partners.

CUSOs can be wholly-owned subsidiaries or they can be owned by multiple credit unions. A CUSO can be structured as a corporation or a Limited Liability Corporation (LLC).

One reason that it matters whether a credit union is federally or state chartered is because of tax consequences. A federally chartered credit union is exempt from state and federal income taxes and from sales and Unitary (commonly referred to as unrelated) Business Income Taxes (UBIT). As such, in deciding whether to form a corporation or a Limited Liability Corporation (LLC), a federally chartered credit union would lean towards a LLC because the tax liability is passed through to the parent which, in this case, would be the tax-exempt credit union.
Thus, the only tax expense incurred by both entities would be the annual corporation tax. Because of how taxes are calculated on a LLC versus a corporation, as long as gross revenues for the CUSO are anticipated to be under $1M, this would result in an overall lower tax expense than would be incurred if the CUSO was structured as a corporation. If a CUSO wanted to allow other CUSOs or entities as partners, it would also want to incorporate as a LLC.

For CUSOs that are established from a state-chartered credit union or that anticipate gross revenues exceeding $1M annually, it would be better to create the CUSO as a normal corporation instead of a LLC.

If a CUSO is to be wholly-owned by the credit union and would never look at any form of a joint venture or partnership, then the credit union would be indifferent towards structuring the CUSO as a LLC versus a corporation. If the credit union might possibly look to raise capital through other entities or think that in the future that the credit union might consider a joint venture or partnership arrangement, then the CUSO should be structured as a LLC.

The data gathered and research done within this chapter on branding, Incidental Powers, business unit
philosophy, member versus non-member, SEGs, joint venture and partnership opportunities, and tax structure implications lay the foundation for important implications in the next chapter.
CHAPTER THREE

PROJECT IMPLICATIONS

The prior chapters lay the foundation for the author to explore one of the most critical questions facing L.A. Financial Credit Union in regards to whether its CUSO can and should be a viable entity or should be closed down. Many credit unions are looking at the same issue: with NCUA’s recent Incidental Powers being granted, are CUSOs still necessary or desirable for their particular credit union?

This project implication is important because other strategic recommendations and proposals made by the author in subsequent chapters are based upon this implication.

Credit Union Service Organization Implications

Even though various products and services are now legally able to be offered directly within L.A. Financial Credit Union under Incidental Powers, this does not mean that those activities are matched well with the core competencies of the Credit Union. The author believes that the argument discussed earlier in this project in regards to separating out these non-core competency
activities into a separate business unit that is more focused on these activities is very applicable.

CUSOs can be an important part of a successful credit union strategy and in allowing a credit union to maximize benefits to its membership. With L.A. Financial Credit Union having just been awarded a community charter serving all of Los Angeles County, along with already serving the community of Lake Havasu, there are limitless opportunities to maximize the benefits of creating and offering products and services through multiple CUSOs to existing members, as well as, to non-members. In order to provide products and services to non-members, this would have to be done through a CUSO.

In addition there are some activities, such as offering Core Computer services, which are best offered through a separate entity, rather than directly through a credit union.

As this project has determined, there are many opportunities for L.A. Financial Credit Union to offer products and services that have been successfully offered by other credit unions and CUSOs. The CUSO exists to ultimately make the Credit Union better, and it can do so by offering products and services better offered from within a CUSO. This benefit can come from beyond simply
boosting Credit Union income. By offering products and services that attract non-members, an opportunity could also be created for the Credit Union to get this person to join the Credit Union as a member.

Thus, the author believes that L.A. Financial Credit Union’s CUSO should be maintained, and in fact expanded, in order to help maximize the Credit Union’s financial performance and benefits to the members.

Product and Service Implications

Based upon December 31, 2002 data, the most popular Products or Services offered by CUSOs are shown in Table 1.

Table 1. Most Popular Products or Services Offered by Credit Union Service Organizations

<table>
<thead>
<tr>
<th>Service</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared Branching</td>
<td>775</td>
</tr>
<tr>
<td>Investments</td>
<td>690</td>
</tr>
<tr>
<td>EDP Processing</td>
<td>301</td>
</tr>
<tr>
<td>Item Processing</td>
<td>289</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>281</td>
</tr>
<tr>
<td>Mortgage Processing</td>
<td>228</td>
</tr>
<tr>
<td>Auto Buying</td>
<td>175</td>
</tr>
<tr>
<td>Insurance</td>
<td>171</td>
</tr>
</tbody>
</table>
Trust 13
Tax Preparation 9
Travel 4
Other 690

(Harris, 2003)

In another source the top ten CUSO financial products offered are shown in Table 2.

Table 2. Top 10 Credit Union Service Organization Financial Products Offered

<table>
<thead>
<tr>
<th>Product</th>
<th>% of CUSOs Offering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative Investments</td>
<td>75</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>33</td>
</tr>
<tr>
<td>Annuities</td>
<td>29</td>
</tr>
<tr>
<td>Property/Casualty Insurance</td>
<td>22</td>
</tr>
<tr>
<td>Accidental Death and Dismemberment Insurance</td>
<td>21</td>
</tr>
<tr>
<td>Long-Term Care Insurance</td>
<td>20</td>
</tr>
<tr>
<td>Estate Planning</td>
<td>17</td>
</tr>
<tr>
<td>Mechanical Breakdown/ GAP Insurance</td>
<td>13</td>
</tr>
<tr>
<td>Health Insurance</td>
<td>10</td>
</tr>
<tr>
<td>Credit Life/Disability Insurance</td>
<td>10</td>
</tr>
</tbody>
</table>

(Hochgraf, 1999)
Based upon the above two lists and looking at other CUSO articles and in researching CUSO opportunities, it is recommended that the Credit Union explore the following Products and Services and review existing Products and Services that are being offered to see if they need to be moved from one entity to another.

Review Existing Products and Services

- Mechanical Breakdown Insurance (MBI). This product is currently being offered directly within the Credit Union. Because the amount of policies sold is lower than our peers, it may be better tracked and monitored through the CUSO.

- GAP Insurance. This product is also currently being offered directly within the Credit Union. Because the amount of policies sold is lower than our peers, it may be better tracked and monitored through the CUSO. This product partners with MBI and so they should both be offered through the same entity.

- Long Term Preferred Care (LTPC). This product is currently being offered through the CUSO. This product is what would be considered a "trust" product in that most likely only actual members of the Credit Union would purchase, and
so maybe it makes sense to move to within the Credit Union.

- Auto Buying Service. The Credit Union is currently referring members to AutoExpert, a CUSO of a Riverside Credit Union. Referral fees are received by the CUSO.

Research New Products and Services

- Trust and Estate Services. As the baby boomers move into the retirement age, these areas are expected to become increasingly in demand. The baby boomers are of such a high number that they are sometimes referred to demographically as "the pig in the snake (Elias 2001)" because there is this big spike in the numbers of baby boomers in this age range compared to age groups before and after it.

- Debt Counseling. More and more people are burdened with a higher percentage of debt and need help in managing and developing plans to improve their situation. In addition to financial institutions, more non-financial companies are starting to use credit scores to determine pricing of their products and services and it is becoming increasingly important for
people to have a good score in order to get better pricing.

- Payday Loans. This is a hot topic among financial institutions. Payday lenders are often viewed as "loan sharks," but the author understands that, based upon various research projects sponsored by the California Credit Union League (CCUL), that a high segment of this Payday Lending business comes from middle and higher income groups. The reason seems to be that consumer's perceive the Payday Loan as a short-term, low hassle loan. They perceive that this same loan from a financial institution would take a lot of time and red tape. The opportunity for Credit Unions and CUSOs is that these are extremely high-priced loans, sometimes exceeding 500% Annual Percentage Rate (APR), and thus credit unions could price a similar product more attractively. One barrier for Federal Credit Unions, and as such an opportunity for a CUSO, is that the federal charter limits the APR to 18% which would not be enough to cover the cost of doing the loan.
Technology Solutions. One option that L.A. Financial Credit Union is looking into is a Sale Leaseback of MIS Equipment, or a lease with an option to buy alternative, in order to get a return on the excess capacity that the Credit Union has with our current system hardware. In addition, there is the offering of a service bureau environment for Core Computer processing to smaller credit unions like FDP-Online was going to provide. There are also other related services, such as providing programs or tools developed, to other credit unions that are using the same system as is L.A. Financial Credit Union.

Business Services. With the conversion of Core Processors from FiTECH to the Open Solutions platform, the Credit Union gained the ability of Business Banking Deposit Service programs. The ability to offer these business deposit services to companies is not a common feature for credit unions. The Credit Union is also a current participant in the Shared Branching Network that allows members of one credit union to go into another credit union and transact business.
Thus, an opportunity exists for L.A. Financial Credit Union to offer Business Services to other credit union members through the shared branching network and have these Deposit Service transactions be analyzed with the new Credit Union Business Service programs. This data would then be collected and processed into a business format by the CUSO and invoiced to the participating credit union for a fee. The CUSO could prepare the account analysis on behalf of the participating credit union and electronically forward this to the credit union.

• Benefits for SEGs and companies within the Credit Union’s field of membership. An opportunity exists to offer health or other insurance services to companies. Benefits may not be available to members through smaller companies and may make a perfect product offering for a CUSO (Hochgraf, 1999). With a community charter and offering depository services to small businesses, then offering benefits not available to members through their employer, may make for a good product offering.
- **Portfolio Management.** As discussed in the interview with Filson, consumers are looking more and more towards ways of managing their relationships between the various institutions that they have their monies spread out between. This would include an efficient and effective way to automatically sweep and transfer monies from account to account regardless of where the accounts might physically be.

- **Identity Theft Protection.** With identity theft on the dramatic rise and the problems that it creates for people, products relating to Identity Theft Protection are increasingly being evaluated. People want a timely, effective, and hassle free way to prevent, and if necessary, to help erase any problems if their identity and credit is compromised.

- **Institution to Institution Transfers.** This is a subset of the Portfolio Management service. Customers/members are moving monies not only between same institution accounts, but more and more often, also between accounts at different institutions. The Credit Union needs to look at various means to accommodate the members need to
do this type of transaction either by offering ACH origination directly through the Credit Union, or through a third party relationship that does so.

- Mortgage Processing. The Credit Union has an experienced Real Estate Manager and so opportunities could exist to provide mortgage processing services, in some manner or form, to smaller credit unions that do not have the expertise, or budget, to offer on their own. This would tie into the concept that increasingly credit unions are looking for innovative ways to capitalize on their expertise and to use CUSOs to accomplish a variety of objectives (Bankston, 2003).

- Tax Preparation. The Credit Union offers many of the products and services that directly and indirectly relate to income and expenses for members in the form of Credit and Debit Cards, IRAs, Investments, and Real Estate. These products in conjunction with portfolio management could lead to an opportunity to partner with a tax preparer. Information could
be collected, consolidated, and electronically communicated to facilitate tax preparation.

• Legal Access Services. Many Credit Unions and CUSOs have formed partnerships or referral opportunities for members to have access to limited free legal advice, which then can lead to more in depth legal services for that legal firm.

The Credit Union needs to look at creating products and/or services that can be sold to our existing expanded markets. For example, because the Credit Union processes many car loans, automobile insurance might be a good CUSO product offering. The Credit Union is currently referring members seeking insurance products to another credit union’s CUSO. This needs to be researched to see how L.A. Financial Credit Union could do better, for example, tying the transaction into the making of the loan. The Credit Union could bundle the initial insurance premium into the loan. Automobile insurance can be expensive for first time auto buyers and even for people who have previously had insurance sometimes the premium increases significantly on the purchase of a new car. The Credit
Union could make this more affordable for the member by bundling this initial premium into the loan.

The Credit Union needs to look at creating new products superior to existing ones. For example, Dorsa is interested in whether a CUSO might come out with a new and more valuable type of accidental death and dismemberment insurance, a standard product credit unions have offered for a long time (Dorsa, 2004a).

Recommendations Based Upon Implications

The author thus makes the following recommendations based upon the implications presented within this chapter:

1. That the Credit Union continues operation of its current CUSO.

2. That the name of the CUSO be changed to "LA Financial Plus+" in order to tie into the Credit Union branding and reputation of trust, while creating a separate entity as indicated by the Plus+. A Sample new logo, created and proposed by the author, is included in Figure 1, Proposed New Credit Union Service Organization Logo.

3. That the CUSO look to change its tax structure from a corporation to a LLC in order to maximize income through lower taxes.
4. That L.A. Financial Credit Union delegate the primary responsibility of managing the CUSO to a Senior Manager with an unwritten understanding that his or her annual bonus for the Credit Union would recognize significant CUSO development.

5. That the CUSO Board of Directors, work with Management in order to complete the proposed Business Plan Framework and Marketing Plan Framework included in Chapter Four. Some sections have been completed, but other sections are dependent upon which products and services are chosen to be offered from within the CUSO. Some sections are also based upon agreement on general philosophies. There needs to be a
consensus between the Board and Management in order to complete these Plans.

6. That the Credit Union seeks other business and partnership opportunities based upon suggestions earlier in this chapter. Chapter Five will discuss a methodology for evaluating various products and services. Chapter Five will also introduce a decision tree that is to be used to evaluate whether to offer the Product or Service through the Credit Union, the existing CUSO, or if warranted by the Business Plan, through a new startup CUSO.

7. That the Credit Union adopts the strategy recommended in Chapter Five for analyzing whether to offer a new product or service in order to better understand how it fits into the overall Credit Union's organizational goals. This would include creating an implementation plan with expected results rather than the Credit Union's current ad hoc approach. This would also include making sure that there are reasonable financial projections as to the costs and expected profits. If the Product or Service is feasible based upon the initial Product and
Service Review methodology, the Credit Union should then go through the decision tree matrix proposed in Chapter Five for the Product or Service in order to see if it is best offered through the Credit Union, existing CUSO, or a new CUSO.

Significance of These Implications

These implications lead to creating a Business and Marketing Plan Framework for the CUSO in Chapter Four. This plan, when completed in conjunction with input from the CUSO’s Board can serve as a road map to enhance the Credit Union’s overall strategic directives. There are many opportunities that can exist with a community charter as expansive as the Credit Union’s charter is. Nonetheless, the Credit Union needs to be in the forefront in capturing the identified market opportunities and needs to do so prior to other credit unions capturing those opportunities and markets.

By being progressive and in the forefront of creating new services and products through the Credit Union and CUSO(s), L.A. Financial Credit Union can position itself as one of the industry leaders. If industry consolidation starts to accelerate, the Credit Union would be viewed as
a Credit Union that other credit unions want to be part of, or partnered with. This is in contrast to L.A. Financial Credit Union just operating in a survival mode, or worse, slowly deteriorating to a point of having to look at whom it should be “acquired” by. The Credit Union has to look at being innovative, and the CUSO structure can help the Credit Union achieve that innovation, if properly managed. This chapter has addressed a critical implication leading to the author’s recommendation that the Credit Union should continue the operation of the CUSO. The chapter has also looked at various products and services that the Credit Union and CUSO can evaluate and possibly offer in order to grow and enhance operations.

In summary this chapter makes the major implication that in order for the Credit Union to succeed in the future, the Credit Union and CUSO need to become more progressive and proactive in their approaches, rather than the current protective and reactive modes of operation. The implications and recommendations that are made in this chapter lead to the creation of a Business and Marketing Plan Framework for the existing CUSO in Chapter Four. It also leads to the creation of a Strategic Analysis of Product and Service Methodology, and Decision Tree for Reviewing New Products or Services in Chapter Five.
CHAPTER FOUR

BUSINESS AND MARKETING PLAN FRAMEWORK FOR
CREDIT UNION SERVICE ORGANIZATION

The implications reached in Chapter Three along with the research and data gathered in Chapter Two are combined to help create the following CUSO Business and Marketing Plan Framework. The CUSO Board of Directors should work with Management in order to complete and finalize this Plan Framework to end up with a complete Business and Marketing Plan to guide the CUSO operations in the future. In order for a Business Plan to be effective there needs to be an acceptance of the Plan by the Management, the CUSO Board of Directors, and the Credit Union Board of Directors. In order to get this acceptance, all sources need to have the ability to contribute and have input to the Plan and there needs to be a consensus from all sources that the Plan is acceptable.

Even if you have all the money you need, you still need a business plan. A plan shows you how you’ll run your business. Without a plan you don’t know where you’re going, and you can’t measure your progress. Sometimes, after writing a business plan, you may change your approach,
or even decide not to go into a certain business at this time.


LA Financial Plus+ Business Plan Framework

Executive Summary

LA Financial Plus+ is a wholly-owned CUSO of L.A. Financial Credit Union. The CUSO should look to change to a LLC in order to maximize net income to the Credit Union by lowering overall taxes.

The CUSO can enhance and complement the Credit Union’s strategic goals by providing a direct benefit to the Credit Union through contributing to income and by lowering expenses. The CUSO can also provide indirect benefits by offering products and services to non-members that not only would increase direct revenues, but could also create an opportunity to introduce and educate the non-members to the Credit Union and create an opportunity to have the Credit Union convert the non-member to a member.

Existing Senior Management has experience in CUSO management and, because products and services will be more focused and narrow in scope, it will be easier to set goals and monitor whether the CUSO is successful or not.
The CUSO can operate in a more entrepreneurial spirit and thus look to develop and offer new products and services that the Credit Union would not be able to, or have the desire to offer.

By changing the structure to an LLC, the CUSO could also encourage other credit unions to invest and/or partner with the CUSO. The CUSO can also look to use the structure to create expense sharing or cost reductions by sharing expenses, such as technical staffing positions with other credit unions.

If the CUSO follows this Business Plan, it can add direct and indirect value to the Credit Union.

Company Description

The reason most businesses fail is because they do not truly understand the business they are in. A company must know both how it is like, and how it is unlike, other businesses (Abrams, 2003).

CUSO Name: LA Financial Plus+

Ownership: Wholly-owned CUSO of LA Financial Credit Union

Tax/Corporate Structure: Currently a California Corporation (should evaluate a change to LLC)

CUSO Location: Within Credit Union headquarters.
Identity

LA Financial Plus+ is named as such in order to tie into the branding that L.A. Financial Credit Union has created and will continue to create. The name also leverages the trust that the Credit Union has developed with the members. The Plus+ indicates that, while this is an entity associated with the Credit Union, that it offers additional products and services that complement the Credit Union in a positive way.

LA Financial Plus+ should look to get a domain name “lafinancialplus.com” in order to start marketing on the Internet on its own.

LA Financial Plus will be competing in the economic sectors of service and retail.

Mission Statement

In order to provide a direct or indirect benefit to the Credit Union, the CUSO will work closely with the Credit Union to create a win-win scenario that contributes to a more successful operation, including offering products or services to non-members, who may later be converted to members.

A direct benefit could come from generating an increased level of profits. An indirect benefit could come from providing a product or service for Credit Union
members or non-members that enhances the perceived value of the Credit Union even though there may be no increased level of profits.

Vision Statement

To Offer Products and Services that will complement the Credit Union’s Strategic Directives.

Stage of development

The CUSO was started in 1999 and thus is still relatively young entering its sixth year. The CUSO was originally created to provide Financial Investments which have been subsequently transferred to the Credit Union. The CUSO has been, for the most part, a low priority. The CUSO operated at a loss for the first three years and has been profitable for the last two.

Current Products and Services

With the moving of Investment Services to the Credit Union, the remaining products and services currently offered by the CUSO are:

- AutoExpert: Car buying service. For each car sold by the representative, the CUSO earns a commission. AutoExpert is a service provided by another credit union’s CUSO, RCUSO.
• Auto-Home Insurance: Members are referred to Arrowhead’s CUSO, Sawyer & Cook, and the CUSO earns a referral fee for each policy sold.

• Long-Term Preferred Care Insurance: Through a company that the CUSO has partnered with, this product is offered to the Credit Union members and the CUSO gets a commission on each policy sold.

**Competitive Advantages and Distinctions**

Being associated with the Credit Union gives the CUSO instant credibility with all members familiar with the Credit Union. The CUSO also has a great advantage in being able to market to the entire Los Angeles and Havasu communities. This also makes the CUSO very attractive to other credit unions as a partnership opportunity.

Don’t allow yourself to be awed by an opponent, or, on the other hand, to have contempt for them. Don’t allow the extremes of your emotions to dictate your assessment of the competition. Never over-react to a great deal of success or failure, either your own or the competition’s.

Bill Walsh, former coach, S.F. 49ers (Abrams, 2003)
Each product has its own competitors. The CUSO will compete by providing complementary products and services to Credit Union products and services. Because the CUSO is more concerned with providing a service to existing Credit Union members or as a way to attract new members versus profits, the CUSO should be able to effectively compete.

The CUSO most likely could not create a product or service that would have effective barriers for entry and thus must compete on service or price depending upon the product or service. This is why there needs to be some sort of a complementary relationship to the Credit Union in order to best succeed.

**Competitive Position**

In trying to effectively target market member and non-members, "perception factors" should be analyzed to create an effective product or service, and to properly target market. For each product or service that it is determined should be offered within the CUSO this analysis should be done. These perception factors are:

- Product/Service Features
- Price
- Quality
- Image/Style/Design
- Perceived Value
- Brand Recognition
- Member/Customer Existing Relationships
- Location (members relative to delivery channel)
- Convenience
- Credit Profile
- Customer/Member Service Expectation

(Abrams, 2003)

The analysis above should lead to a product or service description that would list the specific product or services features; what the expected price and cost would be; what the minimum level of acceptable quality will be; where is the perceived value generated from; will brand recognition be important; how could this impact current existing member relationships; what delivery channels will be used or needed; does this product or service add convenience; how will this product or service be paid for by the member or non-member, and how will this product or service match up with what the member or non-member is expecting?

Market Share Distribution

The CUSO should analyze current competitors for any product or service and analyze whether the CUSO can
achieve a small share of the existing market share or whether the CUSO needs to carve out a new niche market.

Management

Initially the CUSO should be assigned to a Senior Manager of the Credit Union with the opportunity to enhance his or her Credit Union bonus at year end based upon enhanced CUSO performance. Depending upon additional products or services that might be offered through the CUSO, the Credit Union should look to hire a manager who would have the exclusive responsibility of managing the operations of the CUSO. Another alternative would be to hire a lower level manager who would report to a Credit Union Senior Manager and who would have more time to dedicate to the CUSO.

Management and Organization

No matter what one sells, one is selling the people of the organization. The CUSO and Credit Union must take the time to appropriately make the Credit Union personnel feel that they and the CUSO are part of the same team.

Building a sense of the ‘team’ must be planned and orchestrated. You must continually note that the team is all-important. The only bottom line, the only true satisfaction, is when
the team does well. Team-building is an on-going process. In your training, use every conceivable example from other fields to bring home the importance of the concept of the team. Look to develop an atmosphere where players expect and demand a lot of each other, where they feel that individually they are an extension of their team-mates. This doesn’t just happen, it must be planned.


Management Compensation and Incentives

As discussed previously, the author believes that Credit Unions need to informally build CUSO development into additional Credit Union bonus opportunities, as NCUA does not formally approve of direct compensation to any Senior Manager of the Credit Union.

This should be done until the CUSO is sufficient enough to hire a direct manager of the CUSO. At that time, the CUSO should hire an entrepreneurial type of manager and create a combination of a base salary and commission structure tied into the success of the CUSO.

The CUSO should tie sales incentives into the various product and service offerings. Many of the products and
services are offered through the front-line sales staff of the Credit Union. By offering incentives, this will help provide better motivation for the employees.

Board of Directors

The CUSO Board of Directors is very willing to look at new products and/or services. The Credit Union Board of Directors will most likely adopt any recommendations that the CUSO Board initiates.

One advantage for CUSO Boards is the fact that there is less political pressure than for Credit Union Boards. The Credit Union Board needs to be representative of the membership. Whatever diversity exists in the membership should be represented by the makeup of the Board. Yet, it is sometimes very difficult for Board members to step down or request other Board members to step down. This is true even if the Board no longer represents the diversity of the membership due to changing demographics. CUSO Boards are smaller in number, and without the same pressure to represent the membership, a CUSO can look to recruit Board Members who have a special skill set complementary to what the CUSO's objectives are.

Management Structure and Style

As discussed previously, trying to manage a CUSO when it is in a startup mode is very challenging because of
expense constraints. This means that a CUSO cannot usually immediately hire an experienced manager to directly manage just the CUSO. Therefore, it falls to the Credit Union Senior Management to manage the CUSO in their “spare time.” An advantage that this Credit Union has, that other credit unions may not, is a very strong Senior Management team. Both, the author (Chief Financial Officer), and the Chief Operating Officer, has had direct experience in managing CUSO functions. The Credit Union and CUSO should take advantage of this.

Overall, the author would categorize the CUSO style as conservative. This is why the author is recommending that the CUSO initially offer products and/or services that will complement current Credit Union products and services, or that will complement Credit Union operations. After the CUSO becomes more successful, it can then look at more entrepreneurial type of products and/or services.

The Financials: Cash Flow Projections

Based upon the fact that the Credit Union is the Parent of the CUSO and can provide cash if needed, a cash flow projection will not normally be needed for any product or service evaluation nor will a comprehensive cash flow projection be needed. If, in the future a cash intensive product or service is analyzed, then one may be
needed in that particular instance. Currently, as long as the product or service is projecting a positive net income, then this will be sufficient.

The Financials: Balance Sheet

After completing the analysis of how aggressively the CUSO would explore adding new products or services, a projected balance sheet for 2005 would be created.

The Financials: Income Statement

After completing the analysis of how aggressively the CUSO would explore adding new products and/or services, a projected income statement for 2005 and 2006 would be created.

The Financials: Funds Sought

The CUSO currently has enough capital and cash to be successful for smaller activities. For larger projects, the Credit Union would provide the funds necessary. For really large projects, especially projects exceeding the 1% credit union investment limitation, the CUSO, if converted to a LLC, could bring in other credit unions to partner with and provide additional needed funds.

Development and Milestones

It does not do a person, or organization, any good to successfully reach a high cloud in the sky if that is not the cloud that the
person, or organization, was originally trying to reach. And if a person, or organization, does not specify what cloud is the one that it is trying to reach, how does a person, or organization, know if they were truly successful upon getting to a cloud?

Author

Long-Term Goals

To provide products and/or services to members, as well as non-members, which complement Credit Union operations, but are not part of the core operations of the Credit Union. The CUSO should grow to a point where it is significantly contributing to the Credit Union’s net income, or to increasing membership in the Credit Union.

The CUSO should set consistent standards and goals. This CUSO at its current level will not likely be in a position to be an innovator, market leader, or niche leader. It should strive to provide any products or services in a consistent, high quality mode. Thus, goals should be set based upon providing high quality in a consistent manner.

Specific goals and milestones need to be developed for each of the products within the CUSO. Studies of
business success over time have shown that companies that emphasize goals in addition to making money succeed better and survive longer than companies whose sole motivation is monetary (Abrams, 2003). Articulating a company’s values to employees, suppliers, and customers can strengthen their commitment to the business. The CUSO should use the guidelines presented in Chapter Five to develop these goals for each of the products that the Credit Union decides should be offered through the CUSO.

Target Market(s)

It is much easier compete in an already existing market than it is to create an entirely new market. It can be a very prosperous situation if an organization can create a new market, but the downside risk is that this has a tremendous more amount of risk.

The CUSO’s target market will be all of Los Angeles County, California and Lake Havasu, Arizona. Because CUSOs can offer services to non-members, the target market could even be larger. Even though the CUSO, in theory, could offer services to the entire United States, the goal of the CUSO will be to offer services matching the fields of membership that the Credit Union can now currently serve. Additionally, the CUSO should look at partnership
opportunities with other Credit Unions in Southern California as well as areas surrounding Havasu, Arizona.

**Lifestyle/Business-Style Description**

The CUSO should break down the members and non-members into more definitive target groups in order to more effectively market the right products and services and at the right time. The CUSO can use Psychographic Descriptions as a start:

- Technically Adept
- Status Seeking
- Conservative/Responsible
- Environmentally Conscious
- Family-Oriented
- Smart Shopper

(Abrams, 2003)

The CUSO for each product or service that it is determined will be offered should based upon the above create a profile of the expected user. Is this product or service most likely to be used by people who are technically adept or "technically challenged"? Is this a product or service that will appeal to status seeking individuals or by people seeking practical applications? Is this product or service "environmentally friendly"? Is
this a product or service that is designed for an individual or is it family-oriented? The better that the product or service can be profiled to a potential buyer, the better the CUSO can design a successful marketing campaign.

The CUSO should look at where the members or non-members are in their life cycle. Are they young and just starting their career, or maybe still in college? In this situation products or services that relate to building credit and either used car loans, starter credit cards, starter checking accounts, or small personal loans might be a good fit.

Are they beginning to become more seasoned in their career? In this scenario products or services that relate to new car purchases, first time home buying, real estate loans, increase of credit card line and services, and financial planning services may be appropriate. In addition, products that would help them save and prepare for their child’s education needs and insurance products may also be appropriate.

Are they in the mid-life to retirement phase of their life? In this case, then products or services pertaining to financial planning, insurance products, home equity
real estate, or Estate or Trust Planning may be a good fit.

Are they at the retirement stage? If this is the situation, then products or services relating to Estate and Trust Services, Retirement Accounts, or reverse mortgages might be applicable.

Market Size and Trends

Some notable market trends within the Los Angeles and Havasu communities that need to be taken into consideration when looking at what products and services are best to offer are:

- Los Angeles County is becoming more ethnically diversified.
- The Hispanic segment is the fastest growing.
- Havasu is a high growth community especially because of, and for “snow birds” and retirees.
- Protecting against, and concern regarding, “Identity Theft” is a strong trend.
- Many Single Owner Home Businesses (“SOHO”) now exist in Los Angeles County.

Strategic Position and Risk Assessment

Strategy is not destiny. Too many times it seems as though organizations drift from year to year without any true planning.
The CUSO will strategically position itself to provide only products that complement some existing Credit Union product or service, or complement some operational aspect of the Credit Union. The CUSO should not offer a product or service simply to make money. The CUSO needs to enhance the Credit Union by means other than just net income. The CUSO either needs to better the financial position of the member, provide a service to the member, or give the Credit Union an operational advantage.

The CUSO will place a priority on quality over price. Metrics will be developed for each product and/or service and be monitored at least quarterly by Management and the CUSO Board of Directors.

Because branding is not easy to achieve and is usually very expensive, the CUSO will use the branding and trust the Credit Union has already developed and use the CUSO as an "extension" of the Credit Union.

For each product and service that the CUSO will offer, a risk analysis should be completed based upon the various Business Risk factors:

- Market Risk: What is the risk that there is not a real market for the product or service or that the members/non-members will not want the product or service that the CUSO is offering?
Competitive Risk: What is the risk that other competitors will react to the CUSO and reduce prices or engage in activities to reduce the chance of the CUSO effectively marketing the product or service? If the CUSO has chosen to carve out a new niche, what are the barriers to entry that exist to eliminate or reduce the risk of that niche being quickly eliminated?

Technology Risk: What is the risk that any technology or delivery channel involved in providing the product or service will fail to operate as designed?

Product Risk: What is the risk that the product or service will not work as designed or if outsourced that the company supporting the product or service will not be around in the future?

Execution Risk: What is the risk that the CUSO will not be able to operationally deliver the product or service because of any resource or management issues?

Capitalization/Funding Risk: What is the risk that the product or service will end up costing
much more than anticipated, causing either a loss or a cash drain to the Credit Union?

**Operations**

Success, in all facets of life, comes mainly from properly executing the fundamentals. The Credit Union or CUSO needs to make sure that it has the expertise, funding, delivery channels, resources, and personnel to offer the product or service effectively and provide value to the member or non-member. A high-level operating overview should be developed explaining the work flow, vendors associated with the process, and listing what the value is to the member or non-member. From there, detailed operating procedures and processes can be developed to guide personnel on a day-to-day basis.

**Delivery Channels**

The CUSO needs to determine exactly what delivery channels will be used in offering the product or service to the member or non-member.

**Resources**

The CUSO needs to make sure that the appropriate resources are dedicated towards the offering of the product or service. If any training of Credit Union personnel is needed, then this needs to be addressed. Any funding requirements need to be addressed.
Order Fulfillment and Member Service

The CUSO needs to create a feedback mechanism in order to properly gauge whether the members' or non-members' needs and expectations are being met. Whatever feedback system is developed and put into place, it needs to be evaluated in a consistent and timely manner. This is important in order to address any immediate member concerns and also in order to provide valuable feedback for future decisions.

Member Benefit

The CUSO should always try and either enhance an existing member relationship or create a favorable impression for non-members in the hope of creating a new member for the Credit Union.

Because the CUSO is always either dealing with an existing or potential member, the CUSO needs to operate at a very high level in regards to professionalism and trust.

The Business Concept

A crucial factor for a successful business is the development of a clear strategic position that differentiates an organization from its competition (Abrams, 2003).

A second aspect of positioning the CUSO and maintaining focus is the development of a company style or
culture. By creating a consistent style that permeates every aspect of the CUSO, from the design of the stationery to personnel policies, it gives the members, non-members, and employees a sense of trust in the company.

LA Financial Plus+ Marketing Plan Framework

As important as the Business Plan is operationally, the plan will not mean anything if the CUSO does not have a good Marketing Plan. A "brand" needs advertising to stay healthy (Burger, 2003). The Marketing Plan, like the Business Plan, needs to be specific enough to provide the necessary guidance, as well as, the necessary metrics in order to measure how successful the CUSO is. This Marketing Plan Framework needs to be completed with the help of Management, the CUSO Board of Directors, and the Credit Union Board of Directors.

Each product or service should determine the 4 P's of Marketing:

- Product or Service. What are the tangible aspects of the product or service?
- Price. What is the cost advantage or the benefit to the member or non-member?
• Place. Where is, or through what Delivery Channel is the product or service being provided?

• Promotion. How is this product or service being marketed? Will marketing materials be sent out or will product or service by cross-sold by staff being paid incentives?

(Abrams, 2003)

Each product or service should determine what the member or non-member may want through the Five F’s:

• Function. How will the product work or what will the service do for them? How does it help meet their need(s)?

• Finance. How will the product or service be paid for and does it provide value for the member or non-member? Will it enhance the member’s or non-member’s perception of their financial situation?

• Freedom. Does this add convenience to the members or non-members or free them from worrying about some aspect of their life?
Feelings. How does this product or service make members or non-members feel about themselves or their lifestyle?

Future. How will this product or service be supported in the long term?

(Abrams, 2003)

The CUSO will convey its marketing message through the newly proposed logo, newly created website, and through marketing pieces, presentation materials, and displays. The new logo ties into the L.A. Financial Credit Union logo and thus, the Credit Union’s branding, recognition, and trust of the members. Various marketing flyers and displays will be marketed through the Credit Union branches, as well as marketing through the website, and through direct mailing.

Looking at various marketing vehicles (i.e., fit, mix, repetition, and affordability), the CUSO’s marketing message needs to reach the actual target member or non-member and the message needs to match and be appropriate for the CUSO’s image and purpose. The marketing message needs to be delivered through multiple sources, and it usually takes multiple “touches” in order for the message to actually reach the member or non-member. The various
marketing approaches need to fit within the CUSO's budget. The various marketing tools that the CUSO should look at will include:

- Brochures
- Credit Union and possible CUSO Website
- Print Media
- Online Advertising
- Advertising Specialties
- Direct Mail
- Email Mailings
- Informal Marketing/Networking
- Member-Based Marketing
- Strategic Partnerships
- Special Offers/Promotions

For each product or service being offered the above list should be used to detail what marketing methods will be used.

Sales Structure

The CUSO will initially use Credit Union personnel earning incentives to cross-sell the CUSO products and services. At a certain point, the CUSO may look to hire outside personnel directly employed by the CUSO, but
initially there will be the need to work through existing Credit Union personnel.

The CUSO will work with the Credit Union trainer in order to incorporate CUSO product and service into training the Credit Union employees.

Specific sales goals will be created for each product and service and the CUSO will track referrals, actual sales, how efficient the product or service was delivered to the member or non-member. The sales goals will be used to create the incentive programs for the employees. Reports will be created to give feedback to the employees, Management, and the Board of Directors of the CUSO.

In summary, after completion of the current products and services analysis is performed, the Business and Marketing Plan Framework presented in this chapter should be used in order to create finalized Plans that will serve as the foundation for the CUSO in moving forward. Management and the Board of Directors should review and provide feedback on the Plans in order to create the finalized Business and Marketing Plans that spell out the strategic purpose and direction of the CUSO. This finalized document would then be used to guide the CUSO operations in the future.
This chapter on the Business and Marketing Plan Framework precedes Chapter Five, which discusses the creation of a Strategic Analysis of Product and Services Methodology that would be completed for any new product or service that is being evaluated. The reason for this is because one needs to know the direction that the overall entity is going towards, and what the overall entity’s strategic goals are, in order to properly evaluate specific products and services that might be offered.

Another reason the Business and Marketing Plan Framework precedes the information presented in Chapter Five is that this next chapter introduces a Decision Tree to determine how a new product or service should be evaluated to determine the best entity to offer that product or service through. Without having knowledge of the existing CUSO, this evaluation would not be as practical.
The biggest part of becoming a winner is developing standards of performance. Know how you go about doing things; know your process. Constantly develop the application of your knowledge and skills. Having standards means many, many people function within a framework. That framework includes more than just how you do the job at hand. For instance, it might include punctuality and how people dress. Sometimes almost symbolic, ritualistic matters become important; on the 49ers everyone’s shirt had to be tucked in at all times. It reinforced the sense of professionalism and being part of a team.

Strategic Considerations

This chapter will introduce a Strategic Analysis of Product and Services Methodology created by the author. The author proposes that this document should be completed for any new product or service that the Credit Union or CUSO is evaluating to offer. This methodology will help the Credit Union or CUSO determine whether a product or service that is being evaluated will be appropriate and beneficial to actually offer. This chapter also includes a Decision Tree for New Products and Services to be used once that it has been determined that the Credit Union or CUSO should move forward and offer a product or service. The Decision Tree would be used to see within what entity is best to offer the product or service from. This would either be the Credit Union itself, the existing CUSO, or a new CUSO to be created.

The Credit Union should initially prepare the Strategic Analysis of Product and Service Methodology for any new product or service being evaluated. This process will help to make sure that the product or service being reviewed or analyzed makes business and financial sense to offer.

The Strategic Analysis of Product and Services Methodology will not only help make the decision to
actually move forward and offer the product or service, but will also help provide the basis for setting proper goals and milestones that will later be used to track how successful the product or service becomes. It is important to measure results against original projections. If the decision is made to move forward, then Figure 2, Decision Tree for New Products and Services, would be used to help determine where to offer the product or service. The Strategic Analysis of Product and Services Methodology will also help identify those products and/or services that should not be offered. By identifying those that should not move forward, this will save the Credit Union from wasting expense and time.

Strategic Analysis of Product and Services Methodology

Don’t allow yourself to be awed by an opponent, or, on the other hand, to have contempt for them. Don’t allow the extremes of your emotions to dictate your assessment of the competition. Never over-react to a great deal of success or failure, either your own or the competition’s.

Bill Walsh, former coach, S.F. 49ers (Abrams, 2003)
Figure 2. Decision Tree for New Products and Services (Author, 2005)
Each product or service that is being looked at should have the following questions answered:

1) State what the objective is. Is it a complementary service to an existing Credit Union product or service? Is it an opportunity for a new product or service, and as such, more of an entrepreneurial proposal? Is it a product or service to non-members with the anticipation of marketing to them in order to try and convert to Credit Union members?

2) Does the product or service provide a value to the member or non-member, and what is the value that is being provided?

3) Could the product or service in any way damage or reduce the level of trust or reputation that the Credit Union currently has achieved?

4) Does the offering of this product or service contradict the Credit Union doing the right thing in any way? As a financial institution, the Credit Union has a fiduciary responsibility to make sure that it is properly taking care of the member or non-member and doing what is "right" for them.
5) When will this product or service need to be implemented? Does this product or service need to be offered immediately or will it be implemented when feasible?

6) How will this product or service be funded?

7) Are the employees being taken care of properly? Are there proper incentives and training available in order to have the employees involved feel good and positive about the offering of the product or service?

8) What are the important Metrics that will need to be monitored? Each Metric should be identified individually. These Metrics might include sales volume, number of referrals, percentage of product sold versus chances of product being sold, or level of service satisfaction. Each product or service should have important Metrics defined so that expectations can be quantified and so that there is something to measure results to.

9) What are the actual goals (number and/or dollars) and milestone dates that need to be determined for each of the important Metrics identified above? It is important to not only
define what Metrics should be measured and monitored, but actual numbers and dates need to be assigned so that the Credit Union will be able to measure the success, or lack of success, in the future based upon these goals.

10) Is the Credit Union being an innovator or early adopter, and if so, can the Credit Union stay a step ahead of imitators? What are the barriers to entry?

11) Is the Credit Union offering a product or service that is already being offered by another institution or organization? If so, what will be unique about how the Credit Union will offer the product or service? Better price? Better service? More convenient? Better value?

12) Are there any legal or regulatory issues that need to considered, looked at, or that will impact the operational aspects of the offering of the product or service?

13) Does the Credit Union or CUSO have the necessary management experience to oversee this product or service? Will somebody have to be brought in from the outside? The management issue is one of the most critical factors of all. If the
management issue is addressed properly other borderline issues can possibly be overcome.

14) Are there any special factors or resource issues that will make managing this product or service more challenging?

15) Does the Credit Union currently have the resources necessary to effectively offer this product or service? If not, can they be obtained? Resources include the funding necessary to implement as well as ongoing human and financial resources necessary to maintain operations.

16) Are there any special marketing issues that will need to be addressed? Will this product or service be mass marketed or target marketed?

17) Are there any general environmental issues that need to be addressed?

18) Are there any special Industry trends or issues that need to be addressed?

19) Who are the competitors that the Credit Union needs to be concerned with in offering this product or service?

20) How is the Credit Union going to position this product or service in relation to other
competitors? If applicable, how is the Credit Union going to directly compete with other entities offering this same product or service?

21) Can the Credit Union offer this product or service within its current capabilities or will it need to look externally? This not only includes the management issue, as listed above, but also can the Credit Union train the employees itself or will there be a need to bring in an outside consultant? Does the Credit Union have the ability to market the product or service itself or will the marketing need to be outsourced? Will any of the aspects associated with this product or service need to be outsourced? If so, what are they?

22) Does this product or service match up well with the Credit Union’s core competencies? Does this match up well with the existing CUSO’s core competencies?

23) In the context of developing cooperative strategies and networking opportunities, is this a product or service that the Credit Union may wish to partner with another entity? A partnership may be desirable in order to better
offer to, or create value for, members or non-members. A partnership may be desirable because of funding requirements. If a partnership might be considered, the Credit Union needs to recognize that finding the right partner is a skill in itself and the Credit Union needs to be concerned with answering the following questions:

a. Does the partner being looked at have a mission statement or set of values that are similar to the Credit Union and CUSO?

b. Is the Credit Union willing to admit that another organization might have better processes than the Credit Union does?

c. How will the Credit Union communicate to its employees the relevance of the relationship to help the employees buy into the partnership?

d. What level of control does the Credit Union or CUSO want, and does this match with the level that it can have?

e. Is there an agreement on a time horizon for shared projects?
f. Will there be any sharing of member or non-member information?

g. Are there any common cost assumptions that need to be developed?

h. Do all possible parties have comparable volume, growth and revenue expectations?

i. Does an exit strategy exist? No matter how good one thinks the partner is, no matter how good the vendor, an exit strategy is needed as a precaution.

j. What type of partnership will this be? Is it a formal or indirect partnership? Is it simply a strategic alliance? Will it be a joint venture through a management agreement? Will it be to simply share resources or information?

24) How, who, and when will activity and results be monitored? How will the Metrics be measured? Are there necessary reports already created or will various reports need to be created? Who will be responsible for the monitoring of the Metrics? Who will create the necessary Board reports? How often will these Metrics be
reviewed and how often will these Metrics be reported to the Board of Directors?

25) Will the CUSO be hiring its own employees or will there be Management Services Agreement needed between the CUSO and Credit Union?

26) What are the expected pass-through expenses and/or revenues, if any, and how will they be calculated, monitored and reported? Does there need to be an additional report created for the Board to show the impact of these pass-through expenses? Because the CUSO is a corporation, the CUSO can reduce its tax expense by passing through Credit Union expenses such as lease space, computer expenses, management expenses, telephones, etc. and thus, this provides a higher net income to the Credit Union. This is because, on the Credit Union side, there is no tax expense but there is also no tax savings. On the other hand, these pass-through expenses tend to make the CUSO net income look lower, and thus, there may be a need to create financials that reflect the net increase to net income for the Credit Union in order to provide a more accurate CUSO financial picture.
27) How will the Board of Directors for the CUSO be structured? Is there any special expertise that should be looked for in the community to try and bring into the CUSO? For example, a technology CUSO might look to bring somebody in that works with technology. Will any Credit Union Board of Directors desire to be also involved with the CUSO Board of Directors? Will a member of the Senior Management team be required to be on the CUSO Board of Directors?

Conclusion

The Credit Union needs to develop a more formalized process for evaluating new products and/or services rather than the current ad hoc system that it currently uses. This proposed set of questions helps to do that. This chapter gives a set of questions that creates a methodology that should be used for the evaluation of any proposed product or service. It formalizes a process of looking at structure consequences, management and employee issues, resource constraints, funding requirements, and metrics needed to monitor the progress and success (or lack thereof) of the product or service. It also addresses questions and issues that the Credit Union needs
to look at when possibly seeking a partner in order to properly offer a product or service in order to create value to the member or non-member.

This Strategic Analysis of Product and Service Methodology should be used for any product or service that the Credit Union is contemplating no matter what entity the product or service ends up being offered through. Once this analysis is completed, then the Credit Union can use the Decision Tree for New Products and Services that the author has created. This Decision Tree will help determine if the product or service is best offered through the Credit Union, the Credit Union's existing CUSO, or through a newly created CUSO. The Strategic Analysis of Product and Services Methodology can also help guide the Credit Union in deciding whether to create a new CUSO, and whether it should be wholly-owned by the Credit Union. Alternatively the Credit Union could seek some form of alliance, joint venture, or formal partnership. The Strategic Analysis of Product and Services Methodology can also help guide the Credit Union in deciding whether to simply offer the product or service through a referral agreement with another credit union or CUSO.

The Strategic Analysis of Product and Services Methodology will create a base for finalizing the more
formalized Business and Marketing Plan Frameworks that have been proposed within this Project. This more formalized Business Plan would incorporate the timelines, goals, and metrics answered and developed in the Strategic Analysis for Product and Services Methodology for each individual product or service. This would also be used to measure the success of the product or service, or determine that the exit strategy identified needs to be implemented. In this way, the Credit Union can reduce unnecessary delays and expenses by not planning adequately, make sure that the product or service is appropriately funded and adequately supported, and structure the product or service correctly within the appropriate entity. All of this would maximize the value being provided to the member or non-member and would, in turn, lead to fulfilling the Credit Union’s and the CUSO’s mission statement.

In conclusion, this project covered gathering background information on various credit union regulations, products and services being offered through other Credit Unions and CUSOs, business philosophies, trends, and structure consequences. This led to major project implications relative to whether a CUSO was a viable entity for the Credit Union. The author believes
that the CUSO should be maintained and as such a Business and Marketing Plan Framework was created. This Framework would be completed by Management, the CUSO Board of Directors, and the Credit Union Board of Directors all working together. A Business Analysis of Product and Services Methodology was created by the author to formalize a process for deciding whether or not to offer a product or service. The answers to the questions in this Analysis Methodology can also be used to transform the Business and Marketing Plan Framework into completed Plans. Finally, if it is decided to offer a product or service, a Decision Tree for New Products and Services was created to determine what entity is best to offer the product or service through.

The author believes that his major contributions with this Project are derived from the research gathered, the Strategic Analysis of Product and Services Methodology, and from the Decision Tree for New Products and Services that was created. The research information brings a valuable background to the CUSO Board of Directors to help them better understand not only this entire Project, but also what needs to be done to help the CUSO become more successful. The Strategic Analysis of Product and Services Methodology guides the Credit Union towards
creating complete Business and Marketing Plans that include details relating to specific products and services, and guides the creation of metrics to use in the future evaluation of the products and services. This would be a big change from the current ad hoc approach that is currently being used. The Decision Tree for New Products and Services guides the Credit Union to reaching a better decision on what entity to use in offering a particular product or service.

The value that was created for the author in the creation of this Project comes from multiple levels. At a basic level, it was interesting to research the various opinions as to whether CUSOs were still a valuable resource for Credit Unions or whether their useful time had passed. It was also interesting to learn about some of the unique products and services being offered through some other CUSOs. The creation of the Business and Marketing Plan Framework gave the author experience in developing a Business Plan template specific to the CUSO. This has created value for the CUSO itself and the Board of Directors of the CUSO. The Strategic Analysis of Product and Services Methodology has created a valuable tool for not only the Credit Union to use, but also for the author to use when considering whether the offering of
certain products or services would be viable. Lastly, going through the process of creating a formal project has been very enlightening. The author normally deals with short-term, one to five-page type of business proposals and other analyses. The working on and creating of such an extensive, structured Project like this has been a unique and valuable experience.

Hopefully, by introducing the readers to the Credit Union world and some of the challenges that are faced by the industry, this has created an interesting Project for them. With the emphasis on CUSOs, and the value that can be added to a credit union, the author is also optimistic that this has helped broaden the reader’s knowledge about credit unions and how they are structured and the potential value that exists from them.
APPENDIX A

GLOSSARY OF TERMS - USEFUL DEFINITIONS
<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
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<tbody>
<tr>
<td>Charter</td>
<td>A credit union can be Federally or State chartered. Formal authorization to do business.</td>
</tr>
<tr>
<td>Core Operating System</td>
<td>Main Deposit and Lending Computer Programs.</td>
</tr>
<tr>
<td>Credit Union</td>
<td>Member Owned Cooperative Financial Institution.</td>
</tr>
<tr>
<td>CRFCU</td>
<td>Courts and Records Federal Credit Union. Name of Credit Union prior to L.A. Financial Credit Union.</td>
</tr>
<tr>
<td>CU</td>
<td>Abbreviation for Credit Union.</td>
</tr>
<tr>
<td>CUNA</td>
<td>Credit Union National Association. Trade Organization.</td>
</tr>
<tr>
<td>CUSO</td>
<td>Credit Union Service Organization either Wholly or Jointly owned by a credit union or credit unions. Similar to a subsidiary of a corporation.</td>
</tr>
<tr>
<td>EDP</td>
<td>Electronic Data Processing. Computer services including core.</td>
</tr>
</tbody>
</table>
FCU
Federal Credit Union. Federally chartered versus State chartered.

FDP
Financial Data Partners - Online, Inc. Credit Union CUSO that was started and shut down.

GAP
Insurance that protects the "gap" between the loan amount remaining and value of car in case of it is stolen or totaled in an accident.

Incidental Powers (Act)
Act by NCUA that expanded the list of products and services that could be legally offered directly through a credit union.

LLC
Limited Liability Corporation.

MBI
Mechanical Breakdown Insurance. Extends manufacturer warranty for automobile repairs.

Member
Equivalent to a customer at a bank but because a credit union is a cooperative they are referred to as members.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>NACUSO</td>
<td>National Association of Credit Union Service Organizations. Trade organization for CUSOs.</td>
</tr>
<tr>
<td>NCUA</td>
<td>National Credit Union Administration. Credit Union Regulators and Insurer.</td>
</tr>
<tr>
<td>SEG</td>
<td>Selected Employee Groups. This is in contrast to being community based and marketing to an entire community instead of just employees of companies that belong to the credit union.</td>
</tr>
<tr>
<td>Shared Branching</td>
<td>Network of credit unions whereby a member of one credit union can go to another credit union and be served.</td>
</tr>
<tr>
<td>UBIT</td>
<td>Unitary (unrelated) Business Income Taxes. Income derived from products and services not directly related to a credit union charter.</td>
</tr>
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</table>
APPENDIX B

NATIONAL CREDIT UNION ADMINISTRATION'S

INCIDENTAL POWERS ACT
§ 721.1 What does this part cover?

This part authorizes a federal credit union (you) to engage in activities incidental to your business as set out in this part. This part also describes how interested parties may request a legal opinion on whether an activity is within a federal credit union's incidental powers or apply to add new activities or categories to the regulation. An activity approved in a legal opinion to an interested party or as a result of an application by an interested party to add new activities or categories is recognized as an incidental powers activity for all federal credit unions. This part does not apply to the activities of corporate credit unions.

§ 721.2 What is an incidental powers activity?

An incidental powers activity is one that is necessary or requisite to enable you to carry on effectively the business for which you are incorporated. An activity meets the definition of an incidental power activity if the activity: (a) Is convenient or useful in carrying out the mission or business of credit unions consistent with the Federal Credit Union Act; (b) Is the functional equivalent or logical outgrowth of activities that are part of the mission or business of credit unions; and (c) Involves risks similar in nature to those already assumed as part of the business of credit unions.
§ 721.3 What categories of activities are preapproved as incidental powers necessary or requisite to carry on a credit union’s business?

The categories of activities in this section are preapproved as incidental to carrying on your business under § 721.2. The examples of incidental powers activities within each category are provided in this section as illustrations of activities permissible under the particular category, not as an exclusive or exhaustive list. (a) Certification services. Certification services are services whereby you attest or authenticate a fact for your members’ use. Certification services may include such services as notary services, signature guarantees, certification of electronic signatures, and share draft certifications. (b) Correspondent services. Correspondent services are services you provide to other credit unions that you are authorized to perform for your members or as part of your operation. These services may include loan processing, loan servicing, member check cashing services, disbursing share withdrawals and loan proceeds, cashing and selling money orders, performing internal audits, and automated teller machine deposit services. (c) Electronic financial services. Electronic financial services are any services, products, functions, or activities that you are otherwise authorized to perform, provide, or deliver to your members but performed through electronic means. Electronic services may include automated teller machines, electronic fund transfers, online transaction processing through a web site, web site hosting services, account aggregation services, and Internet access services to
perform or deliver products or services to members. (d) *Excess capacity.* Excess capacity is the excess use or capacity remaining in facilities, equipment, or services that: You properly invested in or established, in good faith, with the intent of serving your members; and you reasonably anticipate will be taken up by the future expansion of services to your members. You may sell or lease the excess capacity in facilities, equipment or services such as office space, employees and data processing. (e) *Financial counseling services.* Financial counseling services means advice, guidance or services that you offer to your members to promote thrift or to otherwise assist members on financial matters. Financial counseling services may include income tax preparation service, electronic tax filing for your members, counseling regarding estate and retirement planning, investment counseling, and debt and budget counseling. (f) *Finder activities.* Finder activities are activities in which you introduce or otherwise bring together outside vendors with your members so that the two parties may negotiate and consummate transactions. Finder activities may include offering third party products and services to members through the sale of advertising space on your web site, account statements and receipts, or selling statistical or consumer financial information to outside vendors to facilitate the sale of their products to your members. (g) *Loan-related products.* Loan-related products are the products, activities or services you provide to your members in a lending transaction that protect you against credit-related risks or are otherwise incidental to your lending authority. These products or activities
may include debt cancellation agreements, debt suspension agreements, letters of credit and leases. (h) **Marketing activities.** Marketing activities are the activities or means you use to promote membership in your credit union and the products and services you offer to your members. Marketing activities may include advertising and other promotional activities such as raffles, membership referral drives, and the purchase or use of advertising. (i) **Monetary instrument services.** Monetary instrument services are services that enable your members to purchase, sell, or exchange various currencies. These services may include the sale and exchange of foreign currency and U.S. commemorative coins. You may also use accounts you have in foreign financial institutions to facilitate your members’ transfer and negotiation of checks denominated in foreign currency or engage in monetary transfer services for your members. (j) **Operational programs.** Operational programs are programs that you establish within your business to establish or deliver products and services that enhance member service and promote safe and sound operation. Operational programs may include electronic funds transfers, remote tellers, point of purchase terminals, debit cards, payroll deduction, pre-authorized member transactions, direct deposit, check clearing services, savings bond purchases and redemptions, tax payment services, wire transfers, safe deposit boxes, loan collection services, and service fees. (k) **Stored value products.** Stored value products are alternate media to currency in which you transfer monetary value to the product and create a medium of exchange for your members’ use. Examples of stored value
products include stored value cards, public transportation tickets, event and attraction tickets, gift certificates, prepaid phone cards, postage stamps, electronic benefits transfer script, and similar media. (1) Trustee or custodial services. Trustee or custodial services are services in which you are authorized to act under any written trust instrument or custodial agreement created or organized in the United States and forming part of a pension or profit-sharing plan, as authorized under the Internal Revenue Code. These services may include acting as a trustee or custodian for member retirement and education accounts.

§ 721.4 How may a credit union apply to engage in an activity that is not preapproved as within a credit union’s incidental powers?

(a) Application contents. To engage in an activity that may be within an FCU’s incidental powers but that does not fall within a preapproved category listed in § 721.3, you may submit an application by certified mail, return receipt requested, to the NCUA Board. Your application must describe the activity, your explanation, consistent with the test provided in paragraph (c) of this section, of why this activity is within your incidental powers, your plan for implementing the proposed activity, any state licenses you must obtain to conduct the activity, and any other information necessary to describe the proposed activity adequately. Before you engage in the petition process you should seek an advisory opinion from NCUA’s Office of General Counsel, as to whether a proposed activity fits into one of the authorized categories or is
otherwise within your incidental powers without filing a petition to amend the regulation. (b) Processing of application. Your application must be filed with the Secretary of the NCUA Board. NCUA will review your application for completeness and will notify you whether additional information is required or whether the activity requested is permissible under one of the categories listed in § 721.3. If the activity falls within a category provided in § 721.3, NCUA will notify you that the activity is permissible and treat the application as withdrawn. If the activity does not fall within a category provided in § 721.3, NCUA staff will consider whether the proposed activity is legally permissible. Upon a recommendation by NCUA staff that the activity is within a credit union’s incidental powers, the NCUA Board may amend § 721.3 and will request public comment on the establishment of a new category of activities within § 721.3. If the activity proposed in your application fails to meet the criteria established in paragraph (c) of this section, NCUA will notify you within a reasonable period of time. (c) Decision on application. In determining whether an activity is authorized as an appropriate exercise of a federal credit union’s incidental powers, the Board will consider:

(1) Whether the activity is convenient or useful in carrying out the mission or business of credit unions consistent with the Act; (2) Whether the activity is the functional equivalent or logical outgrowth of activities that are part of the mission or business of credit unions; and (3) Whether the activity involves risks similar in
nature to those already assumed as part of the business of credit unions.

§ 721.5 What limitations apply to a credit union engaging in activities approved under this part?

You must comply with any applicable NCUA regulations, policies, and legal opinions, as well as applicable state and federal law, if an activity authorized under this part is otherwise regulated or conditioned.

§ 721.6 May a credit union derive income from activities approved under this part?

You may earn income for those activities determined to be incidental to your business.

§ 721.7 What are the potential conflicts of interest for officials and employees when credit unions engage in activities approved under this part?

(a) Conflicts. No official, employee, or their immediate family member may receive any compensation or benefit, directly or indirectly, in connection with your engagement in an activity authorized under this part, except as otherwise provided in paragraph (b) of this section. This section does not apply if a conflicts of interest provision within another section of this chapter applies to a particular activity; in such case, the more specific conflicts of interest provision controls. For example: An official or employee that refers loan-related products offered by a third-party to a member, in connection with a loan made by you, is subject to the
conflicts of interest provision in § 701.21(c)(8) of this chapter. (b) Permissible payments. This section does not prohibit: (1) Payment, by you, of salary to your employees; (2) Payment, by you, of an incentive or bonus to an employee based on your overall financial performance; (3) Payment, by you, of an incentive or bonus to an employee, other than a senior management employee or paid official, in connection with an activity authorized by this part, provided that your board of directors establishes written policies and internal controls for the incentive program and monitors compliance with such policies and controls at least annually; and (4) Payment, by a person other than you, of any compensation or benefit to an employee, other than a senior management employee or paid official, in connection with an activity authorized by this part, provided that your board of directors establishes written policies and internal controls regarding third-party compensation and determines that the employee’s involvement does not present a conflict of interest. (c) Business associates and family members. All transactions with business associates or family members not specifically prohibited by paragraph (a) of this section must be conducted at arm’s length and in the interest of the credit union. (d) Definitions. For purposes of this part, the following definitions apply. (1) Senior management employee means your chief executive officer (typically, this individual holds the title of President or Treasurer/Manager), any assistant chief executive officers (e.g. Assistant President, Vice President, or Assistant Treasurer/Manager), and the chief financial officer.
(Comptroller). (2) Official means any member of your board of directors, credit committee or supervisory committee. (3) Immediate family member means a spouse or other family member living in the same household.

Joiner, Steven (2003, February 12). CUSOs Still Have a Role in Future of Credit Unions. CU Times. 84.
