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# NACUSO NEWS

## Message from the CEO

NACUSO's Board, volunteers and staff had a very productive time in Washington DC for the CUNA GAC meeting. Our Legislative & Regulatory Advocacy Committee was updated on NCUA, CFPB and a host of changes the new administration is considering. The Committee established our 2017 advocacy priorities as:

- Continue opposing the costly and unnecessary NCUA Vendor Authority legislative priority
- Advocate for expansion of CUSO lending powers to be consistent with CU lending powers, so CUSOs can bring scale benefits, expertise, risk mitigation and lower costs to credit unions and their members
- Support issues good for credit union movement (i.e. FOM expansion, national data-security standards for merchants comparable to FIs, supplemental capital)
- Continue to support expansion of MBL powers
- Monitor issues / changes to CUSO Registry



We met with NCUA, NAFCU, NASCUS and CUNA and reinforced the importance of our advocacy priorities. We also met with Senate Banking Committee staff leadership while in DC to help tell the story of people helping people and how collaboration among credit unions through CUSOs bring tremendous benefits to the credit union movement. While I was busy in those meetings, Shawna and Denise visited with our Platinum and Gold sponsors in the massive exhibit area, and had the chance to thank some of our newest members and supporters who were exhibiting such as CSCU and CU Prodigy.

I want to give **Mastercard** (a tremendous supporter of NACUSO's Network Conference) special recognition for their **Mobile Product Showcase** they brought to the GAC exhibit area. It was a "total immersion" experience where you had a chance to see a home of the future, and for the first time it

made the “Internet of Things” make sense to me! For example, using Masterpass you can order your groceries on your internet connected refrigerator and have them delivered to your home. If you are at the store and cannot recall if you have something you need, you can look into your refrigerator using your smart phone from the store! Mastercard also showed us future payment capabilities, such as using “wearable technology” like a ring on your finger to pay for your prepaid public transportation tickets! It was amazing and exciting, and made things I have read about, much more real and inviting.

We are very excited about the **NACUSO 2017 Network Conference** next month in Orlando at the Disney Yacht & Beach Club Convention Center where the Next Big Idea Competition will be held on Wednesday April 12 from 3:00 – 4:30 pm, followed by our Networking Reception. The selection committee had a big challenge in reviewing the Big Ideas to get down to the Final Five who will be presenting some of the biggest new ideas in the credit union industry for the very first time! Here is a preview of the innovative solutions and opportunities that will be showcased in the **Next Big Idea Competition**:

- **Online consumer loan origination platform** - a truly competitive credit union industry solution to marketplace lenders that will help generate new and younger members, new loans and increased revenue while minimizing credit risk
- **Digital personalized pre-approval tool** to help increase share of member wallet while increasing the effectiveness of marketing offers by engaging members with a customized offer
- **Open Digital Services Platform** specifically designed to enable a marketplace of digital financial services; helping credit unions unlock innovation to compete, survive and win.
- **Cybersecurity** – new objective analytical tool determines risk of data breaches for credit unions as well as their CUSO and vendor partners, enabling risk mitigation
- **Deep Future Analytics** provide actionable, forward-looking credit risk forecasts, including ALLL & CECL support, using aggregated ‘big data’ to drive more accurate forecasts with web-based tools already designed and being used by CUs

Thanks to PSCU, **Disney Institute** will share the magic behind their consistently exceptional guest experience through Disney’s Approach to Employee Engagement, where they will share insights you can use in your own organization.

Mastercard is bringing us **Dan Marino**, NFL Hall-of-Fame Quarterback and dedicated husband & father who has raised over \$45 million to provide services and fund the Miami Children’s Hospital Dan Marino Center, the Marino Autism Research

*The 2017 NACUSO Network Conference will once again be held at the Disney Beach Club Resort*



Institute, a Jobs Development Program and the Marino College. The Marino Campus provides an inclusive, supportive and welcoming atmosphere where young adults can experience success, learn vital life skills and most importantly, gain independence.

With NCUA Board Member Rick Metsger, former NCUA Chairman Dennis Dollar, NAFCU CEO Dan Berger and leading CUSO attorney Guy Messick providing insights into the new administration and what this means for credit unions, as well as priorities and direction for NCUA and what we can expect from CFPB, we will leave the conference with the latest insights on what to expect in the coming months and years.

If you have already registered, we look forward to seeing you at Disney's fabulous Beach Club Resort next month! If you haven't registered yet, don't delay as you won't want to miss connecting with like-minded leaders in our **Partner Connection Session**, exchanging ideas in our **Networking Lounge** or participating in the approximately **30 breakout sessions** covering:

- Investment Services
- Insurance Services
- Member Business Lending Services
- Mortgage Services
- Innovation and Operational / Technology topics
- CEO / Board / Entrepreneur / Business Development topics

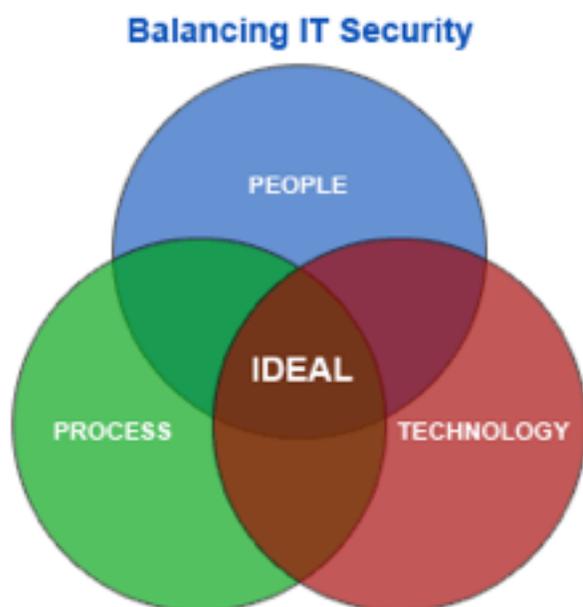
The weather is sunny and warm, the location is beautiful, the restaurants outstanding, the recreation opportunities abundant ... what better place to connect with new and old friends from the credit union movement that are leading the way in providing enhanced services to members ... join us April 10-13 and you will be glad you did!

NACUSO Network Conference info is available at [www.nacusonetwork.com](http://www.nacusonetwork.com)



# Cyber Security is not a Department, but a Culture – By Gene Fredriksen

Does your organization think of cyber security as the responsibility of a department of technologists? Does your organization feel that technology will keep you safe? If so, you may have a false sense of security, thinking your IT department can keep you safe from cyber criminals. Every organization has the challenge of making security mainstream. Assuming that technology will keep you safe can lead to a culture where the wider organization does not take responsibility for keeping your member information secure.



The three pillars of information security are People, Process, and Technology. No one is more important than another, a solid security architecture brings a balanced approach

We must always remember that the majority of cyber events are not technical events, but human events. Since cyber risk is often viewed as a technical risk, the focus to date has been on technology posture and technical indicators to determine the vulnerability of an organization. Cyber events are always complex, there are always multiple threat vectors that come to play in any major breach. In order to design effective defenses to mitigate cyber risk, we can't just focus on a single vector.

Today, in some organizations, the focus is still only on the technology part of the equation. I've read that this is like betting on a football game based only on the quality of the defensive players on the team. Not a wise bet for football or business. As your organization learns more about cyber events, you will recognize that that technology is only one piece of the puzzle. Act early, focus on building security across your organization, ensuring that a balanced approach is established and maintained. It will pay off in the long run and if implemented properly will make your organization resilient and resistant to a breach event.

Gene Fredriksen, Executive Director  
National Credit Union – Information Sharing & Analysis Organization



***NCU-ISAO will be a part of an exciting panel discussion on Cyber Security: The Anatomy of a Data Breach at the 2017 NACUSO Network Conference April 10-13, 2017 at the Disney Beach Club Resort in Orlando, Florida.***

## Measuring CUSO Success - By Guy Messick

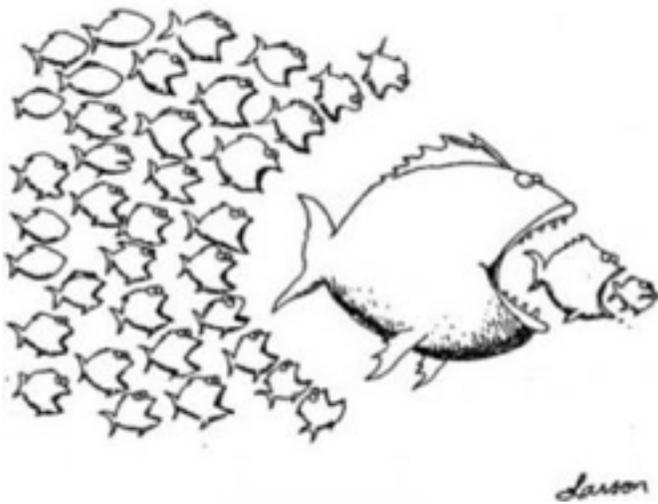
The underlying purpose of CUSOs is to help credit unions solve problems and take advantage of opportunities. So success should be determined on how well you do that. If your CUSO is designed to provide additional services to members and create additional fee revenue success will be measured differently than if your CUSO is designed to reduce operating costs and add additional expertise.

Let's assume you are forming a CUSO to provide property and casualty insurance products. Since credit unions are not experts in this business the creation of a business plan and financial projections will require the input of insurance industry experts. My strong recommendation is to be conservative in your financial projections. It will give you a realistic capital need and a better chance at meeting the financial projections. At some point after the CUSO has been in operation, directors may express displeasure at the time it takes for the CUSO to make a profit. You can answer that concern if you are able to pull out the financial projections that demonstrate you are on plan. You definitely want to avoid coming back to the board with a request for additional capital if your financial projections were unrealistically optimistic.

The one thing the credit union can control is how much financial and marketing support it gives to the CUSO. I find it disingenuous for a credit union to be dismissive of the success of a CUSO if the CUSO is not given enough capital and promotional support equal to the level the credit union would give to promote a credit union service. A CUSO's success is heavily dependent on the level of the credit union's support.

Typical success metrics for an insurance CUSO include (1) whether the net profits meet the financial projections, (2) the number of members served, (3) the satisfaction level of the members served, (4) the correlation of the number of credit union products used by members who are served by the CUSO and (5) other credit union opportunities that were generated by the CUSO.

In our second example, let's assume the credit union is forming a multiple owned CUSO to provide compliance services. The goal is to contain costs and develop a higher level of expertise for the



participating credit unions. The scope and meaning of "compliance services" will likely differ from one credit union to the next. Start out with a common understanding of what services the CUSO will perform. The next order of business is for each credit union to do an analysis of its own costs and expertise level for the designated services. This will provide a base line for success metrics.

Once again there needs to be realistic business plan and financial projections. The business plan and financial projection should demonstrate significant cost containment and an increase in expertise levels. This does not necessarily mean the

costs will be lower. It may mean that the increase in costs will be lower than if the credit union performed its compliance services in-house.

In order to realize the cost containment, it is likely that the credit union will need to terminate some of its compliance staff or transfer some of the staff to the CUSO. No matter how you do it, you will need to have less staff working at a higher level if you are to be successful in cost containment. You also need common agreement on forms, procedures and software tools. In order to realize the benefits of scale in vendor relationships, you will need to be willing to move to the lowest cost responsible provider. Unless you are fully committed to taking the required actions, you will not fully leverage the CUSO's advantages and you might even end up spending more money than you did before the CUSO.



Periodically you can compare your base line expenses and expertise to the CUSO to see what value you are getting from the CUSO. However, it is likely that the credit union owners will want to expand or change their services provided by the CUSO. These adjustments occur all the time and are healthy in dynamic organizations that adapt as needed. While you may not have an apples-to-apples before and after data, you will know intrinsically whether the CUSO is working out for your credit union. Success begets success. Expect that the owner credit unions will decide to do additional services collaboratively.

*Guy A. Messick is an attorney with Messick Lauer & Smith in Media, Pennsylvania and General Counsel to the National Association of Credit Union Service Organizations.*  
[www.cusolaw.com](http://www.cusolaw.com)

## CFPB Issues Disclosure Guide for Prepaid Accounts

The CFPB has made available on its website a guide to preparing the short form disclosure for prepaid accounts. This disclosure guide is based on Regulation E's Model Form A-10(c) and provides basic "how to" instructions to help financial institutions prepare short form disclosures for prepaid accounts other than government benefit accounts or payroll card accounts. The CFPB has delayed the October 1, 2017 effective date of the rule governing Prepaid Accounts Under the Electronic Fund Transfer Act (Regulation E) and the Truth in Lending Act (Regulation Z)(the Prepaid Accounts Final Rule) by six months, to April 1, 2018.

Always consult the [Prepaid Rule](#) to comply with the requirements for preparing the short form disclosure; this guide is not a substitute for reviewing the rule.

**Check out the new guide to [preparing the short form disclosure for prepaid accounts](#).**

# Member Business Services Advisory Board Member Profile- By Mark Bostock

The Member Services Advisory Board is really an informal group of business CUSO's that primarily does business lending around the country.

We do occasionally have Credit Union Chief Lending Officers participate as well. This group doesn't have set meeting times, other than driving the content of the Business Services break-out sessions at the annual NACUSO meeting. This conference allows the folks who do business lending to get to know each other and have a great list of fellow business lenders to share information and concerns.

This advisory board has been very busy the last couple of years giving input and feedback into the new business Regs that came out in 2016. Now that the Regs have started, we anticipate the Examiners will have as many questions as most of the business lenders do as far as how the new Regs will be interpreted. One area the group is watching is the "Rule 723 Conflict of Interest" provision in the new MBL rules regarding paying for underwriting services when a loan closes. Traditionally "everyone" is paid when a loan closes. CUSO's shouldn't be treated like independent third party service providers because they aren't, they are credit union owned.

The Member Business Services Advisory Board is a great way for any business lender to get questions answered by a group of like-minded folks who have been involved in business lending and business lending CUSO's for many years.

Plan on attending the NACUSO Network Conference this year in Orlando and meet this advisory group, you won't regret it.

**ABOUT THE AUTHOR:** Mark Bostock was the founder of Centennial Lending, LLC, a business and mortgage lending CUSO located in Colorado. He was President/CEO from 2000 until January of 2017, he will be retiring in May of 2017 to travel and spend time with his kids and grandkids.

**How can you get involved?** The [NACUSO Network Conference](#) is a fantastic opportunity to participate in the association, network with other industry leaders, speak on topics where you are an expert and learn about new services available to your credit union. If you are a CUSO, or looking to provide services to other credit unions you won't want to miss the Partner Connection Sessions at the conference. We will have a Member Business Lending Services track where you can meet Mark and other Credit Unions and CUSO owners who share their wisdom, frustrations and victories.

