

A MILLION MEMBER PERSPECTIVE

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By Randy Karnes, CEO, CU*Answers

MODELING A PEER-TO-PEER OPPORTUNITY NETWORK

It's Time for a New Mindset

It is time to make all "big versus small" discussions taboo in the credit union industry.

Instead, I believe that credit unions fall into two groups: credit unions that *run* businesses, and credit unions that *build* businesses. How large a credit union becomes in either category is a function of how the leadership team sees its role. The first group focuses on being efficient in serving the *defined* opportunities, while the second group is credit unions that see their roles as *expanding* those opportunities.

An example of the first group: A classic closed charter with a single field of membership, or even a small group of SEGs. The CU refines its service, works hard to control its costs, maximizes its return to members, and in short, does an excellent job of serving its defined role. Throughout its history, its drive for innovation has been more around

improved efficiencies related to that role than it has been about an orchestrated effort to expand its role, to innovate on its role.

In our industry, we find both small- and large-sized credit unions that fall into this group. They are defined by their *mindset*, not their asset size.

An example of the second group: Equally as adept at driving out the efficiencies of their historical roles, this group also has been driven to expand their focus to constantly innovate. They see their current role in a state of evolution; they are focused on building their business and challenging the status quo at all times. They drive opportunity with defined processes and repeatable results.

In many cases, their business plans have been challenged, and their continued success may even

have been in doubt (a SEG went out of business, a downturn in the local economy, an aggressive local competitor). Many have simply stayed focused on their ever-changing membership and aligned their opportunities with a changing marketplace.

Again, there are both small- and large-sized credit unions in this group. They are defined by their mindset, not their asset size.

That brings us to today. That is why the most important thing the CU industry can do for its future now is to work on developing a new mindset about where we are all going and how we are going to get there.

Have We Lost Faith In Our Industry's Ability To Harvest Opportunity?

I'm not talking about individuals here, because there are stellar examples of people harvesting opportunity within the credit union industry today. I do believe that the average credit union is beginning to believe they are never going to catch up. No matter what opportunities they see in expanded fields of membership, new community charters, new member techniques, the potential of young members—it doesn't matter. They sense that their current model is simply too far behind, and opportunity is out of reach.

This would be bad enough, but it's even worse when outside observers and even industry supporters conclude the same thing. At some point, the perception of no hope becomes the justification for why the industry must consolidate, why only the strong will survive, and that the firms that make up our industry have maybe just run out of gas.

Where there is a lack of hope, there is usually a lack of something else. In this case, our industry just doesn't have enough *opportunity expanders*. Opportunity expanders can be either the individuals who lead organizations, or the business plans that govern those organizations. Either way, we need more of them. We need to fill the void by expanding the collaborative efforts to increase the throughput of our industry.

Consider This...

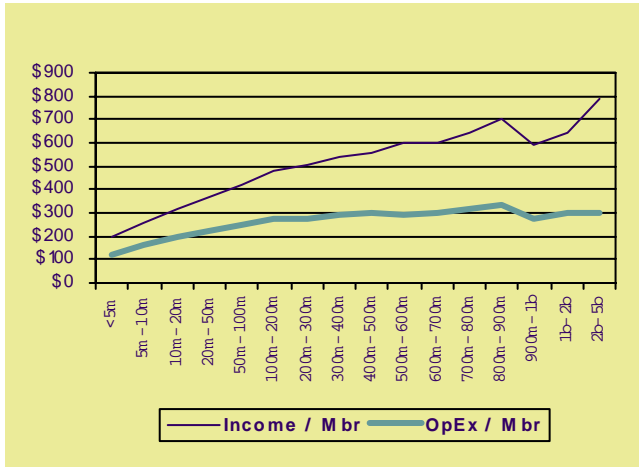
- What if we all began to understand what separates winning organizations from losing ones?

10%	People
20%	Tools
70%	Mindset or Belief in a Course of Action Business Policies Plans Process

What if credit unions could develop a new business model that would be the key success factor (70%) in defining a new credit union marketplace future?

In other words, we need to do more. And it needs to be the responsibility of the whole, not just a select set of stellar examples.

Consider the table below. It implies that the actual operating expenses per member are not significantly different according to a credit union's asset size. Interestingly, economies of scale do not seem to hold here. Larger credit unions do pay more per member.



The most significant thing about this illustration is that credit unions make more income per member with a widening gap, the bigger the credit union gets.

But this is not a function of “big versus small.” Operating income is a function of identifying opportunities, investing in opportunities, and harvesting opportunities. Success breeds success. They simply believe they can.

So the question is, how do we fill the void, expand the number of believers, and innovate business plans so that they replicate throughout our industry and there is a new sense of faith in our futures?

The Promise of Opportunity Networks and Why We Need Them

At CU*Answers, we believe that credit unions must find a new way to tap into the aggregate opportunity presented by the networked world.

While the term “networked world” seems a bit nebulous, it is very easy to sense the power it has to change the way we think about opportunity. MySpace.com is a perfect example. A force that draws 50 million people. Or Google, a search engine that is quickly becoming a verb in the way people think about research. “I’ll just Google it.”

Network strategy is a new way of thinking about organizational collaboration. The goals of the collaborators are simple: We are aligned to expand what we do. We are responsible for doing more. We will invest side by side in doing more.

There are emerging rules and there is a new game to be learned. It is a game where hierarchy, client/vendor relationships, and the idea of “yours vs. mine” are morphing into a new set of business rules.

The popularity of the networked world and the recognition of its potential for driving opportunity will become the foundation for a whole new set of business beliefs and ongoing business strategies.

Consider an example: In 2007, credit union members will visit your Internet delivery channel 25 million times. What is your responsibility to that opportunity? Would you plan for it? Would you be in awe of it? Would you be inspired? What would you demand from yourself and your organization if you had such an opportunity?

Is your mind reeling with ideas? How does your mindset change when I disclose that this is an aggregate of 100 credit unions in a network? You might ask the question, “what are the individual credit union’s opportunities?” and immediately start to think like a standalone player. And the power of collaboration evaporates. The euphoria over unlimited opportunity is replaced the limits that we place on ourselves when we do things independently.

Why? There is a collective persona here. It can be influenced. It can act as if it was an aggregate opportunity, and it can invest in that opportunity with minimal expense and maximum gains for all of its participants. It can take what might seem insignificant for an independent player and turn it into the most significant opportunity for the network.

This is the reality for CU*Answers. We have the perspective of serving a million members on a daily basis. CU*Answers is awakening to its responsibilities to be an opportunity network. Twenty-five million visits in 2007, and the average independent player is less than \$60 million. It’s inspiring, and if the network model became contagious, it would easily fill the void. This is not say that CU*Answers will fill the void; we simply hope that a new perspective will create dozens of opportunity networks for credit unions to count on.

More Than Technology

These days when you think network, you might immediately think “technology.” This is not about technology. This is a new strategy, a new mindset, a new way of thinking. It’s about the way we build businesses. It’s about the way we think about being relevant to our members and a new marketplace.

Academics are rethinking classic business strategies and trying to reconcile them with the real-world happenings related to networks. Credit union business leaders who are vested in the industry are beginning to search for a new narrative about our future. CU*Answers hopes you will get involved. <<<

ABOUT CU*ANSWERS AND RANDY KARNES



We have a simple goal: to expand the capabilities of our partners so that they can remain relevant in the lives of their members. We believe that we need to work on that goal day in and day out. For us it starts with a perspective that is bigger than life and pulls us forward. We work hard to be a catalyst for innovation and collaboration, and to be a key force in the constant renewal of the industry's focus on today's credit union member.

CU*Answers is an energetic business network of 175 credit unions and multiple CUSOs serving well over one million members. Our foundation is a technical network based on the CU*BASE® core processing suite. But we go far beyond a data processing solution. From the front lines of credit union lobbies all the way to the desktops of credit union members at work and at home, CU*Answers partners with credit unions to make sure that members receive the

services they need and the returns they deserve. With over 70 credit union owners, we're more than a vendor; we are a credit union partner.

CU*Answers participates actively in the industry as a vested credit union team. Mr. Karnes has been a Board member of Callahan & Associates since 2001, and is a co-founder of the Member Value Network along with Ed Callahan and Chip Filson. Mr. Karnes is an active commentator and contributor in the industry through forums such as creditunions.com and cuanswers.com. The CU*Answers team regularly participates in industry events, from local Leagues to the national scene. Mr. Karnes is also an active speaker and facilitator for credit union Board planning sessions and educational events.

"By the member for the member; by credit unions for credit unions."

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6000 28th Street SE
Grand Rapids, Michigan 49546

Phone: 800-327-3478

Fax: 616-285-5735

E-mail: ceo@cuanswers.com

www.cuanswers.com

CALLAHAN AND ASSOCIATES

1001 Connecticut Ave, NW Suite 1001
Washington, DC 20036
tel: 800.446.7453 / 202.223.3920
fax: 202.223.1311
www.CreditUnions.com

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For More Information: Mary Royston (202) 223-3920 ext. 343, mroyston@creditunions.com

Credit Union Service Organizations Cross \$1 Billion in Capital, says 2006 Directory of Credit Union Service Organizations

WASHINGTON, DC -- (Wednesday, September 6, 2006) — At year-end 2005, credit unions reported investments in or loans to CUSOs totaling more than \$1.1 billion. The 40 percent increase from year-end 2004 shows the significance that CUSOs are continuing to play in the industry.

A total of 737 CUSOs are listed in the new [2006 Directory of Credit Union Service Organizations](#). These are broken down into 564 CUSOs wholly-owned by a single credit union and 173 owned by multiple credit unions. The types of businesses that these organizations are involved in continue to expand as new market needs and opportunities arise. Today, CUSOs serve to enhance credit union lending capabilities, provide scale for processing member transactions, build credit union online capabilities, and deliver insurance and investment options to members.

Who Is the #1 CUSO?

The *CUSO Directory* classifies CUSO success measures in a number of different ways. By traditional measures, PSCU Financial Services is the largest by assets, whereas CO-OP Financial Services reports the highest total revenue. The book also highlights the CUSOs with the most credit union owners and credit union clients, with CO-OP Financial Services and Primary Financial Company, LLC, respectively, leading these categories.

"The range of businesses that CUSOs cover means that both traditional and non-traditional measures can be compared. Perhaps the most important success CUSOs deliver is one that is difficult to measure – the impact on the value realized by credit union members," says Molly Francis, production manager.

Market Impact

While it is difficult to measure member value, the market impact of CUSOs is significant. For example, Prime Alliance Solutions' volume ranks it as the 11th largest retail mortgage lender in the U.S. Credit Union Direct Lending generated more than \$15 billion in loans in 2005 and is ranked as the fifth largest auto lender nationally through the first half of 2006.

"The CUSO segment is the most dynamic part of the credit union community today, enabling credit unions to develop new capabilities and increasing the value they deliver to members," says Jay Johnson, executive vice president, Callahan & Associates.

The *CUSO Directory* volume includes listings for every CUSO, organized by type of business. Case studies highlight successful business models pursued by a variety of CUSOs. Credit union and CUSO managers can also network across the CUSO segment using the contact listings.

For more information about Callahan's *2006 Directory of Credit Union Service Organizations*, visit www.CreditUnions.com/CUSO or call 800-446-7453.

Callahan & Associates, Inc. is a Washington, D.C.-based firm specializing in financial publications, software, strategic planning, and investment management for credit unions.

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"Now is the time to challenge CUSOs to be a truly collaborative force. Just think: a billion dollars of member money poised in a collective state, with limited regulations, diverse powers, and the potential for big-picture views of an industry's opportunity. What should we expect? What should industry players demand?"