Why Be on *a CUSO Board?*

COMMITTING THE TIME TO COLLABORATE THROUGH CREDIT UNION SERVICE ORGANIZATIONS HELPS CUs COMPETE.

BY SARAH SNELL COOKE

In many ways, credit unions are limited in what they can achieve, either due to regulations, size, sophistication, budget or other factors, but credit union service organizations help level the playing field.

Like CUs, CUSOs need funds and leadership. The funds come from credit unions pooling resources to reach a common goal, whether that's creating back-office efficiencies, generating off-balance sheet revenue or providing a new service to members they couldn't on their own. The leadership comes in large part from credit union executives who serve as CUSO board members.

CU Management had conversations with four credit union executives who make time to serve on CUSO boards. Here is what they said about the value of CUSOs and why they help lead them:

OUR PANEL OF FOUR

By day, CUES member **Keith Sultemeier**, **CIE,** is president/CEO of $4.5 billion Kinecta Federal Credit Union (*kinecta.org*) in Manhattan Beach, California. Outside of the CU, he serves as the chair of CU Direct (*cudirect.com*), a CUES Supplier member based in Ontario, California. Sultemeier says that the CUSO has diversified a great deal since he's been on the board, shifting focus from primarily indirect auto lending to all types of lending.

CUES member **Tim Mislansky, CCE,** is the founder and president of myCUmortgage (*mycumortgage.com*), a wholly owned CUSO of $4. 8 billion Wright-Patt Credit Union (*wpcu.coop*) in Beavercreek, Ohio, where Mislansky is also an SVP. Mislansky also serves on the boards of CU Realty Services (*curealty.com*) and CU Student Choice (*studentchoice.org*), in which Wright-Patt CU also has ownership interests.

CUES member **Chuck Purvis, CLE, CUDE, CCE,** is president/CEO of $3.3 billion Coastal Federal Credit Union (*coastal24.com*), Raleigh, N.C., and chair of CUES Supplier member CO-OP Financial Services (*co-opfs.org*), Rancho Cucamonga, California. Known historically as a payment processing company and the parent of

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shared branching, CO-OP Financial Services has in recent years refocused on technology and data analytics for credit unions to leverage. Purvis is also on the board of Members Development Company (*membersdevelopment.com*), Madison, Wisconsin, a research and development CUSO, and of Coastal Federal Financial Group, one of his CU's CUSOs.

CUES member **Phil Peters**, president/CEO of $73 million First American Credit Union (*firstamerican.org*), is on the board at CU Prodigy (*cuprodigy.com*), Salt Lake City. The core processing CUSO underwent a CEO search last year, naming Brett Weekes to the helm in late 2018. CU Prodigy builds its strategy from the foundation of not-for-profit, cooperative roots of credit unions.

1. WHY ARE CUSOs IMPORTANT TO THE CREDIT UNION COMMUNITY?

Mislansky: CUSOs are crucial to the ongoing success of credit unions, providing unique opportunities outside of what is sometimes available to credit unions. They can be a catalyst for providing products and services that credit unions may not be able to develop on their own.

CUSOs facilitate collaboration to create operating efficiencies and share expenses. Credit unions need to seek out more ways of partnering to better manage the costs of running our businesses. By consolidating back-office operations or other services, members should get a better deal and the credit union should save money.

Credit unions need to find sources for additional net income, and CUSOs help credit unions achieve that goal. Through CUSOs, credit unions can improve their net income by generating additional interest and non-interest income as well as reducing operating expenses through economies of scale. In addition, CUSOs provide credit unions with more control and input over services that might otherwise be outsourced to a third-party vendor.

Finally, credit unions are well-established, somewhat regimented organizations, and tend to be somewhat risk-averse. CUSOs create a more open environment and opportunities for experiments, such as new products or partnering with fintechs, and are typically more entrepreneurial than credit unions.

Purvis: We depend on collaboration among credit unions to be able to compete with institutions that are much, much bigger than we are. Our main competitors here in [Research] Triangle (N.C.) are Bank of America, Wells Fargo, SunTrust and BB&T, which are all more than $200 billion in assets. We depend on collaboration with lots of other credit unions and organizations, like CO-OP, not only to be able to offer the same services those big banks do but to be able to do so at a cost that works for us. CUSOs are becoming the primary vehicle for collaboration among credit unions.

Peters: CUSOs are instrumental in leveling the playing field for credit unions to allow credit unions of all sizes the ability to compete with much larger institutions through the power of collaboration. CUSOs provide the collective monetary and intellectual capital, as well as bargaining leverage, to advance technology, access economies of scale and offer member experience well beyond a credit union's resources. Most importantly, CUSOs are governed and operated by individuals who believe in the credit union movement.

Sultemeier: Credit unions individually often lack the scale to make the investments necessary to compete in an ever more crowded market for financial services. CUSOs can be one of the most effective ways to pool our resources, spread our risk and deliver competitive solutions. CUSOs typically understand how credit unions treat their members and design their processes and service delivery with that in mind. Also, CUSOs answer to credit unions, and their credit union owners have significant influence over the strategies and goals pursued by these companies.

2. WHY DO YOU SERVE ON A CUSO BOARD?

Sultemeier: I think there is a reasonable expectation among credit unions that those who enjoy the benefits of a CUSO's services should be willing to step up and participate in its governance. The CUSOs get real insight into the operations and challenges of the credit unions they are serving, and that's good for the CUSO and the industry. Personally, I enjoy the relationships with other board members and CUSO staff, and the different perspectives that other CU leaders bring to the table. It makes me better at my day job.

Mislansky: Wright-Patt CU seeks to have a board seat for any CUSO we invest in; it's not always possible, but it's certainly desired. When we invest or loan money to a CUSO, we realize that the money belongs to our members and we need to be good stewards. By having a board seat, we can provide significant input into the CUSO's vision, strategy and objectives, as well as fulfill our fiduciary responsibility. Serving on a CUSO board is also great for networking and building relationships with like-minded credit unions.

Purvis: CUSOs need two things: They need our capital, so every CUSO has one or more credit unions that have invested financial capital in the CUSO, and … leadership from their owners. It's not enough just to put a million dollars in a CUSO and hope that works out. I think credit unions that invest in CUSOs also need to invest our talent. And so that's why I think it's important for folks like myself to have the commitment and willingness to go and serve at least for some period of time on CUSO boards.

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Peters: The motto of "people helping people" originally attracted me to the credit union industry more than 17 years ago. I am passionate about serving others and view board participation at a CUSO as a significant way to further advance this mission. It is an honor to support and collaborate with fellow credit union owners in meeting the needs of our members and the communities we serve. We are fortunate to have this unique cooperation in our industry, and I am grateful to be a part of it.

3. WHAT ARE THE PROS AND CONS OF CUSO BOARD SERVICE?

Mislansky: There are many ways to structure a CUSO board. In multi-owned CUSOs, you typically see all or some subset of the owners serve on the board. One variation is when you have credit unions and non-credit unions as owners. Sometimes the non-owners are individuals, perhaps founders, and other times they may be credit union partners and service providers. It's important that the CUSO have a board that is aligned on the common objectives of the CUSO. For example, if you have individuals on the board and credit union representatives, you may have individuals seeking to generate revenue whereas the credit unions want to provide a service. Neither is right or wrong, but it's crucial that the board agree on the objectives.

In the case of wholly owned CUSOs, like myCUmortgage, the credit union determines the makeup and individuals who serve on the board. In our case, we've been purposeful about how we structure the five-person board of myCUmortgage. We require that the president/CEO of the credit union serve as chair of the CUSO board. This creates the linkage between the organizations without creating too much interlock. The four other board members all come from outside Wright-Patt CU and bring us desired expertise or viewpoints.

For example, we have the CEO of one of our client credit unions to represent the views and needs of the credit unions we serve. We also have a local economist on the board, as mortgage lending is so often driven by the interest rates in the economy. We also have a retired CPA who spent his career auditing credit unions, community banks and mortgage lenders. And finally, we have someone from a credit union vendor with deep knowledge of CUSOs. The group's experiences and backgrounds bring us value and expertise that we do not believe would be available with a board comprised of solely credit union executives.

Sultemeier: When credit union CEOs serve on CUSO boards, the interests of credit unions and strategically important vendors are better aligned. It does require an investment of time and mental energy, but I've found it to be a very positive experience.

Many of the same benefits and potential drawbacks seem to apply for credit union directors. I could see directors who bring technical or outside industry experiences with them to a CUSO board being quite valuable in some situations. It is perhaps a lot to ask of a volunteer on top of the considerable time and effort they already give to their credit union. The same can be said for credit union staffers, but it's a great development and relationship building experience.

I think where technical or outside industry expertise is critical, adding an outsider to a CUSO board could be useful. Of course, if outsiders are providing capital, it's not unreasonable for them to expect board representation. I do worry about potential dilution of credit union influence in such situations. There are plenty of examples with vendors in our industry where the interests of their shareholders and/or private equity investors do not necessarily align with those of the credit unions that use their services.

Purvis: The big benefit is you get to have some influence on what the particular CUSO is working on and what it's trying to achieve on behalf of credit unions. I'd say the only negative is time away from the credit union that I represent. And if you happen to get on too many CUSO boards, it becomes pretty burdensome. But, I would argue that the benefits far outweigh the time commitment that we put into it.

Peters: Credit union CEOs have intimate knowledge of what is important for a credit union, its employees and members, which provides some of the insight needed to govern a CUSO. Equally, there are noteworthy connections between CEO board members and CUSO owners that aid in fostering both trust and cooperation. A CEO should also be able to identify any potential misconduct of CUSO personnel and aid in keeping operations safe and sustainable.

There is a risk of a CEO serving on the board of a CUSO based on self-serving intentions, whether that involves invoking a specific agenda that does not serve the collective good of the owners or using the insight of confidential information to the benefit of the individual or individual's credit union.

Directors have the advantage of having both credit union insight and the understanding of board member responsibilities and duties. Additionally, directors will be able to assist similarly to CEOs in the respect to the safety and soundness of the CUSO.

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Again, ulterior motives beyond what is important for the collective good of the CUSO and its owners are something to watch.

Diversity is important with any organization, management or function, so having credit union staff serve on CUSO boards could be beneficial. At a CUSO, this is especially helpful in gaining a deeper and more diverse perspective from a variety of end users, which can immediately improve the functionality, design and/or structure of the product or service offering.

As far as outsiders, I truly see diversity as an attribute regardless of the industry or organization. Different industry backgrounds serving on the board may provide untapped perspective on economic, business, service and consumer sentiment beyond the credit union industry. This "outside" perspective could provide tremendous value and a competitive advantage to the CUSO and CU owners.

That being said, credit union perspective is critical in understanding the unique needs of the industry and the members it serves. A CUSO would benefit from outsider insight provided the overall board make-up consists of a majority of directors from credit unions.

4. HOW DOES CUSO SERVICE BEAR OUT THE SIXTH COOPERATIVE PRINCIPLE: 'COOPERATION AMONG COOPERATIVES'?

Peters: As mergers have been and continue to be commonplace in our industry, CUSOs provide a channel for credit unions to gain the resources of a large institution without losing their autonomy and true ability to serve their specific fields of membership.

Beyond that and in general, there is no better form of credit union cooperation than within a CUSO. Credit unions sharing a common bond in both mission and strategic resources, coupled with a collaboration channel, creates the perfect environment for advancement. CUSOs are the best asset to credit unions of all sizes.

Mislansky: When credit unions band together behind a common purpose, they are practicing the sixth cooperative principle of "cooperation among cooperatives." This cooperation gives us more control over our business than having to rely on third-party vendors.

Sultemeier: We are clearly better when we work together. We have more influence, greater efficiency and generally deliver better solutions for our members. Our ability and willingness to work together is one of the things that makes our industry unique. Done right, this can help us compete with large bank competitors that don't typically work and play well together.

Purvis: It's the epitome of that cooperative principle. CUSOs are formed and owned, generally speaking, by a group of credit unions that have a common interest or common need. It's the vehicle through which a group of credit unions collaborate and work together to get some benefit that individually may be hard to achieve. And that's why we're involved in so many CUSOs.

I've felt that credit unions aren't thinking big enough with regard to CUSOs for a long time. The world's getting far more complex and technical. Technology is becoming dominant, and so I think there are a lot of fields where more collaboration and more CUSOs would add some benefits.

There is a new CUSO that we're part of forming called CU Railz (*payrailz.com/curailz*). That CUSO is then investing in a company called Payrailz, Glastonbury, Connecticut, which is building a state-of-the-art payment platform that will replace our bill-payment and various other disconnected payment channels that we have and bring it all into one platform. We have banks investing in it too.

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