

CU Business Services: Making it Real and Keeping it Safe

***A White Paper Commissioned by CUNA's
Community Credit Union Committee***

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Credit Union
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RISING FROM TROUBLED TIMES

Entrepreneur magazine recently profiled the plight of a small business owner dealing with her large bank relationship. The story details how Barbara O'Connell, 32-year-old co-founder of a company called WhereToFindCare.com, was livid when she opened the mail and found a letter from Bank of America informing her that the limit on her business credit card had been slashed despite a history of on-time payments. The article tells how Ms. O'Connell was already frustrated with rising checking fees and ended up switching her relationship to a local **credit union**. The article's headline reads, "*Credit unions to the rescue – This old-school alternative to traditional banks could be the answer to your credit-crunch blues.*"

In our "consumer-driven" recession and financial industry turmoil, the structural pain levied on small business America has been substantial. Cutbacks in consumer spending have resulted in declining small business revenues, layoffs and financial stress to make business ends meet. While small businesses (most especially startups) have traditionally been the engine of the American economy and job growth, the weight of the Great Recession and continued uncertainty has caused this engine to remain sputtering in very low gear.

A recent national survey of 750 small business owners, conducted by Rasmussen Reports, found that a smaller percentage of small business owners are in fact improving their cash flows in the final quarter of 2010, but small business job creation is on hold – with 71 percent of respondents saying small business owners are waiting for the economy to improve before they do any hiring. Nearly 7 of 10 small business owners rated the economy as poor, and a record 57 percent of small business owners reported plans to decrease spending.

This buckling down by small business has been an unfortunate outcome that policymakers and their economic advisors would like to reverse. On September 27, 2010, President Barack Obama signed the Small Business Jobs Act, which doubled the size of certain qualifying loans through the Small Business Administration (SBA) and created a \$30 billion pool of funds to encourage small business lending through community banks. At the same time, it is clear that these moves from leadership are a mere "drop in the bucket" from what ultimately can support and fuel the potential of small businesses in America. The real future of small business depends on having a vibrant, consistent and disciplined financial infrastructure to support new business creation, growth and ongoing performance. With grassroots rising up everywhere, the time may certainly be right for credit unions to step up and become the engaged and vibrant financial partner to small business.

However, to become this partner, there is much to learn from our industry's recent struggles in business services and the emerging competitive, regulatory and technology landscape that will change many of the rules for small business competition. In this new journey forward, only those credit unions with clear

business services strategies and a disciplined approach to execution will have what it takes to “rescue” many small businesses and take them into the future.

It is with great pleasure that the Community Credit Union Committee of CUNA presents this special research analysis titled, “CU Business Services: Making it Real and Keeping it Safe.” This paper was developed on behalf of CUNA by Cornerstone Advisors, Inc., (Cornerstone) a national management and technology consulting firm that specializes in the financial services industry. Cornerstone has worked with many credit unions around the country in developing and executing their business services strategies. The title of this paper reflects the opinion that credit unions have the opportunity to move past initial experiments into business services and truly make them a real, lasting part of their franchise. At the same time, the troubles of certain credit unions in the past few years have underscored the need to inject a fierce discipline for safety and soundness in all business service activities. Managing the risk of business services will be a mandate that credit unions cannot take lightly nor do as some type of “extra credit” project from busy managers. Maintaining the credibility of our industry’s foray into business services is important if we intend to preserve our trusted industry brand and the special role we play in financial services.

We hope this report can serve as a useful guide for your credit union’s diligent efforts to pursue the opportunities in business services with a renewed energy and discipline.

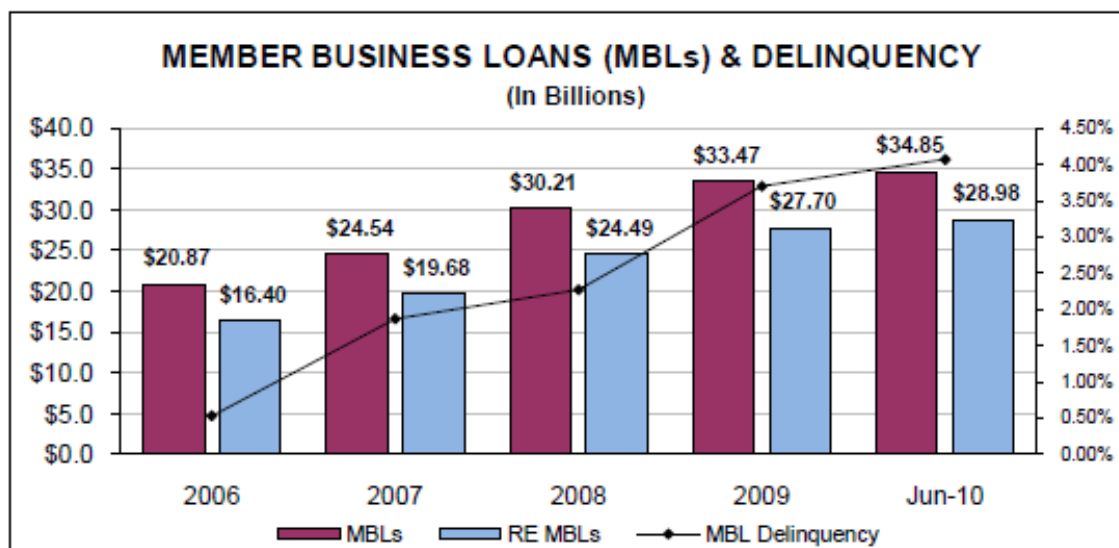
CU Business Services 1.0 – Not the Future Model

Charting a new course to the future of business services must begin with a review of how our industry has fared in its early efforts to develop business services. With the exception of a select cadre of “grandfathered” credit unions that have conducted substantial business lending activities for decades, most credit unions began to research, plan and implement business services over the past 5 – 10 years.

From Cornerstone Advisors’ standpoint, the results of this initial round of what it dubs “CU Business Services 1.0” have been disappointing overall. Cornerstone concludes key issues that needed to be acknowledged by credit unions during the 1.0 era were as follows:

- **Credit unions entered business lending at the tail end of a 10-year commercial real estate boom** – many institutions saw the strong economic activity and took it for a great, growth opportunity with moderate risk. What they failed to recognize was the frenzy of a bubble building that would ultimately burst.
- **The credit union industry’s focus was more on business lending than deposits** – it is interesting to note that many credit unions referred to their strategy as a “Business Lending” division, and most of the focus was placed on gearing up to originate and purchase business loans.
- **The lending was focused on larger commercial real estate deals and not business micro-lending** – when credit unions justified their entry into business services, they pointed out that smaller businesses did not receive adequate attention from the large banks focused on their revenue-rich middle market and corporate clients. Credit unions told a public story of supporting the grassroots of small business, but in reality, a great deal of the lending activity that occurred was merely participating in a price-competitive, hot commercial real estate lending market. Some of the transactions pursued by credit unions were quite large relative to the capital of the institution. A \$30 million condominium development loan extended by Eastern Financial Florida Credit Union that helped contribute to that institution’s failure has become symbolic for the “go-go” lending that unfortunately seeped into a few select credit unions but had the potential to tarnish the reputation of all.
- **Many credit unions conducted “OJT” credit training by buying participations** – while the executives of most credit unions made sincere efforts to become oriented with business lending policies and best practices, the truth is that many executives were being exposed to business lending for the first time. A great many credit unions began to buy loan participations from other credit unions that were active business lenders and use a committee of senior managers to approve the participation. This was a fairly tenuous move with the members’ capital. While most credit unions did not end up in trouble because of business loan participations, many took some lumps.

As the chart below illustrates, credit unions continued to grow member business lending into and through the financial crisis, and the vast majority of this lending was real-estate secured. Importantly, the chart illustrates the consistent rise in delinquencies that the industry has experienced in the past five years, now topping 4%. Interestingly, this troubling delinquency rate is virtually on par with the delinquency rate being experienced in the banking industry – credit unions overall have fared no worse. What’s hidden beneath these macro numbers are some of the more high profile credit unions that got into active, commercial-real estate driven business lending. There are several credit unions that have MBL delinquencies between 10% and an unbelievable 30%!



The lesson here is that knowing your member is critically important in how a safe and sound business lending operation is built, and keeping the credit union’s “bets” diversified over a wide variety of loans and loan types is more prudent than the cowboy-like bets placed by a few credit unions in the recent past.

Credit unions never focused strongly on business deposit development – in the midst of the aforementioned lending focus, little attention was paid in truly developing a set of products and growth plan for small business deposits. In many respects, small business deposits were an afterthought or non-event at credit unions. What’s critically important for credit unions to note is that a significant portion of small businesses do not actively borrow money and require deposit and other related service only. A study completed by Financial Institutions Consulting found that, while 79% of small businesses used a credit card, only 59% had a bank credit line, only 26% borrowed for equipment, and only 13% had a commercial mortgage on an owned property. On the other hand, more than 99% of small businesses had a checking account – deposits provided the broad swath to capture the small business market.

THE NEXT WAVE: AN UNPRECEDENTED OPPORTUNITY

As the country begins a long effort to heal and come out of our economic troubles, many trends are lining up that could provide immense opportunity for credit unions in the small business arena.

Six key factors are contributing to this opportunity:

#1: Large Banks Have Alienated Business Customers

Intense consolidation in the banking industry that has now created four \$1 trillion+ institutions has small businesses worried about access to capital and to the personalized service they crave in a banking relationship. The Barlow Research 2nd Quarter 2010 Economic Pulse shows 10% of small businesses with revenue of \$100,000 to \$10 million [approximately 790,000 businesses] reported switching banks in the last 12 months. Barlow Research's most recent Value of the Customer model shows that an average small business customer is worth \$5,438 in net potential revenue. If the entire relationship of each of these businesses were in play, over \$4 billion in net potential revenue would have switched hands. This disruption in the market for business customers means that credit unions have the opportunity to tell a different story about small business alternatives. At the same time, credit unions should expect that banks such as Bank of America, JP Morgan Chase and Wells Fargo will not cede their business relationships easily. As an example, Bank of America recently announced it would be recruiting 1,000 new small business bankers to work in its nationwide branch network to drive growth and better service in this segment.

#2: Community Banks Are Retrenching

One of the most impacted segments from the recent banking crisis has been the under \$1 billion community banks, which historically have been "high touch" alternatives to national and regional institutions. Unfortunately for this segment, high risk exposures to residential construction lending and commercial real estate have severely weakened this market. As of the latest report released by the FDIC, there were **829 problem banks** at June 30, 2010, up from 702 at the end of 2009. Community banks not on the problem bank list face capital and earnings pressures that are making it difficult for many to focus on growing and servicing the small business segment adequately. Importantly, many of these community banks will struggle to shake off their dominant commercial lending focus and become more deposit and fee-service oriented in growing the small business market.

#3: Political Support Is Still A Possibility

While credit unions have struggled to gain passage of their legislative agenda regarding business services, it is fair to say that the mood in Washington on both sides of the aisle seems supportive of grassroots financial institutions and the role they can play in small business capital generation. Sen. Mark Udall (D-Colo.) failed to get his amendment that would increase the MBL cap to 27.5% of a credit union's total assets included in the recently passed job bill, but in the fall of 2010, active efforts continued to keep this provision moving inside the legislative process.

#4: Regulation Q Could Be A Potential Game Changer

Now that Reg Q has been repealed in the recently passed Dodd-Frank banking reform bill, banks are free to pay interest on corporate checking account balances for the first time since the Great Depression. Banks are concerned about profitability and competitive response in the wake of this repeal. According to Treasury Strategies, business deposits account for 8% or \$21 billion of banking industry pre-tax earnings. This \$21 billion is roughly five times the entire earnings of the credit union industry today, illustrating the great potential that growth in core small business deposit services could provide credit unions.

Because banks have billions of earnings embedded in a legacy product offering known as “commercial account analysis,” it is unclear how fast bank competition will actually step up and begin paying interest on commercial checking. Because of their limited market share today, credit unions may decide to jump in early on the interest-bearing business checking as a differentiation opportunity.

#5: New Delivery Capabilities Will Break Legacy Advantages

In the past, the lack of branches versus large banks has been viewed as a competitive disadvantage for credit unions. Traditionally, business customers, specifically office managers, bookkeepers and sole proprietor owners, have actively used local branches as a convenience. Many banks established special merchant windows to provide focus and responsiveness to this market.

However, rapid adoption of Internet banking and remote capture by businesses is changing the value proposition for businesses that are NOT cash intense. [Clearly, moving cash and coin still requires branches or courier service.] Today, a growing number of small businesses conduct all their banking from the office and rarely visit a bank branch. Instead of thinking strategically about building expensive branches to gather small business deposits, credit unions can package Small Business “Desktop Banking” offerings to compete with large banks, and pass some of their distribution efficiency onto business customers in the form of pricing incentives.

#6: The Grassroots Are Coming Alive

Across America, social and political trends point to a waking up of the citizenry and a renewed level of interest and activity in local politics, local communities and local neighborhoods. Whether it is the Tea Party, farmers markets or Choose Local business movements, credit unions can see examples everywhere of people’s mistrust for large institutions. By making small business services part of an overall community and market development strategy, credit unions can tap into this renewed spirit of the grass roots.

10 STEPS TO CREATING BUSINESS SERVICES SUCCESS

With a new external landscape, credit unions need to clearly determine where business services fit into their overall strategic plan. While it is clearly appropriate for some credit unions to conclude that business services require too high a resource commitment or could distract from the organization's differentiated consumer focus, other credit unions will see business services as a natural adjunct to their consumer products and delivery channels. The important point here is not to get "stuck in the middle" with a half-hearted commitment to business services, thereby expending resources without seeing meaningful results. Business services are clearly an area that requires its own analysis, planning and ownership for execution to add value for the membership. Whether a credit union is still in the early days of planning business services or has deployed business services but sees opportunity to step up the intensity of its growth, Cornerstone has developed 10 key steps it advises credit unions follow to achieve success with business services.

1. Analyze Your Member Base and Market Potential

The business market covers everything from large, mid-market corporations in a community down to the small office/home office (SOHO) segment that primarily works at home and part time. Various segments within business services have different service needs and often different competitors serving the market. A sound business services plan should start by answering the following questions:

- What percentage of our current member base is involved with a small business today?
- What are key segments/themes in the business activity of current members?
- Where does our credit union do "unofficial" business services today within our consumer base?
- What is the level of potential for business services in our markets?
- Which existing/potential branch locations provide the greatest opportunities?

To complete a robust analysis of market potential, credit unions should use both external demographic data regarding business composition and employ an internal member survey to uncover as much potential as possible for small business services within the existing base. Key questions that can be included on an internal survey include:

- Type of business
- Revenues of the business
- Number of employees
- Current bank/service providers
- Current banking services used
- Whether the member would be willing to participate in focus groups or be informed about CU offerings

This formal market analysis helps the credit union build reasonable expectations for the growth of the business services program and assign appropriate goals to staff.

Ask Yourself – Has my credit union formally employed external and internal research to understand our Business Services Market potential?

2. Clearly Understand Your Competition

An important step in strategically positioning your credit union is to conduct a formal analysis of the business competition. This involves primarily a review of the national/regional product offerings as well as those of leading community banks in your market. In addition to simple pricing options, the credit union needs to understand the various delivery capabilities that large competitors are offering to their business customers, especially in the areas of Internet banking, remote deposit capture, and certain cash management services. From this competitive analysis, credit union management can develop a formal model for business services that articulates a product, price, delivery, and promotion strategy vs. competitors.

Ask Yourself – Has my credit union conducted a formal shop of our competitors in business services and do we clearly understand where/how we are trying to position the credit union?

3. Build a Simple, Yet “Game-Changing” Product Suite

While services for business customers can be wide ranging and sophisticated, Cornerstone recommends that credit unions keep their product offerings very simple and focused in areas that are most valued by small businesses. Key ingredients in a competitive small business product package should include:

- Basic small business checking
- Remote Deposit Capture (RDC) with the monthly fee waived if a minimum balance is kept. Some credit unions may also elect to give small businesses RDC scanners as part of this offering.
- Direct deposit of payroll to checking or re-loadable debit cards for all business employees. Credit unions should view their product strategy as a value-based package for the business, its owners and its employees. Like traditional SEGs, credit unions should work with their business services customers to have access to employee bases for marketing membership benefits.
- Basic small business online banking and bill pay – credit unions will need to include more premium service capabilities such as ACH origination, wire origination and tiered-user security levels.
- Simple credit lines, auto loans, term loans and (if possible) SBA loans.
- A packaged small business real estate loan for those that own their own property
- Business credit cards and debit cards.
- Access to a high-touch service merchant services partner.

Again, with the repeal of Regulation Q, credit unions may elect to promote an interest-bearing business checking as part of the value proposition. The example below from Advantis Credit Union in Portland, Oregon is one such example.

Business Checking

High Rates with No Strings!

Business Solutions Checking is all about value. You earn a market leading interest rate with no monthly fee, no minimum balance requirement, and over 250 no-fee transaction items each month! All of these benefits make this an ideal business account. It’s a combination that provides valuable benefits with no strings – perfect for most small businesses.

Business Solutions Checking

- Switch to Advantis and earn a high introductory rate of 1.25% for six months*
- After introductory rate period, you’ll always earn a market leading rate without a lot of strings
- No minimum balance requirement
- No monthly account fee
- Fees waived on the first 250 items each month
- Convenient debit card access
- Access to over 28,000 surcharge-free ATMs in the US and Canada
- Manage your accounts with free and convenient online banking
- Electronic statements deliver account information faster
- Free online bill pay

Get started today!

It’s easy to join Advantis and get started with Business Solutions Checking.

Business Solutions Checking

Great Rates. No Strings.

Special introductory offer

1.25% APY*
for 6 months

Source: Advantis Credit Union public web site

The packaging of products for small businesses has great appeal. Many of these members do not have sophisticated knowledge and are attracted to offerings that are user friendly. Like the retail banking arena, competitors are now trying to provide more abilities to customize these packages to small businesses. The following example summarizes the “mass customization” capabilities that BBVA Compass Bank provides to its small business customers. As a best practice leader, BBVA also offers a unique product offering called CompassWorks that lets customers avoid fees by combining the balances in both the small business and personal accounts with the bank.

Compass Bank Custom Business Account Capability

It's time to get your business what it needs.

In business, it's all about the bottom line. The bottom line here is that it's your checking account and you should be able to choose the features. Now you can. Now you can build the checking account you want — based on your specific needs – and get more for your money (and your bottom line).

It only takes a few minutes to customize your account. Let's get started:

Choose your features and [Apply Now](#):

Additional 250 transaction items processed per month (total of 750)	?
Additional \$25,000 per month in cash processing	?
Unlimited free returned deposit items per month	?
One overdraft fee forgiveness refund per year	?
One free wire transfer per month	?
Rebates on fees you pay to use non-BBVA Compass ATMs*	?
Double CompassPoints for every dollar spent on qualifying purchases**	?
Cash back on check card purchases.	?

Based on your choices, your monthly charge will be \$0.
Your first two features are free. Add more for \$10 each.

[Apply](#)

Need some ideas?

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[High Activity/Check Volume](#)
[Traveler/Convenience](#)
[Avoid Fees](#)
[I want it all!](#)

Source: BBVA Compass Bank public web site

Ask Yourself – Has my credit union developed a packaged set of business products that takes advantages of new ways to differentiate the organization from bank competitors?

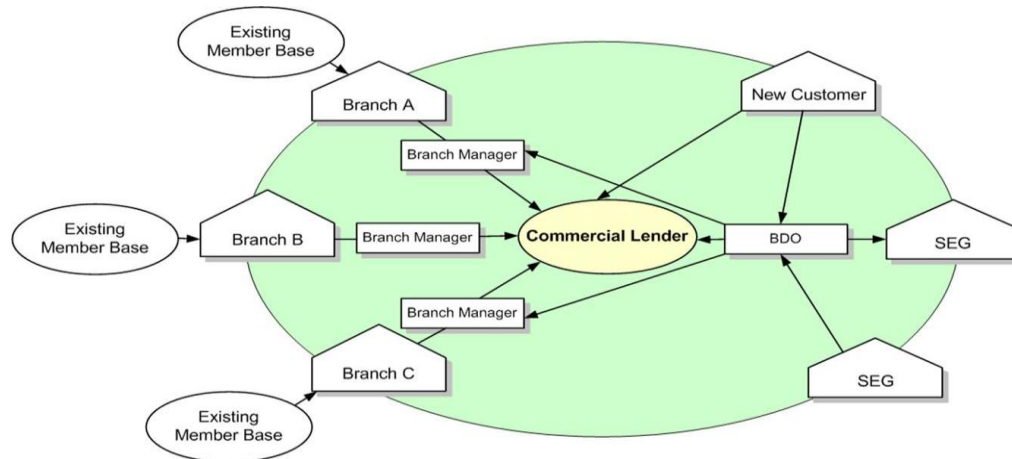
4. Formalize Your Delivery Model

To successfully serve small business customers and grow the business, credit unions must clearly spell out the roles various parts of the organization will play in the business services strategy. When deploying a business services model, key questions to be answered include:

- Who will develop new business relationships for the credit union and what will be in our playbook for this effort?
- Who will underwrite loans and who will have lending authority?
- Where do our branch managers and traditional Business Development staff fit into the delivery of business services?
- Who will be able to service business customers in our branches and member service center?





For many credit unions, hybrid models can be developed where experienced business bankers are assigned to drive outbound business development while being partnered with a number of geographically clustered branches. Branches can work internal referrals and servicing efforts; and business development officers can work to penetrate business services in existing SEGs and bring in the business banker when credit needs arise. The following chart illustrates a formal hybrid model for business services delivery.

Example of Formal Business Services Delivery Model



Determining whether the credit union will elect to originate loans through existing sales staff and underwrite loans via a centralized credit officer or CUSO partner or staff the credit union with experienced lenders possessing credit authority is a key design decision to make. Some credit unions have pursued a strategy where a team of business bankers is developed similar to those seen at community banks. These individuals are charged with building strong relationships with both local businesses and “centers of influence” (accountants, attorneys, real estate brokers) that can refer prospective business customers to the credit union. Royal Credit Union in Eau Claire, Wisconsin, a longtime business service leader, employs the business banker team as illustrated below.

RCU'S BUSINESS TEAM

 Larry Accola Sr. Vice President 715-833-8268 800-341-9911 ext. 8268 Email Larry View Bio	 Diane Barneson Vice President 715-858-5248 800-341-9911 ext. 5248 Email Diane View Bio	 John Kulig Vice President 715-833-8222 800-341-9911 ext. 8222 Email John View Bio	 Dan Leibham Vice President 715-833-8159 800-341-9911 ext. 8159 Email Dan View Bio
 Tom Lindgren Vice President 715-833-8260 800-341-9911 ext. 8260 Email Tom View Bio	 David Thoe Vice President 715-235-0180 800-341-9911 ext. 8131 Email David View Bio	 Rick Tolzmann Vice President 715-858-5222 800-341-9911 ext. 5222 Email Rick View Bio	

In developing staffing models for business services, credit unions also need to set clear future productivity and performance targets for these professionals. Relatively speaking, business officers are far from inexpensive, and it is critical that new recruits are able to build a profitable book of business over a three-year period. Formal benchmarks from Cornerstone indicate that the average credit union business loan officer had \$19.2 million in his/her loan portfolio in 2008. This benchmark is up from \$11.7 million in 2006 as credit unions that entered business services began to mature these programs.

Business Loans Outstanding per Loan Officer		
	2008	2006
Median	\$19,213,390	\$11,750,670
25 th Percentile	\$8,896,222	\$4,524,433
75 th Percentile	\$45,498,950	\$32,372,710
Source: Cornerstone Advisors, Inc. - <i>The Cornerstone Report for Credit Unions</i>		

In addition to loan volumes, Cornerstone likes to see business bankers fund 25% – 50% of their loan portfolios with deposits from their relationships. These deposits attached to the loan relationships enhance the profitability of the relationship and add to the loyalty of the business relationship.

The table below illustrates an example of key roles and responsibilities that should be articulated for each part of your credit union.

Business Banker	<ul style="list-style-type: none"> • Outbound focus to develop new relationships • Limited credit authority • Accountable for portfolio loan and deposit growth
Business Development	<ul style="list-style-type: none"> • Cultivate business relationships from existing and prospective SEGs • Build strong knowledge of business services products and delivery capabilities • Partner with business banker for member business credit needs
Branch	<ul style="list-style-type: none"> • Branch manager and certified MSRs cross-sell business services to existing members and open business deposit accounts • Knowledge and skill sets require certification
Member Service (Call Center)	<ul style="list-style-type: none"> • All agents will have basic deposit servicing knowledge • A certified business services specialist will be present on all rotating call center shifts • Issues with loans need to be referred to business services department

Ask Yourself – Has my credit union developed and documented a formal delivery model that spells out the roles and responsibilities of each professional involved in business services?

5. Market Differently

Credit unions seeking to grow business services need to step up the energy and creativity they bring to this endeavor. Unfortunately, many credit unions have sought to mimic the product and marketing

materials of banks and have only gotten lost in the crowd. Most importantly, the engaged, grassroots brand that credit unions are trying to build should run through everything the credit union presents to the market.

Branding campaigns that focus on the micro-business segment can play well for credit unions. For instance, the Phoenix market of Desert Schools Credit Union in Phoenix, Arizona gained great awareness for its advertising campaign that profiled a landscape business owner or a woman opening a new yoga studio. Putting a face on the small business owner is a very critical aspect of this marketing.

Another great example of this can be seen with Web-based small business lending innovator On Deck Capital (www.ondeckcapital.com). This Web site, which provides micro-loans to small businesses, profiles success stories from On Deck's client base and runs a banner across the Web site each time a new business loan is granted by On Deck.

The screenshot shows a banner at the top with two links: "\$25,000 Loan Made to Tire Service Station in Texas --- \$35,000 Loan". Below this is a section titled "Success Stories" with a sub-header for "Carolyn Watson, Core Kinetics Pilates, Washington". To the left is a photo of Carolyn Watson. To the right, the text reads: "Loan purpose: Opening a third Pilates studio" and "On Deck Capital's application process is easy, the rates are reasonable, and they didn't require a huge amount of paperwork." followed by a "Read More" link. Below the success story is a section titled "Our Loans" with four icons and labels: "Business Equipment Loan" (calculator icon), "Inventory Loan" (wooden crate icon), "Business Expansion Loan" (green bar chart icon), and "Temporary Cash Flow Loan" (green circular arrow icon).

Source: On Deck Capital public Web site

Creating a sense of community among the small businesses in a local market is also a sound strategy for credit unions. In fact, several credit unions are working to transfer the cooperative spirit of the credit union movement into the business services arena. The following screen shot demonstrates how Bellco Credit Union in Greenwood Village, Colorado has set up a business services directory of business members that is available through Bellco's Web site. The credit union encourages members to support these local businesses by using these services whenever possible. This example may only be the beginning for where credit unions can take this business cooperative spirit. New demand aggregation sites such as Groupon.com are tapping into a law of cooperative economics that creates "win-win"

situations by pairing consumers in groups with business providers willing to offer a discount for a specified level of volume. Cornerstone recommends that credit unions continue to look for ways to innovate the networking that can be facilitated between members and local business.

BELLCO CREDIT UNION

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HOME | BUSINESS SERVICES | INVESTMENTS | YOUTH

BUSINESS SERVICES

- > Accounts
- > Loans
- > Rates
- > Business Online Banking
- > More Services
- > Business Forms & Disclosures
- > Business Directory
 - [Find a Business](#)

Business Services Directory

We encourage Bellco members to support the local business community when they can. Sort the list by type of business or the name of the company to see if a fellow credit union member offers the products or services you are looking for.

If you are a current Bellco Business Services member and would like to have your business information added to the directory, [click here](#).

Sort by Name [\[Up\]](#) / [\[Down\]](#) - Sort by Type [\[Up\]](#) / [\[Down\]](#)

3PM Design Consulting Services
 17336 Paoli Way 303-840-0883
 Parker, CO 80134 monabba@3pmdesign.com
[\[website\]](#)

3PM Design is a company specializing in Foodservice Consulting and Design for all facilities that have a commercial kitchen. I provide systems and facilities consulting services to architects/engineers, planning professionals and project owners in the food service industries. My vision and my goal for the company, 3PM Design, is to provide the client ample time in order to reach their desired design for the kitchen that would meet their specific needs. I have completed designed projects like the Broadmoor Golden Bee pantry, the Cheyenne Lodge cook line and the Oasis Snack Bar. I have completed schools cafeteria, food courts, restaurants, pantries, catering kitchens and club's restaurants. I provide a schematic design plan, a design development plan, a construction document and punch list of the completed kitchen.

4Discount-Tickets LLC Entertainment
 PO BOX 454 303-974-0052
 Castle Rock, CO 80104 Sales@4primeseats.com
[\[website\]](#)

Another approach that can be effective for reaching out to the local business market is to hold or sponsor seminars for business owners. This approach helps position the credit union as more of a “trusted advisor” to the local businesses instead of just providing financial products. Holding peer group meetings with local businesses can also be effective. Randolph Brooks Federal Credit Union in Live Oak, Texas has recently held a number of business seminars and provided so much value for participants that they are able to charge a small fee for attendance.

Business Seminars

RBFCU Business Services Seminar Schedule

October 8, 2010
Starting and Planning Your Business
 9 a.m. - 4 p.m.
Cost: \$40 (a \$100 value) – Lunch will be provided for this session.
 This all-day course combines three seminars – “Business Start-up Essentials” teaches what it takes to start up a small business; “The Business Plan” helps you determine start-up costs, budget projections and develop a business strategy; and “Business Plan Financials” helps you develop realistic financial projections and understand the lending process.

Space is Limited. Be Sure to Register Today!

All courses will take place at the [RBFCU Creswell Administrative Service Center](#). To register for your course(s), choose one of the following:

- Call us at 210-637-4179
- [Send us an email](#)

All of these marketing strategies combined can help credit unions further their local branding and differentiate themselves from larger bank competitors.

Ask Yourself – Has my credit union created an innovative marketing strategy that positions our organization as the local, trusted advisor for small business? How effectively is our current marketing program driving new business membership?

6. Business Knowledge = Business Services Success

A key aspect of business services that is often short-changed by credit unions involves the development of specific skills and knowledge in this area. Whether share account documentation, loan type, payment transactions or online access, there is an entirely different body of knowledge that must be understood by staff to execute business services effectively. Too often, credit unions roll out a basic introduction to business services with their staff and then let this knowledge atrophy. Numerous studies have shown that employees tend to promote and sell products that they understand. If staff has discomfort or a lack of confidence with business products, it will shy away from valuable discussions that could be had with current or prospective members.

In a best-practice strategy, credit unions should create a tiered level of internal certification to clearly promote and maintain business service skills. Typically, staff in the business services area is tasked with delivering this training, though outside consultants can also be used. A basic certification can be utilized to make sure branch staff has the following capabilities:

- Knowledge of the credit union's business products
- Knowledge of legal/documentation requirements for business share and loan accounts
- Knowledge of the organization's credit underwriting process and what type of loans the credit union can make
- Knowledge of how basic business online banking, bill pay and remote deposit products work

Most credit unions offering business services should strive to have an employee with this Level I certification at every branch and available during every call center shift.

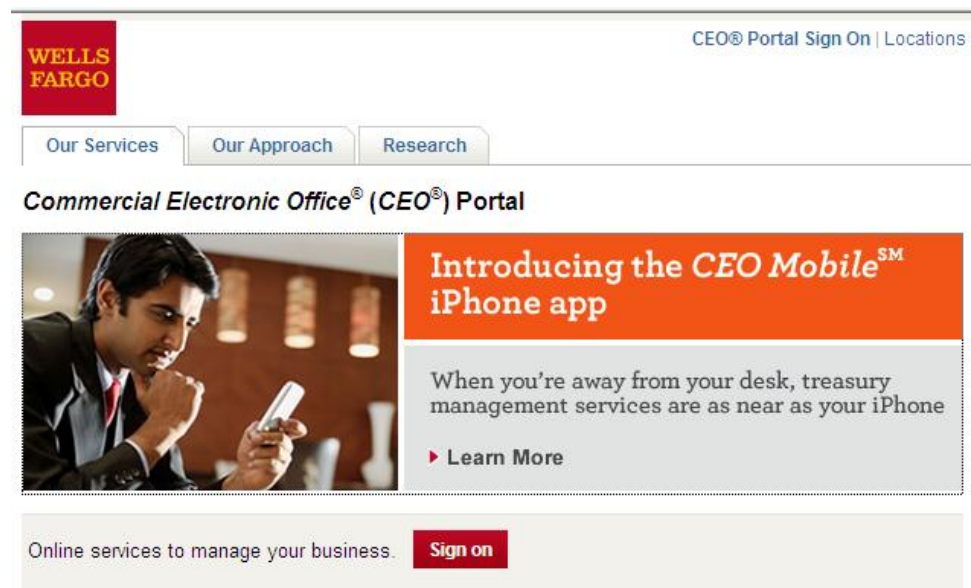
In addition to basic skills, the credit union should create a Level II certification that focuses more specifically on taking member business loan applications and supporting the more complex payments needs (wire, ACH, sweep accounts) of the business customer. This Level II certification is typically used for branch manager, business bankers and business development officers who will be involved in selling and servicing business services.

Testing on both certification levels can be a way that the credit union's human resources function can put teeth into the development of business services skills.

Ask Yourself – Does my credit union have a strong training and certification program for business services that involves testing to demonstrate knowledge? Is a sufficient amount of the staff today trained and certified for business services?

7. Create Your Technology and Delivery Road Map

One of the more challenging aspects of offering business services lies in the technology and delivery infrastructure required to effectively serve this market. Traditional credit union core systems and delivery providers have not been well positioned to support business members in the past. For credit unions, competing in business services will require monitoring and working to stay current on sophisticated and rapidly changing technology in the commercial world. A key area of technology support for business members involves the remote delivery channels. Leading business banks such as Wells Fargo offer impressive delivery capabilities including secure online cash management, lockbox and foreign exchange services, 24-hour specialized business call center, desktop remote deposit and a whole emerging set of mobile applications for business. Wells Fargo's leading Commercial Electronic Office (CEO) offering allows business owners to monitor their finances and approve sensitive transactions from their smart phones. While such capabilities will not be demanded by all small businesses, staying positioned as a "fast follower" of business banking technology will be important.



The screenshot shows the Wells Fargo CEO Portal website. At the top left is the Wells Fargo logo. To the right, there are links for "CEO Portal Sign On" and "Locations". Below these are three navigation tabs: "Our Services", "Our Approach", and "Research". The main heading is "Commercial Electronic Office® (CEO®) Portal". Below this is a promotional banner for the "CEO Mobile iPhone app". The banner features a photo of a man in a suit looking at his iPhone. The text in the banner reads: "Introducing the CEO MobileSM iPhone app", "When you're away from your desk, treasury management services are as near as your iPhone", and a "Learn More" link. At the bottom of the banner area, there is a bar with the text "Online services to manage your business." and a "Sign on" button.

As mentioned previously in this white paper, credit unions have an interesting strategic opportunity to position their remote delivery channel offerings coupled with competitively packaged business products as an alternative to the big bank model. To execute this successfully, credit unions will need to have a strong remote deposit capture (RDC) offering and determine how they will price this service. Because credit unions are new entrants into the business services space, they may elect to aggressively waive the fees for the RDC channel. As an example, leading business bank PNC has been promoting its DepositNow remote capture services to small businesses by offering a free scanner to all businesses that sign up with the bank before the end of 2010. Initiatives like this will continue to bring awareness of the convenience and widespread ubiquity of remote services to the small business market.

PNC | **CFO**
cash flow options

With PNC's DepositNow^{®2}, deposit checks without making a trip to the bank.

- Enjoy greater convenience³
- Streamline your deposit process
- Save time and energy
- Accelerate your cash flow³

[Contact Us ▶](#)

Sign up before December 31, 2010, and get a FREE scanner!¹

[Contact PNC about opening a Remote Deposit Account](#)

Accelerate Your Receivables with CFO: Cash Flow Options from PNC

DepositNow is an innovative remote deposit solution that allows you to deposit checks into your PNC Bank Business Checking Account, any time of the day or night, 24/7.³

It's Easy to Use **It's Flexible** **It's Secure**

Can Your Systems Adequately Support Business Services?

Given the immense technology innovations that will impact business services, it is critical that credit unions understand the various applications that will be needed to adequately support growth in this line of business. Today, most credit union core systems are in the early stages of developing strong functionality to support both business lending and business deposit/cash management services. Many can now support basic small business services but struggle with more complex commercial loan structures or sophisticated commercial deposit offerings. Several core systems that grew up in the banking market [OSI, FIS Miser, Harland Phoenix, Fiserv Signature] have gotten the attention of credit unions looking to grow business services because commercial functionality has been built into these systems. In addition to the core system, the following table summarizes other applications that may form part of a credit union's technology environment to support business services. In each functional area, Cornerstone has highlighted key technology vendors that service the marketplace based upon its ongoing system selection and contract negotiation work in this area.

Functional Area	System Requirements	Potential Vendor Sources
Loan Servicing (standalone)	Ability to support commercial, commercial real estate and niche products such as construction and auto floor planning	<ul style="list-style-type: none"> • PCFS2000 • FICS • Shaw
Business Loan Underwriting	Ability to analyze business financial statements and develop a business decision score	<ul style="list-style-type: none"> • OSI Velocity • APPRO/Teres • Baker Hill • Harland CreditQuest • Cypress systems

<p>Business Loan Document Preparation</p>	<p>Ability to generate compliant business closing loan documents</p>	<ul style="list-style-type: none"> • Harland LaserPro • Bankers Systems Arta/ Rembrandt • Fiserv easyLENDER • Custom (Word docs)
<p>Business Loan Collateral/ Credit Exception Tracking</p>	<p>Ability to track the commercial loan portfolio for ongoing credit and collateral requirements</p>	<ul style="list-style-type: none"> • Baker Hill Exception Advisor • Suntell • Harland CreditQuest • Document imaging systems • In-house custom

Ask Yourself – Does my credit union have adequate technology applications to support business services and which ones need to be on my road map for improvement in the next few years?

8. Help Drive CUSO-Driven Innovations


In addition to your credit union developing its own technology road map, it is also important that the entire credit union industry look for areas in which our combined investments and partnerships can support growth and innovation in the business services area. Today, most CUSOs formed to support business services have been lending-focused organizations used to centrally underwrite, process and service business loans. A multitude of CUSOs now exist that provide senior commercial lending expertise and reliable loan origination processes to member credit unions. For the most part, these CUSOs have done a good job serving the credit union industry.

At the same time, the credit union industry should be thinking about much more that can be done with CUSOs and partnerships in the business services area. A key area of future innovation will be in the payments space. Credit unions should monitor new innovations involving the Internet, mobile banking and e-payments that could provide an opportunity to leapfrog most bank offerings. As an example, companies such as Intuit and a startup called Square are now offering the ability for smart phones such as the iPhone or Droid to act as merchant processing terminals by adding a simple card reader attachment. A partnership between a group of credit unions and companies such as these could provide a new innovative route for credit unions to differentiate themselves in the business services space.

Intuit GoPayment



Home | How it Works | Features & Benefits | Pricing | Get Started | Supported Phones | Apply Now




Accept credit cards on your mobile phone. Anytime. Anywhere.


- Get paid on the spot
- Take payments on iPhone, Android, BlackBerry and more
- Low rates, no contract


No monthly fee for 3 months*

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 **Credit Card Reader**
Swipe cards for lower rates

 Available on the iPhone
App Store

 **Works on Any Phone**
with Internet Access

Ask Yourself – Where does my credit union need to band together and strategically invest with other credit unions to provide additional business services products and capabilities? Who are players we should more proactively pursue for strategic alliances and partnerships?

9. Ensure Risk Management Can Support Commercial Services

The financial industry crisis of the past few years has placed a heightened focus on enterprise risk management or “ERM” inside credit unions. Regulatory examiners are demanding that credit unions take a more holistic and analytical approach to how they identify, monitor and manage risk across their organizations. With this heightened sensitivity, it is important that credit unions expanding into business services take the time to develop specific credit policies, concentration limits, portfolio monitoring processes and operational controls to give the board and regulators comfort that the risk attached to business services is being managed adequately. Importantly, regulators want credit unions to develop concentration limits for different types of risk (e.g. those related to a loan type or collateral type) and to set these limits as a percentage of the net worth of the institution. As opposed to a percentage of the total assets or loans of the institution, monitoring limits and setting exposures as a percentage of net worth helps the board and management focus seriously on the potential losses to member net worth that can occur if risk is not actively managed.

If a proper risk management program can be established, business lending can be a potentially profitable new source of earning assets for credit unions. Coming out of the financial crisis, values on collateral have been set to more realistic levels for new loans, and pricing spreads are rewarding lenders again for the credit risk being taken. The potential benefits of this earning asset strategy help justify the time and investment that must be made in creating new risk management capabilities. As the chart

below illustrates, finding new sources of earning assets has become a key priority for credit unions. With consumers actively paying down debt, the industry’s loan-to-share ratio has dropped and loan growth has been flat to negative. Business services can help provide some avenue for disciplined and controlled earning asset growth while adding value for local businesses.

	2 nd Quarter 2010 All Credit Unions	2 nd Quarter 2009 All Credit Unions
Total Number of Credit Unions	7,600	7,848
Total Assets	\$916.1 Billion	\$882.4 Billion
Total Loans	\$574.2 Billion	\$578.2 Billion
Credit Card Loans	\$34.8 Billion	\$32.9 Billion
Real Estate Loans	\$314.8 Billion	\$313.1 Billion
Auto Loans	\$169.4 Billion	\$178.3 Billion
Total Shares	\$788.6 Billion	\$746.2 Billion
Investment Growth (12 months)	14.18%	18.48%
Member Growth (12 months)	0.81%	1.86%
Share Growth (12 months)	5.68%	8.44%
Loan Growth (12 months)	-0.70%	4.13%

Source: CUNA – 2nd Quarter 2010

Ask Yourself – Does my credit union have formal credit policies, concentration limits and portfolio reporting capabilities to effectively support the growth of business lending?

10. Develop Formal Financial and Strategic Objectives

Any strong business services strategy must have clear financial and strategic objectives to provide guidance and accountability to the effort. In the first generation of business services, many credit unions opted to run the strategy as an experiment and just “see what happens.” Today, with precious resources and little time for distractions, credit union board and executive management should be setting formal goals for a business services initiative. Common three to five year goals to include in a business services strategy include:

- Growth in the number of business members
- Annual loan production volumes and portfolio growth
- Loan fee income from loan production activities
- Delinquency and loan loss rates for business loans
- Annual business checking and money market deposit growth
- Non-interest income growth generated from checking/payments revenue
- Average number of services used per business member

A senior manager should be accountable for the achievement of these formal goals and tracking, and the plan should be reported regularly to the board of directors. In addition, any credit unions that are either starting or making new investments in their business services expansion should develop a formal

financial break-even analysis. This analysis should estimate profit spreads on loan and deposit product growth and incorporate the incremental expenses for staff, CUSOs, technology and marketing required to support the growth of the business.

Credit unions need to make sure that the reporting and visibility that accompanies business services should emphasize deposit growth as much as loan growth. Even though many credit unions are not hungry for deposits at the end of 2010, the valuable core deposits generated by small businesses should always be welcomed as they can replace more costly certificate and savings deposits inside the credit union. In addition, yield curves and competitive situations will change. For the long-term, the deposit funding that business services can provide should be viewed as a key opportunity for the credit union industry.

Ask Yourself – *What measurable strategic objectives has my credit union set for our business services strategy and how often is this information reported at the executive and board level? Have we done a formal break-even analysis that will help justify and guide our business services investments?*

CONCLUSIONS

In the past decade, credit unions have taken initial steps to enter and grow business services. On balance, the industry has learned a great deal about how to support this market, but we have so much work left to do to truly become a trusted partner to the small business market. In addition to any political efforts we make to gain more powers in business services, credit unions must take accountability to the things *we ourselves* need to change:

- We have to finally wake up to the opportunity of business deposits and payment services.
- We have to get serious about packaging up our business banking offerings.
- We have to balance our lending activity and actually lower our average loan size.
- We have to view opportunities in commercial real estate with very conservative credit policies.
- We have to get much more serious about business services knowledge in our organizations.
- We have to formalize our technology road maps to support business services.
- We have to get creative with CUSOs that can help open up new innovations in business services.
- We have to manage risk with a renewed diligence.
- We have to get more formal with our measurable objectives and break-even analysis to justify our business services investment and focus.

An opportunity awaits, but business services can no longer be viewed as an industry fad. Instead, it's become a serious business that requires a professional approach to management and growth.

APPENDIX – OUTLINE OF A CREDIT UNION BUSINESS SERVICES STRATEGIC PLAN

- **Target Markets**
 - By Size
 - Business Profile
 - By Geography/Branch Locations
- **Product and Service Strategy**
 - Deposit Products
 - Loan Products (primarily standardized “shelf” products)
 - Internet/Cash Management
 - Other Business Services (payroll, merchant, cards)
- **Marketing Strategy**
 - Branch Sales
 - Direct/Outbound Sales Force
 - Direct Marketing
 - Advertising and Promotion
- **Organizational Strategy**
 - Authority for Oversight/Reporting of the Strategy
 - Establishment of Credit Authority for Lending Processes (or reference to new Credit Policy)
 - Skills Assessment/New Hires Required
 - Training Plan for Branches
 - Identification of Procedures to be Developed for Branches/Back Office
- **Technology and Delivery Strategy**
 - Evaluation of Core System
 - Overview of Other Systems to be Utilized
- **Action Plan with Timelines and Responsibilities**