

CU*ANSWERS
A CREDIT UNION SERVICE ORGANIZATION



PRICING MODEL

A Historical
Perspective:
1999-2004

THE CU*ANSWERS PRICING MODEL

A HISTORICAL PERSPECTIVE: 1999-2004

“What should the price be today?” There are always two sides to that story: the seller’s and the buyer’s. The buyer wants to make sure he gets the best deal possible, and that whatever he is buying will help let him maximize his own value (net return). The seller wants to make sure he can attract enough buyers at this price to actually continue doing business.

In our case, it is also important to consider how the pricing model used by CU*Answers has worked for its credit unions over time. Do the ongoing practices of both credit unions and CU*Answers allow both sides to move forward? Can credit unions build value and provide service with the tools and services CU*Answers provides? Can CU*Answers continue to evolve, offer more, and build a future for all concerned? There is no doubt that the credit unions which have been our foundation *have* grown, and that CU*Answers itself has been very successful, establishing new credit union partnerships every year.

This document is an attempt to explain the rationale behind the way CU*Answers prices key elements of its services, and to provide a historical perspective by looking at the last six pricing periods.

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Prepared by: Randy Karnes, CEO
For the Pricing Focus Group Meeting on: January 22, 2004

Base Member Processing

Purpose: Licensing Fee

This is the base unit cost for a credit union member. Unlike other fees, there is no correlation between base member processing cost and the member's actual relationship, positive or negative, with the credit union—if they are a member, this is what they cost. This fee includes basic member servicing features provided by CU*Answers. For this price, a credit union membership can have up to 999 sub-account suffixes, including savings, certificate and loan accounts. This fee functions as the primary licensing fee for core credit union applications such as accounting, teller services, loan services, back office services, and misc. trial balance services.

This fee is contractual based on the term of the contract, so the fees listed below are the starting point based on the year when a credit union began processing with CU*BASE.

	Monthly Fee Per Member					
	1999	2000	2001	2002	2003	2004
Active Member Fees (5-year contract)	\$0.50	\$0.50	\$0.52	\$0.52	\$0.52	\$0.53
Active Member Fees (3-year contract)	\$0.52	\$0.52	\$0.54	\$0.54	\$0.54	\$0.55
Active Member Fees (1-year contract)	\$0.54	\$0.54	\$0.56	\$0.56	\$0.56	\$0.57
Closed Member Fees - current tax year	\$0.23	\$0.23	\$0.23	\$0.23	\$0.23	\$0.23
Closed Member Fees - previous tax year	\$0.08	\$0.08	\$0.08	Free	Free	Free
Written Off Member Processing	\$0.23	\$0.23	Free	Free	Free	Free
Disaster Recovery Fee	\$0.015	\$0.015	\$0.015	\$0.015	\$0.015	\$0.015
Minimum CU*BASE processing services fee	\$2,000 per month					

Figure 1

The mechanism that CU*Answers uses to increase this fee for existing credit unions is referred to as the COLA (Cost of Living Allowance) adjustment. This increase has averaged 1.9% over the past six years, and was even waived during the 2002 annual.



Figure 2

Platform Technology Updates/ Disk Retention/Statements

Purpose: Resource Usage Fee

How does CU*Answers price a credit union who requires a high level of transaction activity and its related disk storage requirements, compared to a smaller credit union that requires less data processed and stored by our systems? Like a 25,000 sq. ft. building costs more to lease than one with only 5,000 sq. ft., this fee is basically a “rental” fee for the use of resources.

This section of the Fee Schedule is referred to as a “Resource Usage Fee”. It is calculated by correlating the resource requirements of a credit union to the number of member check transactions per month. The reason for this is that checking accounts historically require the most amount of disk storage, are a good indicator of the number of statement pages, and seem to be the most easily measured variable between base and variable member activity.

Services covered by this fee:

- Statement creation
- Transaction history retention
- Upgrades to hardware resources for core processing (IBM iSeries)

FEE PER CHECKING ITEMS PROCESSED

As you can see in Figure 3, these fees are tiered based on volumes, and have been relatively stable over the last six years. The decline in the first tier was an effort to lower the base effect for smaller credit unions.

This is not a blended fee; all check transactions are charged at a single tiered price according to the total number of transactions the credit union processes.

Checking Items Processed	Per Item Fee					
	1999	2000	2001	2002	2003	2004
1 to 50,000	\$0.040	\$0.040	\$0.040	\$0.030	\$0.030	\$0.030
50,001 to 100,000	\$0.030	\$0.030	\$0.030	\$0.030	\$0.030	\$0.030
100,000 to 200,000	\$0.020	\$0.020	\$0.020	\$0.020	\$0.020	\$0.020
200,001 to 425,000	\$0.015	\$0.015	\$0.015	\$0.015	\$0.015	\$0.015
425,000 or more	\$0.010	\$0.010	\$0.010	\$0.010	\$0.010	\$0.010

Figure 3

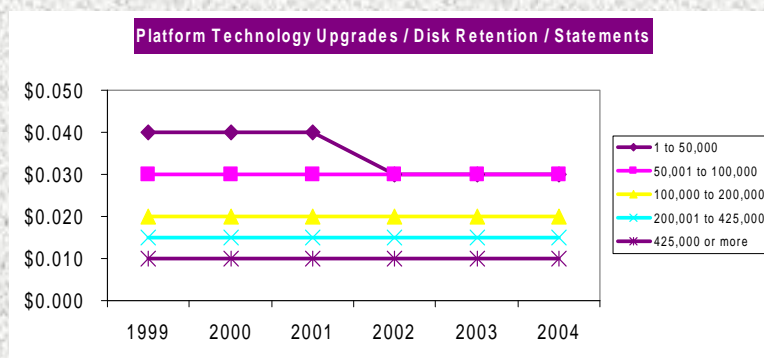


Figure 4

MISCELLANEOUS

These fees are peripheral fees for miscellaneous handling related to statements.

	Other Fees					
	1999	2000	2001	2002	2003	2004
CASS Certification (outside statement preparer)	\$100.00 per CASS run					
Digitized Statement CU Logo Setup	\$175.00 one-time fee					
Select Statement Inserts (per stmt mailing)	n/a	1st run: \$150.00; Other runs: \$50.00 per run				
E-Statement Processing	n/a	n/a	n/a	\$150.00/mo. for first 2,500; \$0.05 per stmt over 2,500	\$150.00 monthly	
E-Direct Mail (Marketing Messages)	n/a	n/a	n/a	\$100.00 project fee plus \$0.05 per email	\$0.05 per email	

ATM and Debit Card Transactions

Purpose: Licensing Fee and Resource Usage Fee

ATM and Debit Card transactions are both priced from the same table; however, their volumes are not combined when determined the pricing tier. There are two primary ways we handle ATM and debit card transactions:

Offline (batch) processing - This style creates more overhead based on day-to-day operator costs. Operators are responsible for running and verifying jobs that send balance files to the third-party network and receive post files to be manually posted against member accounts. Batch processing also requires additional communications hardware and becomes more of a scheduling issue as we add multiple networks and additional credit unions. Generally, the third-party network is responsible for approving a transaction for a member, completing it, and communicating it back to CU*Answers.

Online (interactive) processing - This style requires more expensive communication resources because the lines are live and interactive. The number of lines that can be interactive are finite based on the resources in the computer room, and the diligence required to maintain the connection is expensive. Interactive processing is complex based on standards for response time, planning for network interruptions, and accommodating credit union changes. While there are fewer day-to-day tasks for operators, these networks are constantly changing and special programming projects (improvements, mergers, and client turnover) are frequently forced upon CU*Answers and the credit unions because of the volatility of the vendor.

THE CU*ANSWERS PRICING MODEL: A HISTORICAL PERSPECTIVE (1999-2004)

	Per Item Fee					
	1999	2000	2001	2002	2003	2004
One daily file transmission	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05
	Minimum \$200.00 per month					
Second daily transmission	n/a	n/a	\$250.00 per month			
1-20,000 online transactions	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10
20,001-75,000 online transactions	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.075
75,001+ online transactions	\$0.10	\$0.10	\$0.10	\$0.05	\$0.05	\$0.05
ATM Inquiries	\$0.05	\$0.05	n/a	n/a	n/a	n/a
ATM Card PIN Requests	\$0.50	n/a	n/a	n/a	n/a	n/a
ATM Card Ordering	\$0.50	n/a	n/a	n/a	n/a	n/a
MagicLine Network Investigation/Adjustments	\$5.00	\$5.00	n/a	n/a	n/a	n/a

Figure 6

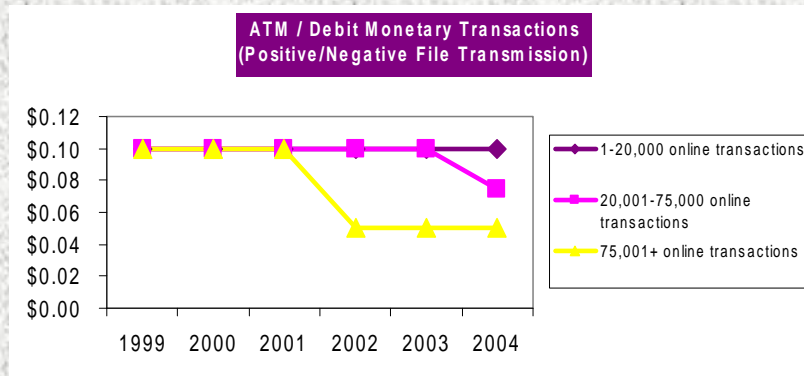


Figure 7

Audio Response/Internet Home Banking Processing

Purpose: Licensing Fee and Resource Usage Fee

CU*TALK AUDIO RESPONSE

As you can see in Figure 8, the structure of this pricing has changed over time. Prior to 2001, the model was based on actual usage, generating revenue at a faster pace than today. The transaction fee allowed for a greater percentage of software and hardware development during the early stages of moving to Maxxar and developing an NT / TCP/IP product. Since 2000, the product has been relatively stable. Today's fees are based on maintenance paid to the third-party ARU hardware/software vendor, minimal maintenance to the CU*Answers interface, and the ongoing support of the communications network and hardware.

	Member Interaction Fees					
	1999	2000	2001	2002	2003	2004
Audio Response	First 10,000 minutes: \$0.10/minute Next 5,000 minutes: \$0.075/minute Over 15,000 minutes: \$0.05/minute		Over 2,500 members: \$250.00/mo. Under 2,500 members: \$100.00/mo.		Over 2,500 members: \$275.00/mo. Under 2,500 members: \$125.00/mo.	
Spanish language option	n/a	n/a		Online user: \$250.00 (one time) Locally-installed unit: \$2,500.00 (one time)		
Plus applicable WATTS line charges (shared passthrough)						

Figure 8

Certain credit unions do own their own ARU boxes and do not participate in the centralized online ARU offering. These credit unions pay for their own hardware, maintenance, and communications costs. They face investment risk whenever there is a change to a platform or the need for programming changes. For example, in 2004, many of these credit unions purchased new ARU hardware and operating systems as based on changes in the NT processing world.

It is believed that as new features come to the audio response world, such as voice recognition, and as CU*Answers credit unions desire that these features be built into their ARU offerings, there may be special fees or customization projects. To date, there have been very few changes to these interfaces that are desired by the overall group. This is not to say that the interface is not maintained or upgraded with minor improvements from time to time, such as improvements to member messaging capabilities, script changes, and new transaction types.

CU*@HOME INTERNET HOME BANKING

One of the reasons for the change in ARU pricing in 2000 was to enable credit unions to shift their investment with CU*Answers from ARU over to PC Home Banking. Monies that had been paid to develop audio response during its move expansive periods were now shifted to the development of home banking. The original direct dial home banking product is long gone, and we have moved into today's Internet-based CU*@HOME.

The investment in the development of CU*@HOME significantly changed the internal resource needs of CU*Answers. Not only do we have the development teams that are focused on new features and improving the services provided to members, there has also been significant investment in network security, server capacity, and communications.

At the same time, member volumes have increased significantly. What just a few years ago did not even exist is now a significant line item in the credit union's monthly invoice. The continued investment in this product and the appetite of members to use home banking services is far from reaching its peak.

THE CU*ANSWERS PRICING MODEL: A HISTORICAL PERSPECTIVE (1999-2004)

	Per Minute Fee					
	1999	2000	2001	2002	2003	2004
Internet Home Banking monthly fee			\$100.00 per month <i>(waived if combined Audio/HB minutes exceeds 5,000)</i>			
Per-Minute Usage Fee: Blended						
First 10,000 minutes	\$0.100	\$0.050	\$0.050			
Next 5,000 minutes	\$0.075	\$0.050	\$0.050			
Over 15,000 minutes	\$0.050	\$0.050	\$0.050			
Per-Minute Usage Fee: Tiered						
1-50,000 minutes				\$0.035	\$0.035	\$0.035
50,001 - 100,000 minutes				\$0.030	\$0.030	\$0.030
100,001 + minutes				\$0.025	\$0.025	\$0.025
<i>Direct Dial option eliminated during 2000.</i>						

Figure 9

CU*Answers is unique in the fact that it has developed a fee structure based on a per-minute usage fee that can be offset by a credit union fee program with built-in relationship pricing. Just like ATMs and other networks that once held a great deal of promise for cheap member service, we believe that credit unions will need variable income to offset variable home banking expenses.

In 2002, prices were reduced dramatically based on a spike in member activity related to new features and successful marketing by credit unions. In 2004, it appears the overall credit union industry is pushing for a reduction in home banking fees from all home banking vendors. The most common model of subscription fees charged by independent home banking providers will take significant hits to the amount they can charge, or be amended to more of a monthly fixed program cost or, potentially, a time/session cost model like CU*Answers. In 2004 and beyond, CU*Answers will need to be aware of the average expenditures by credit unions for home banking on many levels: average paid per entire membership base, average paid per active Internet members, and potentially, maximums paid by both.

CU*EASYPAY! BILL PAYMENT/PRESENTMENT

This service, in partnership with CheckFree, is one of the great success stories of our CUSO format. It is one of the few “good funds” virtual checking account programs available to credit unions. CU*Answers has been able to negotiate pricing based on the scale of the CUSO and then pass on the service to credit unions based on their own individual circumstances.

	Fee Amount					
	1999	2000	2001	2002	2003	2004
CU*EasyPay! Implementation (one-time fee)	n/a	n/a	\$1,500.00		\$2,250.00	
Monthly Minimums¹						
Month 4-8	n/a	n/a	0.3% * \$4.95		No min. fees for first 60 days. After 60 days, sponsor fee of \$250.00/mo applies until 101 subscribers; waived if 101 subscribers is maintained.	
Month 9-12	n/a	n/a	0.5% * \$4.95			
Month 13-16	n/a	n/a	0.7% * \$4.95			
Month 17-20	n/a	n/a	1.0% * \$4.95			
Month 21-36	n/a	n/a	1.5% * \$4.95			
User / Customer Service Fees						
Bill Payment User Fees ²	n/a	n/a		\$4.95		
Add'l Bill Payment Transactions	n/a	n/a		\$0.36		
Per User Signup Fee	n/a	n/a		\$3.00		
Miscellaneous Fees						
Stop and Reissue Request	n/a	n/a		\$15.00 each		
Overnight Delivery Request	n/a	n/a		\$15.00 each		
Non-Sufficient Funds ACH Debit	n/a	n/a		\$20.00		
Resource Time (Special Requests)						
CheckFree Customer Service Rep	n/a	n/a		\$40.00/hour		
Non-Systems Professionals	n/a	n/a		\$125.00/hour		

Figure 10

¹Apply to per user, per transaction, and per account fees.

²Per user, per month; ncludes 15 bill payment transactions

Other Miscellaneous Fees

The remaining sections of the Fee Schedule relate to items that have a smaller impact on the individual credit union's invoice. While very significant to CU*Answers' overall revenue stream, questions are seldom raised about their place in the overall pricing scheme. Once again, the history of these fees shows CU*Answers' desire to control costs for credit unions and to expand services very rapidly.

The charts below show a great deal of range as to the capabilities of CU*Answers and its services. Services like online credit bureau access include multiple strategies for credit unions, from pulling a credit report to every terminal to credit scoring, and are directly related to key lending features like risk-based pricing. Below you will find comparison charts for the following miscellaneous items:

- External Vendor Communications
- Service Charges and Processing Charges
- Miscellaneous Processing Charges
- OTB Credit Cards
- Data Archival
- Custom Programming

EXTERNAL VENDOR COMMUNICATIONS

	Fee Amount					
	1999	2000	2001	2002	2003	2004
Tape processing	\$15.00/ea	\$15.00/ea	\$15.00/ea	\$15.00/ea	\$15.00/ea	\$15.00/ea
Loan insurance tape/run processing	\$25.00/mo	\$25.00/mo	\$25.00/mo	\$25.00/mo	\$30.00/mo	\$30.00/mo
ACH processing	\$50.00/mo	\$50.00/mo	\$50.00/mo	\$50.00/mo	\$50.00/mo	\$50.00/mo
Third-party tape/diskette preparation/delivery	\$40.00/hr ¹	\$40.00/hr ¹	\$40.00/hr ¹	\$40.00/hr ¹	\$40.00/hr ¹	\$40.00/hr ¹
Online credit bureau access	n/a	\$1.00/report	\$0.75/report	\$0.75/report	\$0.75/report	\$0.75/report
Additional online retention of credit report data ²	n/a	n/a	n/a	n/a	n/a	\$5.00/mo
ACH Returns and NOCs ³	n/a	n/a	n/a	n/a	n/a	\$1.00/item
AIRES file creation, balancing and download to disk ³	n/a	n/a	n/a	n/a	n/a	\$50.00/ea
Check images from third-party check processor	n/a	n/a	n/a	n/a	n/a	\$250.00 setup \$250.00/mo

¹ One hour minimum.
² Beyond standard retention of 6 months (summary data) and 60 days (detailed report).
³ If processed by CU*Answers.

Figure 11

SERVICE CHARGES AND PROCESSING CHARGES

	Fee Amount					
	1999	2000	2001	2002	2003	2004
Internal CU service charges	\$15.00/mo	\$15.00/mo	\$15.00/mo	\$15.00/mo	\$20.00/mo	\$20.00/mo
Internal CU dormance fees	\$15.00/run	\$15.00/run	\$15.00/run	\$15.00/run	\$20.00/run	\$20.00/run
Internal CU ATM fee programs	\$15.00/mo	\$15.00/mo	\$15.00/mo	\$15.00/mo	\$20.00/mo	\$20.00/mo
Financial Institution Data Match (FIDM)	n/a	n/a	n/a	\$250.00/qtr	\$125.00/qtr	\$125.00/qtr
OFAC Data Match	n/a	n/a	n/a	n/a	\$10.00/mo	\$10.00/mo

Figure 12

MISCELLANEOUS PROCESSING CHARGES

	Fee Amount					
	1999	2000	2001	2002	2003	2004
Statement copy (paper media)	\$0.75 ea	\$0.75 ea	\$0.75 ea	\$0.75 ea	\$0.75 ea (1-7 years) \$20.00 ea (7+ years)	
Dividend regeneration	\$125.00 ea	\$125.00 ea	\$125.00 ea	\$125.00 ea	\$125.00 ea	\$125.00 ea
1099 and/or 1098 processing ¹	\$0.60 ea	\$0.60 ea	\$0.65 ea	quoted annually	quoted annually	quoted annually
Microfiche storage (cumulative)	\$2.50/mo	\$2.50/mo	\$2.50/mo	\$2.50/mo	\$2.50/mo	\$2.50/mo
Original microfiche	\$2.15 ea	\$2.15 ea	\$2.15 ea	\$2.15 ea	\$2.15 ea	\$2.15 ea
If using CD-ROM storage	\$1.95 ea	\$1.95 ea	\$1.95 ea	\$1.95 ea	\$1.95 ea	\$1.95 ea
Copies of microfiche	\$0.23 ea	\$0.23 ea	\$0.23 ea	\$0.23 ea	\$0.23 ea	\$0.23 ea
If using CD-ROM storage	\$0.20 ea	\$0.20 ea	\$0.20 ea	\$0.20 ea	\$0.20 ea	\$0.20 ea
Copies of Screen Reference Guide	\$435.00/set	\$435.00/set	\$435.00/set	Free -- all available via web site		
Individual chapters of Screen Ref. Guide	\$12.50 ea	\$12.50 ea	\$12.50 ea	Free -- all available via web site		
Branch-level documentation support (per branch)	\$40.00/mo	\$40.00/mo	\$40.00/mo	n/a	n/a	n/a
CU*BASE GOLD Online Help / reference mat'ls	n/a	n/a	Included at all workstations with CU*BASE GOLD ³			
CU*Answers Answer Book online inquiry	n/a	n/a	n/a	n/a	Free service via web site	

¹ 1999-2000: includes postage; 2001-2004: postage separate.

² If using CD-ROM storage.

³ Web-based online help introduced in Fall 2003.

Figure 13

OTB CREDIT CARDS

	Fee Amount					
	1999	2000	2001	2002	2003	2004
OTB Credit Card upload via Equifax/PSCU						
Monthly Fee	n/a	n/a	\$100.00/mo	\$100.00/mo		
OTB Credit Card upload/download via Certegy/PSCU						
One-time Setup Fee					\$500.00	\$500.00
Monthly Fee					\$100.00/mo	\$100.00/mo

Figure 14

DATA ARCHIVAL

Member Statements and Reports	Fee Amount					
	1999	2000	2001	2002	2003	2004
Data Archival Setup/Licensing Fee		\$750.00/license			\$2,495.00 (one-time)	
CD-ROM Storage		\$0.01/page			\$0.01/page	
CD-ROM Supply		\$15.00/CD-ROM			\$25.00/CD-ROM	

Figure 15

CUSTOM PROGRAMMING

	Fee Amount					
	1999	2000	2001	2002	2003	2004
ATM/debit card batch processing setup				\$1,500.00		
ATM positive balance file setup (upload/download)				\$500.00		
ATM/debit card and/or shared branching online interface						
New online network setup				\$5,000.00 - \$10,000		
Existing online network setup				\$1,500.00		
Laser checks/money orders setup	\$750.00			\$950.00		
Laser custom loan forms				Quoted based on individual request		
3rd-party corporate check file rec'd for check recon.				\$500.00		
New 3rd-party check processor setup/test				\$1,500.00		
MICR line changes to member checks/LOC checks				\$350.00		
Special share dividend bonus				\$400.00		
Special loan interest refund				\$400.00 - \$1,000.00		
Special programming requests and features	\$65.00/hour (\$150.00 min.)			\$95.00/hour (\$200.00 minimum)		
<i>Custom programming prices are general guidelines only and are subject to change based on the individual project.</i>						

Figure 16

CONCLUSION

This document was presented as part of the Pricing Focus Group to prompt communication between CU*Answers and its partners. Half of the purpose of the Focus Group is to talk about the things that are apparent to everyone—the impact of member base fees, the growing concern over third-party network fees, the rapid expansion of home banking services—and the other half is to judge the group's sensitivity to any other elements of our pricing model. We expect this document and the explanations about each area to change as the Focus Group learns more about how our model works today and is anticipated to work in the future.

If you have interest in participating in a CU*BASE Focus Group, give us a call for upcoming opportunities.

CU*ANSWERS
A CREDIT UNION SERVICE ORGANIZATION

4695 44th Street SE
Suite 180
Kentwood, Michigan 49512

Phone: 800-327-3478
Fax: 616-285-5735
E-mail: spage@cuanswers.com
Web: www.cuanswers.com