DECEMBER 2009
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# MEMBER Vision

SOUTHEAST CREDIT UNIONS

## Inside:

## Safeguarding What Matters

## Preparing For the Unexpected

## Improving Risk Control Processes

SOUTHEAST CORPORATE

# SOUTHEAST CORPORATE VISION

To be the leading Corporate in the Southeast and to help credit unions be more successful.

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***Member Vision*** is designed, produced and printed at Southeast Corporate



# Upcoming Events

## DECEMBER

**December 9, 2009**
**ACH Returns Webinar**
9:30 a.m. – 10:30 a.m. EST

**December 23, 2009**
**Select Employee Group Administration Webinar**
9:30 a.m. – 10:30 a.m. EST

## JANUARY

**January 26, 2010**
**"Risk Assessment — The Heart of Information Security" Webinar**
11:00 a.m. EST

*For more information and to register for the webinars and workshops listed here go to: www.secorp.org.*

# Resources for Members:

**Member Services**
(800) 342-0203, Option 1

**Product Support**
(800) 342-0203, Option 3

**Member Relationship Managers**
(800) 342-0203
Jamie Duncan, ext. 6814
Gisli Magnusson, ext. 6813
Bill Stewart, ext. 6816
Art Wood IV, ext. 6815

**Consulting Services**
Randy Pupo:
(800) 342-0203 ext. 4069

**Investments & Loans**
(800) 342-0203, Option 2

**Financial Strategists**
(800) 342-0203
Michael Alexandre, ext. 4064
David Lowe, ext. 4062
Tanya DeVlieger, ext. 4065

**Member Business Solutions**
(888) 627-7881

**Accolade Investment Advisory**
(866) 537-7302

*Check out our Web site:*
**www.secorp.org**

*In this issue Southeast Corporate Senior Vice President and Chief Risk Officer Ben Mauldin*

# Leverage Our Resources to Reduce Your Risk

We have learned in the recent past, one factor that led to the implosion of the U.S. and world economies was excessive leverage. Generally, leverage is thought of as a means to increase returns by introducing additional risk. However, leverage can actually be used to mitigate risk and increase economies of scale. Southeast Corporate has built an exceptional staff with expertise in the areas of information security, business continuity and interest rate risk management, among others. In an effort to strengthen the members we serve and leverage the talent available at your Corporate, we continue to expand our services available to you in these areas. In this issue of Member Vision you'll learn new ways to leverage Southeast Corporate resources in order to indentify, manage, and mitigate risk.

Barry Kouns, VP of Informational Risk Assessment, recognized very early in his career at Southeast Corporate the tremendous opportunity to fulfill the needs of our credit union members. Beyond ensuring Southeast's risk management needs are met, Barry has been able to provide a broad range of risk mitigation and compliance expertise to our members with the new MemberGuard regulatory compliance service. Though the service is still relatively new, the response from members has been immediate, demonstrating a clear need. As you will see, MemberGuard can provide GAP analysis of existing programs, vendor management programs and even system penetration testing.

Recently, business continuity has had heightened importance in the minds of regulators due to weather related events, swine flu, and the increased threat of terrorism. Southeast Corporate has benefitted greatly from Ken Schroeder's leadership in this area and has also been providing his expertise to our members. As you will see, Ken's imagination is boundless, which translates into comprehensive business continuity plans and entertaining training sessions for member credit unions. When Ken is on stage anything is bound to occur, so be prepared!

Southeast is proud of the continued development of expertise and products in the areas of interest rate risk assessment. Trey Rudder, VP/Interest Rate Risk, and Kendra Hill, AL Analyst II, have successfully built a stochastic interest rate risk model for use by credit unions. They have leveraged our existing BancWare interest rate risk model and put it to work for members as a product we're calling ALM+. ALM+ can analyze credit union data to achieve more dynamic results, which enhances interest rate risk assessment and mitigation. You will find that Trey and Kendra strive to produce comprehendible results and support in order to avoid generic regulatory reports that only serve to satisfy regulatory requirements. There is no cookie cutter approach here!

In closing, I hope you will find this issue of Member Vision informational and helpful. Do not hesitate to contact Barry, Ken or Trey to explore options and find the best solutions for your credit union. As always, we value and appreciate your continued support and look forward to meeting your needs well into the future!

**Ben Mauldin**
*Senior Vice President and*
*Chief Risk Officer*

*Spotlight on information of importance to our members.*

### Accolade Investment Advisory CUSO Finding Productive Investment Opportunities in Difficult Times

Accolade Investment Advisory LLC, a wholly owned CUSO of Southeast Corporate FCU has reached another milestone with more than $700 million in assets under their management. Peter Gibson, Director of Investment Advisory Services for Southeast Corporate says, "We've been finding the pockets of value that are hidden or inaccessible to most investors."

The CUSO is led by Gregory Wirthmann, CFA, as President & CEO. In addition to the expertise of Wirthmann and Gibson, Accolade draws from the Corporate's combined 130 years of investment expertise as well as its significant investment in credit risk management and interest rate risk systems. Southeast's investments team has a proven track record which also benefits the CUSO and the credit unions it serves.

Both Greg and Peter are available to conduct a portfolio analysis and consult with the members in making the most of their investment portfolios. To learn more visit www.accoladeadvisory.com

### Good News From Member Business Solutions....

Our Member Business Solutions (MBS) CUSO has marked new milestones. MBS recently passed the $1 billion mark in loans underwritten and is now servicing more than $50 million in loan volume. At the same time MBS reports that delinquencies are below industry averages. The dollar volume of loans underwritten by MBS is also way up. According to MBS President, Jim Gallagher, "A great opportunity exists now for credit uinons who have an active business lending program because bankers are simply not lending to small business in any meaningful way." MBS provides back office loan procession functions and support to growing numbers of partner credit unions, helping them offer business lending in a cost effective manner. Now in its 6th year of operation, the CUSO is owned by Southeast Corporate and Georgia Central corporate credit unions.

### Southeast Announces Electronic Delivery of Member Communications

Over the past few months, you should have noticed that you have been receiving member communications from Southeast Corporate via email. Southeast has transitioned our member communications from fax to email delivery. We are using EMMA, a widely used email service that specializes in sending bulk emails. Since EMMA is a white listed bulk email distributor, there should be fewer issues preventing you from receiving our email communications. If an important event impacting Southeast Corporate and your credit union occurs, we want to deliver that message to you in the most effective manner possible.

If you have not been receiving emails from us or would like additional staff at your credit union to receive product and service email notices, then please let us know. Just email echapman@secorp.org and let us know to whom we should direct these communications.

### Introducing Directo a Mexico – Send Money to Mexico Safely, Easily

Sending money to Mexico can now be a whole lot easier for your members thanks to a new program at Southeast Corporate called Directo a Mexico. Our APEX system supplies you with what you need and simplifies the process.

This is a great opportunity to assist your members who remit funds to Mexico and at the same time help your credit union tap into the growing U.S.-to-Mexico remittance market. We've also made it easy for you to tell your members about the program with customized print ready marketing materials.

Directo a Mexico went live at Southeast Corporate on October 8. Visit our web site at www.secorp.org for a quick overview. To learn more and get signed up for the program, please contact your Member Relationship Manager.

MemberGuard
Information Security Services

# Safeguarding What Matters

What happens when your examiner says, "Your security program is NOT compliant."? What does that really mean and what can you do about it?

As most of us know, credit unions are required to establish an information security program in compliance with the guidelines set out in NCUA Rules & Regulations, Part 748, Appendix A. At the same time many credit unions are not familiar with the details of part 748 and don't have a thorough understanding of the details surrounding what is required to gain compliance. The MemberGuard team fully understands Part 748 and can discuss ways you can address any short comings as well as draft an implementation plan to bring you into compliance.

**"Simply put, we review a credit union's current security program and compare it to the requirements in Part 748. We can then point out any areas that are not compliant and put together a documented plan that puts the credit union on the path to resolve any vulnerabilities.**

Since Southeast Corporate introduced its MemberGuard Regulatory Compliance Service in mid 2009 members have quickly begun to take advantage of the service. Early projects have included GAP analysis and compilation of incident response procedures.

"A GAP Analysis is an excellent starting place," said Barry Kouns, Southeast Corporates Vice President of Information Security Risk Assessment who leads MemberGuard. "Even though Part 748 Appendix A requires that credit unions do an annual GAP analysis, I find that it makes more sense to start first by thinking about open exam findings in the area of information security," Kouns explained. "Simply put, we review a credit union's current security program and compare it to the requirements in Part 748. We can then point out any areas that are not compliant and put together a documented plan that puts the credit union on the path to resolve any vulnerabilities.

"Sometimes our work starts when a credit union comes to us with open exam findings that they are expected to fix. Other times credit unions don't want to wait until something is wrong, they are getting ahead of the game and want to do a GAP analysis to know in advance where they need to improve. By identifying any weaknesses before a problem occurs they are able to take corrective action. They not only avoid an exam write up, but their proactive approach prevents the costly and sometimes devastating results of a security breach."

Tammy Barrett, Chief Financial Officer at Gulf Coast Community FCU in Gulfport, MS saw early on the value in the MemberGuard service. "Initially we were hesitant to go forward with a GAP analysis, but now we're clearly glad we did. Barry was great to work with and the results that MemberGuard provided exceed my expectations."

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*Tammy Barrett, Chief Financial Officer at Gulf Coast Community FCU*

Trust FCU in Chattanooga, TN has also used MemberGuard. "We asked MemberGuard to help us strengthen our information security program, said Charlene Slatton, the credit union's Operations Manager. " Barry clearly knew what he was doing and didn't waste our time. The work was done quickly, and we came away with the plan we needed to move forward. I'd would definitely recommend the service to other credit unions."

MemberGuard services center around regulatory compliance and include: Information Security Program Review, Regulatory Exam Mitigation, Security Improvement Planning, Information Security Risk Assessments and Policy and Procedure Review and Development. Recent inquiries have been for vendor management programs. MemberGuard can help credit unions' develop a fully compliant external service provider management program which includes due diligence, contracts and a process for ongoing oversight.

"We're also getting inquiries for penetration testing of credit unions' information technology systems," said Kouns. MemberGuard's penetration testing helps discover areas of a credit union's network where an intruder from outside the network could exploit security vulnerabilities. As part of the testing a credit is also provided with recommendations on how to mitigate any identified vulnerabilities.

MemberGuard was founded on the belief that the current financial environment demands a credit union-focused, well respected service provider with the best interests of the credit union at heart. Staffed with expertise from Southeast Corporate, MemberGuard team members are recognized experts in providing governance, risk management and regulatory compliance services to the credit union industry. To learn more, contact your Member Relationship Manager.

# Preparing for the Unexpected

You've got your business continuity plan tucked away nice and neat on your office bookshelf. You're set – whew! But are you sure that your business continuity plan is executable? Are you really prepared if a disaster were to hit your credit union?

Ken Schroeder, Southeast's VP of Business Continuity has been providing training to attendees at various conventions, chapter meetings and individual credit unions. Schroeder's mission is to help keep your credit union keep operating, in the event of a disaster, so that you can continue to serve your members.

Many of our member credit unions have requested Schroeder's help in putting together their business continuity and pandemic plans. Once a plan has been enacted, Schroeder performs hands-on training for staff at the credit union that normally includes a mock disaster. This exercise is one of the best methods to uncover where the holes are in the plan.

One of the mock disaster scenarios Schroeder uses includes having a FedEx envelope containing simulated Anthrax delivered to the credit union. Once the envelope is opened, the credit union recovery team kicks into disaster mode, role-playing while working through their business continuity plan. First you've got to get the employees out (without them being exposed to the Anthrax) and then you've got to close the building. Now the question is where and how are you going to operate offsite? "The exercise forces you to work through the plan and uncover what the ramifications will be depending on the decisions you make," said Rose Gunter, EVP of Operations at Healthcare's Cooperative CU in Jacksonville, FL. "Our team decided we would move operations to another branch. But then we realized that the branch didn't have enough computer stations or telephones in which to operate the credit union. That was the value of the exercise; you had to think through every process to determine a plan that would work. If you waited until a disaster happened to make these decisions, it would be too late," said Gunter.

Envision CU in Tallahassee, FL brought in Schroeder for pandemic training. They had a pandemic plan in place and Schroeder had them excercise their plan in a simulated pandemic. His exercise included losing 40 percent of their staff over a period of time due to a rapid pandemic. Various other problems evolved from the pandemic including Brinks not being able to deliver cash, schools closing in Tallahassee, the credit union's branches couldn't open because there was not enough staff to man them, and other surpises. "The exercise forced us to see the reality of the situation and think through our plan," said Edith Griner, SVP of Member Support Services at Envision. "As a result of the exercise, gaps in the plan became apparent and we're now revising areas of our plan," said Griner.

Every credit union has different requirements and Schroeder can do a customized business continuity plan for you. Schroeder tailored business continuity plans for both Keesler FCU in Biloxi, MS and UT FCU in Knoxville, TN. Both credit unions had purchased a business continuity software program. However, both found the software to be overwhelming and cumbersome. "It was not useable on a day to day practicality," said Debbie Jones, CEO of UT FCU. "I attended a seminar that Ken did at a chapter meeting in the area, and I received more useful information from that than from our three years working through the software program. We contacted Ken and asked for his help in getting us a workable plan." Working through Jonathan Lodwick, VP IT at UT FCU, Schroeder helped UT create their plan. He also facilitated the first exercise for the credit union. "Fortunately, we have not had to put our plan into action, but we feel we are prepared should a disaster happen," said Lodwick. "Railroad tracks run right by our credit union and derailments could happen with the possibility of a hazardous containment spill. Ken's training forced us to look at our vulnerabilities and to build a plan taking those elements under consideration," said Lodwick.

Keesler FCU sent Schroeder the information they had recorded into the same software program. After receiving their 800-plus page business continuity plan, Schroeder extracted the information, and boiled-it-down into useable checklists for each department. While this credit union still uses the software program as a document repository, the checklists are an integral part of each management department's plans. Keesler FCU has had real life practice with their plans. Their plans were put into action in 2008 when Hurricane Gustav moved across the Gulf of Mexico into Mississippi. "Experiencing the threat of Gustav really showed us how much easier our new business continuity plans were to execute compared to the original format in the software program," said Jeff Gerard, VP of Risk Management at Keesler. "We've also recently exercised our plans for the possibility of losing staff to the H1N1 pandemic. We now have an increased level of disaster preparedness," said Gerard.

Healthcare's Cooperative CU has been so impressed with Schroeder's training that they've invited him to speak twice at the Association of Healthcare Credit Union's International Convention. "Ken is extremely knowledgeable and is a good speaker and brings the right mix of bells and whistles into his presentation," said Gunter. "Not only is his training informative, he makes what could be a dry subject – disaster recovery/business continuity – fun for everyone." Jones at UT FCU concurs. "Ken's training is interactive and light and he adds the right amount of humor to make it interesting."

As more and more emphasis is being placed on credit unions by regulators to have a workable business continuity plan, now is a good time to pull your plan off the bookshelf, brush off the dust and make sure it is executable. If you determine you need help with your plan, Schroeder is available to assist you.

Mr. Schroeder is recognized as a Certified Business Continuity Professional by Disaster Recovery Institute International. He also serves on the Board of several business continuity and disaster related organizations. To have Schroeder conduct training at your credit union, or if you would like to invite him to speak at an upcoming event, please call him at Southeast Corporate at 800-342-0203, ext. 4125.

# Improving Risk Control Processes

*By Robert (Trey) Rudder, VP of Interest Rate Risk Assessment*

As credit unions grow and develop, their Asset Liability Management (ALM) solution must keep up with the demands of the balance sheet. Our current economic cycle has severely tested our balance sheets. As we look to improve our risk control processes, all risk measurement systems are drawing interest. ALM is going to be a point of interest for examiners as we go forward.

ALM systems come in all shapes and sizes but they must be appropriate for your institution. In today's world, the model must be capable of modeling the optionality that is inherent in today's balance sheets. One doesn't need Collateralized Mortgage Obligations (CMOs) or Mortgage-Backed Securities (MBSs) to have a great deal of optionality, you simply need to make mortgage loans and hold them on your books.

Southeast Corporate FCU uses Bancware's ALM4 software as its ALM solution and now member credit unions can also. Our new service, ALM+, is designed to address the ALM needs of larger, more complex credit unions that are ready for a higher level of modeling. Coupled with our current offerings of corpAnalytics and ALMonitor, Southeast Corporate now offers solutions to solve almost any credit union's ALM need.

Bancware is one of the industry leaders in risk management systems. BancWare ALM4 allows modeling of customer behavior, economic valuation, interest rate scenarios and a wide range of other variables.

## Features

- Provides scenario-dependent evolution of various results, including interest income/expense, balances, market values, net interest income and net economic value sensitivity, cash-flows and gap profiles
- Allows quantification of the market value changes of assets, liabilities, and economic value of capital resulting from interest rate movements
- Allows flexible definitions of business assumptions

## Benefits

- Understand the impact of market changes on the balance sheet more clearly to make more informed business decisions
- Fully quantify potential impacts of interest rate fluctuations on future earnings and cash flow streams
- Measure interest rate risk inherent in the balance sheet from the economic value perspective

The ALM+ solution is a cost effective way to access upper tier ALM modeling as well as high caliber expertise. By utilizing ALM+ and its Bancware platform, members with more complex balance sheets can benefit from Southeast Corporate's expertise, experience and a high powered, industry leading ALM model. ALM+ also allows members the option of receiving fully customizable model assumptions and ALM reports without the headache of in-house setup and continuous model management.

Through Bancware, ALM+ uses a stochastic modeling process with a trinomial lattice for market value modeling which adds a tremendous amount of accuracy over a static model. In a static term structure model, rates are flat through the planning horizon. A trinomial lattice allows rates to change in one of three directions at each point in time. In other words, at each point in time rates can go up, down, or stay the same. For balance sheets with path dependent options such as mortgages, stochastic modeling is a much better process as each point or "node" on the lattice will dictate a different behavior. This type of modeling is a much more real world evaluation technique.

If your credit union has an investment portfolio that includes MBS or CMO fixed income products, stochastic modeling could greatly benefit your institution. Bancware includes an option adjusted spread calculation in the market valuation process of fixed income investments. The option adjusted spread (OAS) is basically a discount rate that takes optionality into consideration. The result is a more realistic pricing structure determined by both rates and imbedded options.

Most interest rate risk reports will display plenty of information. However, does the data give you actionable intelligent information? Our goal is not to give you an overwhelming amount of data to sift through but rather to give you applicable information in order to make better decisions about balance sheet management. Our staff will work with you so that you clearly understand the data and know how to apply it to your situation and decision making process. Members will also be able to customize the reporting parameters to address the uniqueness of their institution. Bancware uses Excel as the report writer so all model output is Excel based and can be used just like any other Excel spreadsheet.

ALM+ is designed to leverage existing systems to benefit our members. If a complete interest rate risk service is not what you are looking for, members can use ALM+ to create a customized product. Through this new customized channel, Southeast Corporate can help members with mortgage servicing rights, portfolio valuation, and ALM validations. To learn more contact your Member Relationship Manager.


# New Website to Launch

Southeast Corporate is putting the finishing touches on its new website. The new site utilizes the latest in content management server technology, has enhanced security and automatically maintains a duplicate disaster recovery website.

Members will notice improved "less click" navigation utilizing fast paths, mega menus and quick access links. It uses a mini site design that allows quick access to the areas members use most, as well as an enhanced presence for key areas of the corporate.

The site has been re-organized and streamlined for ease of navigation and has a clean web 2.0 format. It will be less labor intensive to manage with more self updating by departments. Its enhanced education area incorporates greater use of video.

Watch for the new site to launch in the next few months.

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