The NCUA Board issued a proposed Merger Rule just over a month ago that would significantly increase disclosure of any merger related compensation and/or benefits increase to the employees, boards of directors and supervisory committee members of the merging and continuing credit unions, and establishes a formal procedure for members opposed to the merger to have their opposition included in the disclosures paid for by the credit union and given to the members in advance of the merger vote. Because this rule is only for credit unions and not CUSOs or their collaborative initiatives, we have determined that it is outside our area of focus from a regulatory advocacy perspective, so NACUSO is not planning on officially commenting on this proposed Merger Rule prior to the August 7 deadline.

The realization that many of the credit unions that seek a voluntary merger are smaller in assets, and
are often looking for size and scale benefits for their members inspired us to prepare a special edition of our newsletter to focus on how smaller credit unions can achieve scale & size benefits by collaborating with other credit unions through CUSOs, so everyone is a winner – most of all the members of the smaller credit union who do not lose their identity or their volunteer board that remains focused on them.

A great example of how you can leverage collaboration effectively for your members is the winner of NACUSO’s 2017 Credit Union of the Year CUSO Leverage Award – Element FCU. Element has set the bar on how to utilize CUSO collaborations to lower costs, help provide expanded products and services it would be difficult to provide on their own, and for creating value for their members through collaboration. Element FCU was established in 1978, and CEO Linda Bodie has been there for 19 years. Today Element has 4,600 members with 16 employees and 3 branches, and they use several CUSOs. Linda explained that CUSOs bring expertise, products & services they could not offer on their own and are “invaluable to help provide service to our membership.” Element is an investor in several of the CUSOs and enjoys the collaborative partnership that you don’t have with a vendor ... including helping to determine priorities of the CUSOs they work with.

So in the spirit of cooperatives working cooperatively with each other, we present industry owned solutions that can provide scale and size benefits without having to merge, in this newsletter. It is definitely a good idea to comment on the NCUA’s proposed Merger Rule prior to the August 7th deadline, but consider the many benefits of working collaboratively with other industry leaders prior to considering a merger ... we think you’ll be glad you did!
rkGoBig! The Story of How the Rekindle Initiative Continues to Save Small Credit Unions

rkGoBig is a CUSO started by six credit unions in the eastern U.S., covering Pennsylvania, Maryland and Washington D.C. Based on the work of Mid-Atlantic Corporate FCU’s (now Vizo Financial) Rekindle Initiative, the foundation of the business is to help save the small credit unions and, eventually, add our work to the organizations already working on networked cooperatives. The CUSO is, in large part, an effort to regain the hope that many of our small credit unions have struggled to keep. rkGOBIG is committed to saving credit union charters, some of which were created in the depths of the Depression and have weathered decades of change.

We sat down with Peter Barnard, CEO of rkGoBig to hear the story of how he came to work with them and his thoughts about the future of credit unions.

PART ONE: Life Story and Experiences

What’s your current position and can you give me a brief overview of what it is you do in your work?

One important caveat – this is not about me – this is telling the story of how a group of us worked together to form rkGoBig, but thanks for the opportunity to tell this story.

I’m the CEO of rkGoBig. I oversee rkGoBig, and my day to day work involves operations of the CUSO. We have 11 people on staff and they are divided into 3 ½ departments. That’s directly inside the CUSO work.

However, big chunks of my day are spent in other bodies of the organization – we call them Councils. We have our CEO Council – think BOD but not a lot of governance questions. This is where we do our vision and long-term planning, as well as mid-range tactical management and some execution work. The CEO
Stories of Collaboration

Over the last year we have really been focusing on telling the great stories about CUSO collaborators. For those of you that have started a CUSO you know some of the challenges.

It’s not easy to put your ego aside and admit that you might need some help, or you can’t do everything on your own. We salute these NACUSO members/partners and their continued commitment to the 6th cooperative principle: Cooperation Among Cooperatives.

The 2017 CU of the Year Collaboration & Innovation Award winner.

$1.8 billion ORNL Federal Credit Union and $1 billion Y-12 Federal Credit Union are competitors located just a mile from each other in the same market of Oak Ridge, Tenn. Yet a few years ago, they decided to start collaborating for the benefit of all their members, including creating CU Community Title and an Insurance CUSO.

Rather than merging, they found great benefit in working together they can provide better service for their members!

Council meets every other week and a full day and half day a month.

The second Council is our Operations Council. This is typically composed of, but not always, the “number two” in the credit union. They know how everything works, the “ground truth” of the organization. This is a pretty serious group that make the hundreds of decisions connecting the CUSO to the CUs. We get together every week via video conference. Part of my role again is herding ideas and staying on point. This is my best imitation of a consultant role and I participate in the decision-making process less and less as we all mature. The Operations Council is the glue that holds it all together. They do the day to day work that brings the credit unions together in ways that are effective.

Third is the youngest – the Data Strike Force. This body is made up of five of us that get together every two weeks. One of our CEO Council, Jim McCaw, and I keep that group moving. They are helping the network build the knowledgebase, skill set and know how so we can extract value from all that data we have.

We have six credit unions that are part of this CUSO. We did a tremendous amount of work building trust. We believe that “Trust is truth over time.” We found ways to make sure we were pushing ourselves together and talking a great deal about headlamps. We coined this phrase to represent our shared vision and to use those headlamps to metaphorically “light the way” in our journey. In the beginning, we clearly defined the guiding principles of how we are going to work together. We have functionally communicating teams. If we hit a disagreement, we are all committed to staying there until we work it out. We’ve learned that we have to listen actively to our compatriots. I have found that it is easy to allow people who naturally emerge as the oxygen takers in the room – and I’m one of them – to derail the process of DNA-level trust. We set these headlamps early on to guide us and it’s how we built the communication mechanisms.
We also have 12 statements that begin with “We believe ...” that we use as filters to guide us through our decision-making process.

**What would you say most motivates you to do what you do? What are you most excited or passionate about?**

Right now? My passion is ensuring that small and local stays viable. That’s partly because of where I live. I see a $185 million fine paid by Wells Fargo and they can survive it, yet the credit union industry still only has a 6% market share, in many areas capital pools at smaller CUs are either static or growing only slowly - and that is not sufficient for what we hope. I am passionate about making sure this group of CEOs can stay viable. Many mergers make sense. I think that if there is one thing that we are working, it is to first give these six CUs an option to not merge, and second to perhaps help other CUs know their options too. We all get the phone calls from our larger brethren. All it takes is a dark day for one of we smaller shops to get started thinking that the merge-option sounds pretty good. The other CU can give their members more services, more branches, greater economies of scale for the members. Chip Filson has been doing some fine work in this area too. The short is that we believe that working together we will be relevant for years to come without merging. In a nutshell, that is us.

**I want to hear the story of how you came to work with credit unions. What attracted you to work for rkGoBig?**

I have had a couple of careers. My father was a founding lawyer at a law firm. He introduced me to his friend David Becker owner of a data processing company re:Member Data Services. David had recently started a home banking firm, VIFI. I was employee number three. I learned a lot from David and was with the company until it sold in 2002. I went from there to a large publicly traded company, BISYS Banking Services. Then to corporate credit unions. I started working with Empire Corporate FCU, out of...
New York, and then Mid Atlantic Corporate in Harrisburg. Always finding thoughtful people who wanted to work on things that I wanted to work on. We thought a lot about scale back then. How to bring scale to the CU eco-systems. Funny to me how these things cycle through our lives.

In 2010 Rekindle was formed by a core group of leading credit unions in Pennsylvania, interested in working together to solve problems. Following a founding meeting convened by Belco Community Credit Union in Harrisburg, PA. Mid-Atlantic Corporate Federal Credit Union assumed a leadership role in order to develop a scalable collaboration framework for the Middle-Atlantic states. Jay Murray, CEO of Mid-Atlantic, really helped us to get this going. I continue to believe that the corporate credit union model is a really interesting point of aggregation. The Rekindle Initiative is a great example of that.

Now if we can go even further back, where did you grow up and what was it like living there? Where did you go to school?

I grew up in Indianapolis, Indiana and am a proud Hoosier. I left for a while to live out of the country – I lived in Paris and worked as a dishwasher in a restaurant. Then came back to the states and worked in Boston. Eventually we headed back to Indy to raise our kids. Ten years ago we came out here to Tamworth, NH, a small town near the border of Maine. If you’ve never been, you should check it out.

Who were your mentors along the way? People who deeply influenced who you are, what you believe in and what you’re committed to in your work and life? Tell me about them.

Several pop to mind. A friend recently reminded me that many of his mentors never even knew they were ‘mentoring’ him. I have learned a great deal from working with Jay Murray, CEO of Vizo Financial. I’d walk through hot coals for him. I haven’t known him for long, but Randy Karnes of CU*ANSWERS has both helped push my brain forward and my execution skills. Charlie White, former CTO of Empire Corporate and Chief Innovation Officer at Members United. Charlie
took innovation seriously and a sense of humor and humility I carry parts of today. Another guy was Mike Winter who runs a CUSO for Digital CU. With Mike, I was a hotshot sales guy and he was a mentor for me early on – taught me how to understand the middle of the financials instead of the topline only. Another person that comes to mind that is not in the credit union space anymore was David Becker who owned re:Member Data. He put me in jobs I was not even remotely qualified for but had the confidence in me to get them done. He was a very important person to me. He really challenged me and gave me some of the confidence I have today.

Finally, can you share something interesting about you that would surprise our readers? It can be anything, a hobby, an adventure, sports, the most embarrassing thing that’s ever happened to you,

This is one that my publicist would say don’t answer – if I had one. Some folks think it’s interesting that I really enjoy working with a local chicken farmer. Together we are trying to improve the local economy. Karl Behr processes about 1500 chickens a year. My daughter’s a vegan because of the soft-belly eyes of a cow and the in-humanity of how meat is made here in the States. To my mind, I needed to get closer to the way my plate gets filled. Also, it is the most literate, thoughtful chicken eviscerating crew I have known!

PART TWO: The Business Story

Tell me the story of how your CUSO/Company was created - the early days. Tell me about some of the memorable characters in the history, some that brought your story color, drama, comedy, conflict?

Two things got this band rolling. First, Jay Murray in a hallway in Mid-Atlantic Corporate. We were trying to build a shared compliance function. We did everything we thought we knew to do - got everyone together to co-create and it flopped. We are standing in the hallway – and looked at each other. Jay said, “Well let’s go big or go home.” We were silly enough to

CU Direct’s Innovative Beginning

CU Direct is a wonderful story. Back in 1994 credit unions began losing auto loans at the point-of-sale. Back in those days, at the dealership you would see a dumb terminal directly connected to an individual bank, such as Wells Fargo, another one for Bank of America, a separate one for Chase – you get the idea.

Diana Dykstra’s team at the Golden 1 Credit Union had figured out how to get more than one CU on a dumb terminal. This was significant because there is only so much real estate in a dealership, so by putting several credit unions on one terminal we had a better chance of getting in to a dealership.

Today there are over 1,000 credit unions, 12,000 dealers, and CU Direct funds $2.5 billion in loans monthly to dealers from our credit unions.
Credit Unions Have More Branches Than Bank of America Thanks to Cooperation and Collaboration

**CO-OP Shared Branching**

network boasts 5,500 shared branches in America. That’s more than Bank of America! Costs for credit unions building a new branch location, or Brick and Mortar, averages between $275,000 and $750,000, depending on the size, location and amenities. When a credit union joins shared branching, they have the opportunity to offer their members nearly 5,500 locations nationwide, without the cost associated with investing in brick and mortar. Instead their costs are only:

- Data Processor fees for the shared branching interface
- Under CO-OP, the costs associated are one-time start up, monthly fees and interchange and switch fees
- If the credit union elects to become an acquirer, where they open one, or more of their locations to guest members, not only will that credit union offset some of the initial fees as a shared branching participant, they may also generate revenue.

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July 21, 2017

take the cliché seriously. I wrote out a statement of work.

Among other folks, we just start taking it seriously and wondered what kind of people would move forward and be risk takers. We went to 9 or 10 credit unions that we thought would really respond to it. And there were only 3 that said no. Hand-to-hand and face-to-face. That is how we recruited. We have a thing called the BBQ test – it became more and more important to us as we went along. For us, it’s not just about intention or the IQ of the person or the resources. Do you enjoy their company? That’s how it got started. Six credit unions ponied up $25K each – and took a lot of risk. But they were committed to maximizing credit union resources and reducing operating expenditures through collaboration. These six leaders jumped at the opportunity to create scale while maintaining their independence.

Mike Atkins of OTS was really important to our operation in ways that I am sure he is not even aware. First of all he was very generous with his time and sharing the wisdom of their experiences. He gave us the belief that it was possible. Another important person to our story – Joan Moran, who is one of our owners. She sent off an email to Jay and me. All it said was “I want one of these! Only for smaller credit unions. OTS announcement attached.” She’s the CEO of the then 58 million dollar credit union in the Department of Labor. I go back to Mike about once or twice a year to ask things like “How did you handle governance?”

**PART THREE: Reflections and Lessons**

*If you could start your CUSO/Company all over again, would you do anything differently? Why and what would you do?*

Hmmmm….anything I would do differently? Nothing is really striking me right now. But you have to bear in mind that some of the things I consider to be mistakes, well we learned how to learn from them, so they were good mistakes to make. For example, the first thing we set out to do was the mapping out facilities, staff and
systems. We mapped out thousands of data points, costs, headcount. Spent two months doing that. Today we consider it totally useless and we never went back to that data. BUT it was a great exercise and helped us to form our team. So it certainly wasn’t a waste of time. It was quite possibly the single most important thing we have done. It allowed us to work together. It gave us an excuse to become interdependent. To develop a shared vocabulary.

Our whole industry is collaboratively built. I have been caught saying that collaboration just doesn’t work today. But I think that is not right. Corporates have formed. Mortgage CUSOs have formed. Cloud CUSOs have formed. CU*ANSWERS is about to turn 50. The list is long. You add the cooperative spirit and business discipline and put that all together. The actual work to do it is just new and different to some. We “rekindled” that cooperative spirit for our group.

Finally, when you think of the future for credit unions, what gives you hope and what makes you concerned?

What makes me most concerned is the future for small credit unions. They are going to “age out” and merge. Chip Filson has been speaking much more eloquently on the topic. For example, there was this $150 million credit union in Carlisle, PA. Totally profitable. Old CEO retires, a new one is hired and within 24 months the merger with the larger credit union had been settled—while not done, it was completed by the Board’s decisions. There was no reason for that credit union to go away. Not really mine to have an opinion. But the “old CEO” was one of the first voices in Rekindle. Once the membership was more fully informed what was happening, there was an upheaval. I do support NCUA’s statements on more transparency for members during a merger process. They need to be informed what is actually happening and reminded they do have a vote.

My biggest hope for credit unions is this: that at the end of the next ten years, we would look back and see that cooperative banking is one of the biggest stories in all of financial services.

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CU Prodigy’s Commitment to Shared Branching

One of our newest Platinum partners CU Prodigy has made a big investment in shared branching by offering their core processor users free of charge, a scaled down version of their feature-rich core for shared branching to any credit union regardless of their primary core data processor.

CUProdigy’s shared branching interface runs on the same virtualized, private cloud architecture as their full core for 99.99% uptime. And, because it’s browser-based, shared branching is easily accessed with Chrome, FireFox, Safari, or any another web browser. Moreover, as a cloud-based product, there is no hardware and software to install and maintain.

Last, a credit union’s margin on shared branching transactions is maximized because there is no hardware and software to buy.

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eDOC is a CUSO That Wants to Make Life Easier for Your Members

If you are a NACUSO member you can try eDOC for free for 6 months! Go to www.edoclogic.com to learn more about this amazing CUSO.
The Rekindle Initiative:

The Rekindle website was designed to enhance the collaboration framework. Created and owned by Vizo Financial, it represents the founding ideas of rkGoBig. Hosted by Ongoing Operations, a Maryland CUSO that offers cloud-computing, and data backup and recovery solutions, the site is used to build community, house the Rekindle video library, and keep credit unions that are still in the information-gathering stage updated on the progress of Rekindle developments. For more information about Rekindle, visit www.rekindlecu.org

$30 million Element CU has become the poster child for CUSO collaboration. Our 2017 Credit Union of the Year CUSO Leverage award winner CEO Linda Bodie boasts participation in:

- CU*Answers (including CUSO Financial Services through CU*Answers)
- Xtend
- eDoc Innovations
- CO-OP Shared Branching
- Alliance One ATM Network
- Neighborhood Mortgage Solutions
- Chatter Yak

Linda said it best in our Spotlight article last year:

“I now have the power and knowledge of countless experts. I don’t have to do it on my own. I don’t have to create everything. The sharing goes both ways … I get resources and give resources to make the CUSOs better. If you’re a Star Trek fan, it’s like The Borg … a collective … but in good way.

I can offer a lot more products, services and solutions even though I’m small. There’s no reason to sit back and not do something because of your size.

Size doesn’t matter … not when you have the power of a cooperative system.”
Voluntary Mergers: The Stuff No One Says Out Loud

By Guy Messick, CUSO Guru

I get it. You want to merge with a peer sized credit union. Together you will have more scale, twice the number of branches, twice the membership size, twice the assets... twice, twice, twice. Having all things twice should create the golden ticket of economies of scale. But after the merger you seem to have twice the payroll but not twice the benefits. What happened? The dirty little details get in the way.

1. If you don’t trim the payroll, you don’t save money. People are the highest cost of operations. Unless you have fewer employees after the merger, you are not going to save money. Are you willing to make those decisions?

2. If you don’t trim the vendors, you don’t save money. The continuing credit union needs to quickly decide what vendor to use for each service. Having multiple vendors for a service within a credit union does not create efficiencies.

3. Be ruthless in you vendor selection. Past relationships with vendors are great but that is not a reason to keep a vendor if the vendor is not competitive on price and quality. Buying a foursome at your credit union golf outing is not a sufficient reason to keep a vendor.

4. The cost of terminating vendor relationships is a cost of the merger and should be calculated into the decision. This is especially true for core IT services where the termination fees can be excessive.

5. The staff expertise needed to run a credit union of X size is not the same as running a credit union of 2X size. The general level of expertise has to increase significantly if the size and complexity of the operation increases significantly. There are all-star employees working at smaller credit union who could work at any sized credit union but the overall expertise level at smaller credit unions is not equal to the overall expertise required at larger more complex credit unions. If the merger puts you in a peer class that is significantly larger, are you willing to make the necessary changes in staff? That is a significant hidden merger cost.

6. Larger credit unions tend to have different operational processes and a more formalized protocol and policy structure, which is often required to ensure consistency in member loans and regulatory compliance. Are you ready for that?

7. The technology tools in a larger credit union tend to be more extensive and expensive than in a smaller credit union. Do you understand that cost and has that been a part of the analysis?

8. If the merger puts your credit union within the jurisdiction of the CFPB, are you ready for the enormous costs of that oversight?

9. Do you have the attitude to analyze the profitability of services and cut services that cannot be self-sustaining?
10. Have you gotten past the post-merger identity of the CEO and directors? Does the board have the vision and talent for a larger, more complicated organization?

11. How are you dealing with the staff issues? What will be the organizational structure and who is in each of the slots? How are those decisions being made...by unemotional analysis or by cutting internal deals to be “fair”?

12. How are you dealing with different salary levels and employee benefits? Do you have to pay retention bonuses to keep key employees around for the transition?

13. Can you close branches? Do you have keep unprofitable branches open?

14. Is there a strategy to tear down the “us vs. them” walls and tribe-like behavior that sometimes occurs post-merger?

15. Do you have the metrics to measure the success of the merger?

Instead of merging with a peer-sized credit union, you might consider collaborating. If you do all things “right,” a merger will be more effective in the end as all of the changes will be occurring within one combined organization and that is more efficient. But the truth is that very, very few credit unions do all things “right” in a merger. The people issues get in the way. There is a reluctance of rocking the boat too much and that keeps people from making all the necessary changes.

Collaboration between existing credit unions achieves many of the benefits of economies of scale without a lot of the internal strife that a merger can bring. The collaborating credit unions can continue as independent credit unions able to control their own destinies. If the credit unions eventually do decide to merge, the collaboration phase will be like the training wheels stage. The credit unions will be used to working together and will be better prepared to make the necessary changes for a successful merger.

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