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CU*ANSWERS

A CREDIT UNION SERVICE ORGANIZATION

Building the Future Credit Union Network



Randy Karnes at the CU*Answers Annual Leadership Conference

GRAND RAPIDS, MI.—If you can't make an omelet or build a credit union-based (and owned) network without breaking a few eggs then Randy Karnes, CEO of CU*Answers is willing to break the necessary eggs to make it happen.

Tying that reachable dream to the prospect of doing business with one million members (soon to be the total membership of owner/client credit unions using the CU*BASE platform) Karnes has positioned the company around the growth, penetration and economies of scale (reduced pricing, expanded lending options and marketing) that make for fulfillment and success. But he's talking about a very different concept and challenging CU leaders to think across borders.

"We are this close to serving one million members," Karnes said, gesturing with his thumb and forefinger almost touching.

What would credit unions look and act like if they could do business with members of other CUs? Would they act collaboratively to promote business? Or will they proceed to ignore what the rest of the world (and their own members) are already doing? And that is participating in a networked world where they buy and sell online (EBay) share personal information (MySpace) and loan money to each other (zopa).

Instead of thinking about their own worlds, Karnes challenges CU officials to think in an expanded one that exists outside the usual method of business planning. "Do you think Bank of America puts a limit on who they want to do business with?" he asks. "Zopa is big in Europe and it's coming here. It's people-to-people lending for only 50 basis points. And EBay is only the biggest garage sale in the world!"

Karnes knows that these ideas are challenging and may elicit a groan. "Look, this is disruptive stuff and it can seem negative, but it is our challenge and it is our future. These are signals of where our members are going; it's customer service and it tells us that self-service is real. So if you really want innovation you have to change the mindset."

Karnes' networked CU world may seem transcendent, or pie in-the-sky, but he says that the nascent network already exists and is merely waiting to awaken into a full fledged service behemoth. There are already shared branch networks, ATM networks, shared call/lending centers, indirect lending networks and mortgage CUSOs. But instead of CUs merely buying things from networks, Karnes envisions doing more things, with partners engaging in *peer-to-peer* businesses.

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CU*Answers and Reed Data Partner to Bring E-Doc Power to CUs

GRAND RAPIDS, MI. – Essentially, what CU*Answers owner-clients want, they get, said Randy Karnes, CEO of the CU-owned data processing and networking CUSO here announcing the purchase of a majority interest in Reed Data Inc., of Midway, Utah, during its 2006 Leadership

Conference in June. He told the 200-plus audience that the evolution of the "paperless office" would make the leap to electronic record retrieval and digital signatures in their credit unions starting in January 2007.

Reed Data Inc. (RDI) is a leading

supplier of optical archiving and E-document delivery systems, and the collaboration will place digital signature pads at the teller line and make member information readily available directly through CU*BASE, including loan documents, receipts, driver license and other ID information.

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CU*NorthWest Adds Five Additional CU Clients; Fills Board Seats

SPOKANE, WA.– Greg Smith, president of CU*NorthWest, the CUSO formed by CU*Answers and four area credit unions in November 2005 reported that the original forming CUs had all converted to the CU*BASE system and were up and running happily. And he said that inquiries from other credit unions generated by word of mouth were keeping him very busy, indeed.

Smith said that CU*NorthWest has now signed 5-year agreements with the following credit unions as well: Eastside Credit Union and Eastside

“Now, we have a voice. Why do business with someone else when you can do business with yourself?”

Municipal Employees Credit Union, Financial Services Credit Union, Kenworth Employees Credit Union, Westside Credit Union and Pacific Credit Union, all in Seattle; and CALCOE FCU in Yakima. All are scheduled to convert in the first quarter of 2007.

The open arms that Smith found came as a result of the usual dissatisfaction with service from other DP providers, he said.

“Typically, we heard that other providers had been sold numerous times, leaving the credit unions with little or no control over the services available,” said Smith.

That sentiment was echoed by Demaris Krummel, CEO of Inland Empire Trades CU. “Vendors can charge whatever they want and credit unions are powerless. Now, we have a voice. Why do business with someone else when you can do business with yourself?” said Krummel. (Inland Empires Trades CU is one of the original partners in CU*NorthWest and Krummel became its vice chairman.) The CU converted from OSI in mid-August.

The other three original CU partners, Spokane Firefighters CU, Spokane Media FCU and Spokane Catholic FCU have also successfully converted their systems, noted Smith. Todd Powell, CEO of Spokane Firefighters is chairman of CU*NorthWest, Debie Bower, CEO of Spokane Media is secretary/treasurer and Cathy Loan, CEO of Spokane Catholic is a director.

Bauer was quick to point out the benefit of ownership over commerce in saying, “While we’ve been a happy customer of CU*Answers for years, we took the opportunity to become



Greg Smith, CEO CU*NorthWest

an owner in CU*NorthWest. We don’t view our monthly invoice as a bill; it’s an investment.”

Additional ownership shares have been bought by Eastside Credit Union and CALCOE FCU and the remaining two board seats have since been filled, with Wendy Larson, Eastside’s manager and Leslie Johnson, the CEO of CALCOE filling out the board of directors.

Smith said that CU*NorthWest would grow in a measured fashion, but that already he was talking with an additional 15 CUs interested in converting and/or the ownership concept. “We’re determined to keep quality high,” he said. “It’s gratifying to get such a great response; I think it speaks to the need out there, but right now it’s all about excellence in execution.” ●

Expanding the Network, CU*Answers Partners with Gulf Data Systems to Form CU*South

MOBILE, Ala. – Leo P. Vaulin, president of Gulf Data Systems can tell stories of the devastating impact Hurricane Katrina had on Gulf Coast credit unions because some of them were among GDS 15-CU client roster. He and his staff worked mightily to restore services, but for Vaulin, the big picture is how to help them grow and prosper. In that objective, he sounds like a man on a mission. So when CU*Answers CEO Randy Karnes came calling, he found a believer, someone who envisioned a potential network of credit unions and their members, enabled by technology and empowered by ownership to do great things.

CU*Answers has since partnered with Vaulin's GDS and is now changing its CUs over to the CU*BASE platform. And while true believers may be admired and/or dismissed, others take notice of their vision, and Vaulin views the CU landscape the same way Karnes does: networked. "I want to give credit unions financial and operational control of their destiny," he said. And he realized that despite growing a regional DP provider into expanded services like accounting, bookkeeping, ATM and Debit cards, disaster recovery and more, his grasp would still exceed his reach, so finding the right partner was the means to a better end. "That's the reason I joined CU*Answers and will become CU*South," Vaulin said. "We'll have our prospectus out in January and offer shares in the CUSO. The shares won't be priced exorbitantly; we want investments in equity ownership, a single share per credit union that makes them eligible to be on the board."

"I was told 'you can't cuss in Alabama,'" recalled Karnes. "Well, I never said so many gollies, gee whizzes and gosh-darn-its in my life!"

After cussing the humidity, they found they had a lot in common. Asked why he'd make such a big change, going from a for-profit company to a CUSO, Vaulin said, "There comes a time in your life when you want to feel good about what you do and that's where I am. I want to truly make a difference in the CU world, nationally and internationally. We'd heard about each other and felt we were on the same channel. The ownership idea makes a huge difference. I think we're on to something."

Vaulin started at GDS after working in the back office of Mobile Educators CU as a programmer in the early 1980s. "As word spread they did processing for other CUs and I wrote the software. In 1990 I had the opportunity to buy the company and I did."

He always took the notion that CUs should have a direct say in what DP providers do, and when asked, they should deliver. One CU asked GDS to spec the hardware for a new branch, buy it, install it, and then maintain service, a project a large CU might handle through several specialized vendors. "Then, we went into accounting and bookkeeping after another CU asked us to help with bank reconciliation for ATM and debit cards. Now, we run all the accounting procedures for some of our CU clients."

Vaulin believes that having his staffers become expert in areas that many small CUs simply do not have the time or manpower to handle, then providing those services frees the CU of a compliance and paperwork burden. "You learn it once and you can do it faster, better. It makes more sense to have one person for 20 CUs doing BISA and Patriot Act compliance than 20

people at 20 CUs doing specialized tasks for just a few hours a week." He's hired Max Maxwell as senior manager of quality to ensure compliance standards and see that procedures are strictly followed. "We'll work with examiners so that they are confident that the small CUs can handle and manage these programs well."

Vaulin sees the network vision as a means to enable even the smallest, most challenged CUs to be viable. He's incensed about local payday loan rates and wants to help CUs create alternative loan programs. He has helped local CUs do participation loans and is planning a series of seminars to attract more clients. "We want to talk to every credit union in the Southeast. All the gaps in the PC-based systems had a terrible time in the post-Katrina environment. Many CUs feel they can't afford the service bureau concept without the high cost buy in or high monthly fees."



"For my part, I want to give every credit union, no matter how small, the tools and resources it needs to offer a complete range of services at a cost that they can afford. I want those guys to be free to focus on their members and their community, not on filling out forms or fretting over finances. The best 'people persons' are not financiers or accountants by nature... and they shouldn't have to be. If you're the CEO (and head teller) of a 500 member CU, your focus should not be on the 'books' – it must be on the people. The books can be taken care of by systems and accountants... the people cannot." ●

CU*Answers and Reed Data continued from page 1

This alliance is different than other technology-related investments, said Karnes, because it is about something bigger than just a product offering. It's about credit unions creating their own destiny. "This is about history," he said. "CU*Answers and Reed clients need to be more than just e-doc savvy; they need to be known as e-doc innovators."

Asked why he chose CU*Answers, Bret Weekes, CEO/President of RDI said, "I wanted to be a part of the credit union movement, not part of a big data processor. The CU industry is approximately 9,000

credit unions with millions of members, with a need for millions of transactions.

Our goal is to help credit unions fulfill

those needs. We're building a collaborative network for distributed business processing. CU*Answers already has the ability and willingness to develop technology for the future, and that's what we are going to do. I don't think you can get a better foundation to establish a successful partnership."

CU*Answers provides data processing and technical services to nearly 200 credit unions. Its flagship software, CU*BASE, is used by 107 CUs in 13 states that have a combined membership of nearly one million. RDI, a recognized industry leader in electronic document and image capture, management and archiving already has some 400 credit union clients.

At its shareholder meeting, Karnes mused that he's often asked what he sees in the future for CUs, and



Bret Weekes and Randy Karnes

he's never shied away from answering. It always involved ownership, or "vesting" in the business delivery side of member service. If CUs have to depend on bank networks and outside vendors, they will remain at their mercy. But if they dream big; if they envision their own participation as an important part of the process – far more important than just buying a service from a vendor– they will eventually see what Karnes sees: the network that lies beyond. The Peer-to-Peer Network that CU*Answers' 73 credit union owners have bought into is already developing, and with their continued (and growing) support, Karnes' team is determined to build it. ●

"I wanted to be a part of the credit union movement, not part of a big data processor."

Rewing Up Cycle Sales With Indirect Loans

MENOMONEE FALLS, Wis. – Putting more Harley Davidson hogs on the street is just what Dean Wilson wanted to do when Wauwatosa Credit Union served as the beta test site for CU*Answers new indirect lending program called Retailer Direct.

Wilson was one of several CU CEOs taking part in a focus group last fall brainstorming ways to use the Internet to expand lending opportunities and speed delivery of services to CU members. But even he was surprised at how fast it went from "I want that!" to "Here it is."

"The speed they delivered it in was incredible," said Wilson. In a three-month period starting March 1st, WCU wrote just over \$1.25 million in motorcycle loans from three participating Harley dealers. That total has now topped \$7 million, said Wilson. "It's been a very big win for us; our loan volume has more than tripled."

The online loan application is entered by the dealer and hits the CU's desktop, where its loan origination software kicks in, Wilson said. "There's no re-keying of information necessary, and lenders have their own secure Web site where they track the progress of all loans."

Milwaukee Harley Dealer



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Check 21 CUSO with Corporate One

Karnes also announced the formation of a CUSO with Corporate One FCU of Columbus, Ohio that will provide its turnkey Check 21 solution for credit unions. "A Check 21 CUSO puts all credit unions in the Check 21 business," said Karnes, complimenting Leo Butke, Corporate One's CEO for making it an easy decision.

"Our mutual vision to vest credit unions in the Check 21 business instead of just watching them become clients of a bank-dominated vendor process excites everyone here. Our two firms will create a great foundation for the future." They will initially be sole principals, but are open to new partner/investors. The partnership made "perfect sense" to Butke as well. "We have a history of developing innovative solutions for credit unions, as does CU*Answers. I'm very excited about working with this visionary team to collaborate on even more ways to help members succeed," Butke said.

CU*Answers owner-credit unions and users will have access to Corporate One's Check 21 program and its benefits, including reduced courier fees, online searchable image archive and faster clearing and return times for deposited items. Corporate One will gain increased volume of deposited items and share drafts from the CU*Answers alliance, allowing for greater negotiating power with image clearinghouses and making for reduced costs, they said

Corporate One, with \$4.1 billion in assets under management, provides financial services to more than 800 credit unions. They provide correspondent services including ATM/debit cards, share draft imaging and depository and electronic payment services to CUs in Ohio, Kentucky and West Virginia, and investments services nationwide.

Because it's not just bragging if it's true, Karnes takes particular joy in relating the growth of CU*Answers, giving credit for it to the loyalty of its investors, who trust in the vision he presents for obtaining the wants and needs they ask for, and for a team that delivers. They believe, like he does, fervently, that credit unions are an essential part of the nation's financial services arena and need to grow their share of the marketplace, so they cheered both announcements heartily.

"We believe our success is realized through the success of our credit union partners," Karnes stressed. "We readily assume their goals and hope this focus means everyone wins," he said. CU*Answers credit unions set a goal last year to make electronic document management one of their core competencies. "In the future, we believe that the networked world will demand that documents move as quickly over the net as simple data does today."

"Patronage is investment," Karnes told shareholders. "In 2006 we'll top the \$20 million mark in annual revenues. It only follows that in the next five years CUs will spend over \$100 million on technology through CU*Answers. More importantly, this is *applied* investment—spent in the execution of CU business plans—invested to meet their goals." The software "blueprints" of CU*Answers and RDI will be merged into one to make a comprehensive ASP based paperless solution in electronic document capturing, archiving and managing. Then, feedback from owner clients will allow CU*Answers to influence the priorities in development of features and functionality. "As more and more transactions become digitally based it only seems to follow that digital capture and displays will become more common. The credit union will

become as familiar with the digital image of a receipt as they are with the physical image of a dollar bill; it will become second nature. This partnership will bring this to fruition. However, partnering is only the first step; merging our technologies will complete the task. After all, the best you can buy is not what you can use today but what you can build in the future."

The combination of the CU*BASE GOLD system and DocLogic2 (the advanced electronic document archive and delivery suite) will manage and secure member information. The idocVAULT will play a role in connecting CUs to members and the places they shop, invest or receive other services. There will also be facility and personnel sharing which will give clients better service. Product integration for CU*Answers clients is already under development, said Karnes. A seamless installation process is scheduled for delivery in the first quarter of 2007 and no client will be left behind due to access or prohibitive pricing, he pledged.

Karnes and the CU*Answers team would like these partnerships to serve as an example of the muscle credit unions can command through the practical realization of CU philosophy. It's not based on a vendor strategy to take over the credit union marketplace; it rather makes credit unions the real benefactors. They get products that are independently proven in the market, they get to dictate what features and functions are prioritized, and they share in the benefits of the successful enterprise. That's a valid model all CUs can aspire to, as it serves members best, Karnes believes. ●



PROCESSING ALLIANCE

CU*CHECK 21

Building the Future Credit Union Network continued from page 1

“I don’t want a credit union ever to say to a member: sorry, we can’t do that. Because somewhere, a credit union is doing that! This idea is about transactions between credit unions. You do business with one person and you do it millions of times. I’m not talking about technology now, I’m talking about an ownership community.”

At any gathering of CU people, any trade association meeting, any league meeting, the question is relevant, he said. “Look around the room and ask if there is a service you can provide to a member of a credit union that he/she can’t get at his CU. And ask if there is a service another CU might provide to your own members.”

“It’s time for individual credit unions to stop thinking about providing a service to ‘our’ members, but to start thinking about serving *any* member,” said Karnes.

“The first word in credit unions always has to be member. The second word has to be cooperation.”

The Coach’s Lesson

Member-centric thinking may be central to CUs, but thinking beyond separate memberships has chiefly been limited to arrangements between CUs. The Coach, as Karnes refers to Ed Callahan, provided the modus operandi for the

bigger picture: “The first word in credit unions always has to be member. The second word has to be cooperation.” Noting that CUs account for only 4% of the financial market, Callahan asked: “What is best going to get us from 4% to 40%—*cooperation* among ourselves or *competition* among ourselves?” Chip Filson, president of Callahan and Associates, the CU research and data company in Washington, D.C. has coined the term “social entrepreneurs” to describe the ethos CUs may apply to how they do business, both within their memberships and among each other.

“Entrepreneurs see potential where others do not. Then, through persistence or even irrational optimism, they commit resources to realize the vision,” he said.

While Karnes and the CU*Answers aim is to remove the walls between credit unions and realize that vision, he always keeps the question, “Who is paying the light bill?” close by. That’s his check on reality, so to speak. So answering that means providing real solutions, in real time, that helps CUs do more business at lower cost to slowly build the network. But if it is built, will they come?

Tom Davis, chairman of NACUSO, the National Association of Credit Union Service Organizations, thinks so. Davis, also the head of his own advisory firm, Davis and Company, has been speaking about market innovation and disruption in his consulting engagements and through NACUSO, whose May conference in Las Vegas was themed: Where Collaboration and Innovation Collide. NACUSO also altered its own business paradigm around cooperation between and among CUSOs and credit unions two years ago.

“Why aren’t we trying to disrupt the competitive market?” he asks, noting that ‘disruption’ isn’t a negative thing in the long term (computers, initially, were a disruptive technology, but were adapted in short order and then changed how business, *all* business was conducted).

“Randy (Karnes) is certainly doing it,” he said. “They are providing advanced technical services to many CUs that otherwise might not be able to afford them.” Davis also sees a lowering of the kind of critical thinking that leads naturally to innovation as holding back too many CUs. “While we can’t outspend the competition, we certainly can out-think them. We should be focusing on that, and on increasing our scholarship, for, while we have a lot of good scholars, we don’t have enough scholarship.”

Growing the Network

Expanding its partner clients since last year, CU*Answers adds four CUs in Michigan, one in Falmouth, Maine, one in Rego Park, New York, one in Columbus, Ohio and one in Sioux Falls, South Dakota. Several mergers with existing clients have also brought in two CUs in Wisconsin and another in Michigan. To sweeten the pot, Karnes pledges that if any existing CU client merges with another non-CU*BASE CU, CU*Answers will process those new members for free for one year.

The formation of CU*NorthWest in Liberty Lake, Washington late in 2005 and the recent partnership with Gulf Data Systems in Mobile, Alabama (*see sidebar stories*) is also part of growing the network. Likewise, the majority investment in Reed Data Inc, (to bring E-document power to CUs) and the alliance with Corporate One CU (to bring CUs into the Check 21 business) is another aspect as well.

But extending the reach of existing users of CU*Answers’ CU*BASE data processing system through enhancements to Internet lending capacity (Lender on the Road and Retailer Direct) is another part of building the network (*see sidebar stories*) and expanding the credit union mortgage share through Xtend’s partnership with Central States Mortgage is yet another. “Randy has been building this house one brick at a time,” said Guy Messick, the CU/CUSO attorney and NACUSO general counsel. “From what I’ve seen in the past, the problem has always been execution. There’s no shortage of good ideas, and they come from credit unions large and small. It’s about being able to exploit the niche and convincing others to do it together. That is, to start rowing in the same direction. He’s done it by listening to his member owners and clients. He’s got the built-in market. It’s like a cooperative for cooperatives to cooperate.”

That may be a mouthful, but Karnes has his hungry eyes on a big omelet. ●

Making Retail Dental Loans Without Pulling Teeth

PONTIAC, Mich.– The only thing worse than a root canal is paying the dentist's bill afterwards. That's what inspired Affinity Group CU CEO Tom Miller to ask his dentist how patients paid for expensive procedures. "He told me he had a loan program through Citigroup but said it was expensive. Otherwise, his patients got loans through a bank or used a credit card. So I asked if he'd show me the paperwork."

Miller saw the agreement and proposed an alternative, which his dentist liked. "He was being charged 7.5% interest. I said that wasn't fair. Why should he have that on his shoulders?" he asked.

Miller knew his credit union could do better using CU*Answers' Retailer Direct Loan Program, which provides indirect loans to merchants. "It's not a root canal," joked Miller. "Or maybe it is, sometimes. But the price of restorative or cosmetic dentistry can be expensive, and a lot of people simply don't have that kind of money available. They need loans. But the cost of those loans doesn't have to be prohibitive."

CU*Answers developed the Retailer Direct Loan Program in response to requests to expand lending opportunities beyond the auto market, and make it as convenient as possible. Here's how it works: CU*BASE clients establish a secure Web site for a retail relationship, they sign on using a user name and password to complete an application, it goes into a queue where it's analyzed by a set decision process and returned. (If no decision process is in place, the loan is handled like a conventional loan.) The system displays the loan decision information and finishes the application. A ready-to-sign contract can also be transmitted. The dentist can view all loan histories and keep track of what's been approved and what's in the pipeline.

"We'll tie in with the Reed Data e-signatures application to complete the deal right there within minutes and send a check to the doctor the next day," said Miller.

"This application is good for any business that needs alternative financing for clients. The possibilities are endless," Miller said, who recently was a founding partner of a six member CU CUSO called CU Partner Solutions. Because not all the other members use the CU*BASE system, Miller's CU will host loans for them, then participate them out among them. AGCU will always retain a minimum of 10% of each loan. He's also looking into providing a commercial loan package of services for the dentist, who advised Miller that other dentists are interested in the program. Each business will receive a unique co-branded Web site, in partnership with Affinity Group Credit Union (or another credit union). "We'll call our program Business Direct," Miller said.

"This application is good for any business that needs alternative financing for clients. The possibilities are endless."

The initial beta target sites for Affinity Group CU will be patient procedure financing for doctors and dentists, who face no cost. Copies of any documents and a welcome letter will be mailed directly to new CU members by the credit union.

"This program is ready to go, we just need a few good partners to get it off the ground," said Miller. ●

Tom Miller, CEO
Affinity Group CU



A Compilation of Articles About CU*Answers and Our Partners

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To find out more about CU*Answers please visit www.cuanswers.com, or contact Scott Page at spage@cuanswers.com or 800-327-3478, ext 103.

Rewing Up Cycle Sales With Indirect Loans

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It's much better than the old days, he said, with no twinge of sentimentality for the fax exchange, the electronic noise, the blurry print or the busy signal. (CU*Answers CEO Randy Karnes has vowed to do away with reliance on faxes effective January 2007.)



Dean Wilson, CEO
Wauwatosa CU

"The deal between the credit union and the dealer is similar to that of other auto financing relationships which typically use a flat reserve that's negotiable between the CU and the dealer," Dean said.

In the next several months WCU will expand the program to an additional four dealerships. Wilson is looking forward to even better sales results, owing to the high price of gas and the fact that motorcycles, and Harleys in particular, don't depreciate as fast as new autos.

WCU FCU has a special affinity for Harley Davidson motorcycles, Dean acknowledged, saying, "We are the credit union for Harley employees." That special relationship got another jump-start when the CU did its first Poker Run for the Children's Miracle Network, also cosponsored by Central States Mortgage and CUNA Mutual in mid-June. The ride raised almost \$3,563 and WCU matched it to give CMN a total of \$7,126. The 100-mile route stopped at three Harley dealerships and ended at the Milwaukee Harley Davidson location where the party kicked in.

CU*Answers initiated Retailer Direct in mid-April and asked WCU FCU to beta test the application, which is aimed at providing credit unions indirect loan relationships with any retail outlet, such as auto/RV dealers, hospitals, appliance and furniture stores. The retailer has a dedicated loan channel link directly to the credit union, making it different from traditional indirect systems because there is no competition from other lenders, since a secured loan application is delivered direct to the credit union. ●