

MEMBER

AUGUST 2009  
VOLUME 5 : ISSUE 2

# Vision

FOCUS ON SOUTHEAST CREDIT UNIONS



Inside:

Managing Investments in Uncertain Times

Innovations Jump Start Business Services

Maintaining Internal Controls  
in Bad Economic Times



## SOUTHEAST CORPORATE VISION

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

**Southeast Corporate Headquarters Office**  
3692 Coolidge Court  
Tallahassee, FL 32311  
(800) 342-0203

**Operations Center**  
8400 Baymeadows Way, Ste. 18  
Jacksonville, FL 32256  
(800) 342-0203

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William B. Birdwell  
(800) 342-0203 ext. 4040

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

## UPCOMING EVENTS

### AUGUST

**August 18, 2009**  
**Small CU Solutions Webinar**  
10:30 a.m. – 12:00 p.m.

**August 20, 2009**  
**IAT/APEX System Training Webinar**  
9:30 a.m. – 10:30 a.m.

**August 25, 2009**  
**ACH Returns Webinar**  
9:30 a.m. – 10:30 a.m.

**August 25, 2009**  
**Credit Union Business Continuity Workshop**  
Marriott Courtyard Pensacola  
451 Creighton Road  
Pensacola, Florida 32504  
8:00 a.m. - 4:00 p.m.

### SEPTEMBER

**September 10, 2009**  
**APEX-ACH Origination Webinar**  
9:30 a.m. – 10:30 a.m.

**September 22, 2009**  
**Credit Union Business Continuity Workshop**  
13575 Cypress Glen Lane  
Tampa, Florida 33637  
8:00 a.m. - 4:00 p.m.

**September 23, 2009**  
**Member\$MART Overview Webinar**  
9:30 a.m. – 11:00 a.m.

**September 24, 2009**  
**Select Employee Group (SEG) Administration Webinar**  
9:30 a.m. – 10:30 a.m.

### OCTOBER

**October 1, 2009**  
**Identifying and Managing Origination Risk Webinar**  
9:30 a.m. - 10:30 a.m. EST

*For more information and to register for the webinars and workshops listed here go to: [www.secorp.org](http://www.secorp.org).*

## RESOURCES FOR MEMBERS:

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

**Member Relationship Managers**  
(800) 342-0203

Jamie Duncan, ext. 6814  
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**Financial Strategists**  
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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](http://www.secorp.org)**

*In this issue Southeast Corporate Board Member and ALCO Chairman Richard Tolar focuses on ...*

# Managing Your Investments in Uncertain Times

**S**tay the course. It is always tempting to deviate from a proven strategy when times are tough. Don't fall victim to chasing rates with your investment portfolio by taking on an unacceptable level of interest rate risk. Evaluate your options carefully and make sure you understand the structure of your investments during the pre-purchase analysis. You need to be aware of how an investment will perform under extreme conditions, not just a Bloomberg consensus screen.

Like most of us, we wear many hats and don't devote all our efforts to managing our portfolios. If you do not have the tools or expertise to thoroughly evaluate an investment, seek professional advice from a non-discretionary third party such as Southeast's Accolade Investment Advisory CUSO. These professionals know where relative values exist and can point you to the best options for your particular strategic needs. Don't depend solely on a broker's recommendations, while most are honest they have a vested interest in selling product. For a few basis points in fees you can improve your overall yield and stay out of trouble.

*Liquidity is expensive during this extreme event condition. Sometimes it's cheaper to borrow short term than to continuously hold excessive funds in overnight accounts.*

Look closely at your liquidity needs and minimize the amount you hold in overnight funds. Liquidity is expensive during this extreme event condition. Sometimes it's cheaper to borrow short term than to continuously hold excessive funds in overnight accounts.

Use your Asset Liability Committee (ALCO) for its intended purpose of limiting risk. Now is a good time to revisit your modeling assumptions. The book has been re-written; things you thought would never happen have, so we must adjust our thinking accordingly. Make sure your assumptions are realistic and manage to them. If you don't manage according to your business model then it is not worth all the effort you and your team put into it.

Remember, this too shall pass.

*Richard Tolar serves on the Board of Directors of Southeast Corporate and chairs the corporate's Asset Liability Committee. He has previously served on the Supervisory Committee. Richard is Senior Vice President, CFO at Keesler FCU in Biloxi, MS.*



**Richard Tolar**  
SVP, CFO, Keesler FCU

*Spotlight on information of importance to our members.*

## **U.S. Central Losses Likely to Impact Member PIC**

U.S. Central, under the conservatorship of the NCUA, has released its second quarter financial results and other than temporary impairment (OTTI) charges. They reported additional OTTI of \$537.0 million at the end of June, resulting in a quarterly loss of \$470.5 million. These losses are in addition to the \$1.8 billion U.S. Central announced in May when we informed our members that Southeast Corporate's total capital investment of \$130 million at U.S. Central was impaired by 64 percent or a total of \$83.7 million. (The full announcement is located in the Member-Owner Information Center of our website at [www.secorp.org](http://www.secorp.org).)

We are still awaiting U.S. Central's 2008 audited financials, but assuming previously reported results are confirmed, the impact of their \$470.5 million loss to Southeast Corporate's financials will be an additional loss of approximately \$24 million. The loss would deplete all of our remaining \$18 million in retained earnings, and result in an estimated 30 percent impairment of any Paid in Capital (PIC) shares you hold at Southeast. (We say estimate because the final impairment amount will be impacted by Southeast's July earnings amount.) We do not expect this event to have an impact on Member Capital Shares (MCS) you may hold at Southeast.



## **MemberGuard Helps CUs Stay in Compliance**

Members have been quick to express interest in our new MemberGuard consulting services. Launched in June, MemberGuard is a group of consulting services specifically designed to support a credit union's regulatory compliance including GLBA security program requirements.

The service was created 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 internal expertise from Southeast Corporate, MemberGuard team members are recognized nationally in their fields for providing governance, risk management and regulatory compliance services and hold various internationally recognized certifications.

Members are starting with a Compliance GAP Analysis, which evaluates all elements of their current information security and compliance program according to NCUA Part 748 Appendix A Regulation. From this starting point it becomes clear what needs to be done and how to prioritize and accomplish the work. MemberGuard is being flexible; helping members put together a plan that balances their compliance needs and budgetary constraints.

For complete details about MemberGuard and a list of services, visit [www.secorp.org](http://www.secorp.org).

## **MBS Hosts Successful Small Business Summit**

Member Business Solutions (MBS), the CUSO jointly owned by Southeast Corporate and Georgia Central, recently hosted its Second Annual Credit Union Small Business Summit in Atlanta. The conference was well attended, with 27 registrants from 21 credit unions across the southeast region. Attendees were impressed with the conference, giving it an overall seminar rating of 4.36 on a 5 point scale.

In addition, the Summit featured numerous networking opportunities between the CUSO's partner and non-partner credit unions. Jim Gallagher, President of MBS, was pleased by the attendance and considers the program a resounding success. "In light of the current economic environment, I was overjoyed with the turnout," he said. "That speaks volumes about the increasing awareness that credit unions have about the opportunities in this market. Also, one of the hidden benefits of this conference is the amount of knowledge participants gain from one another – particularly between veteran MBS partners and those that have little or no experience in business lending."

Presenters included nationally known sales and marketing expert, Michael Roby, who began the seminar describing how credit unions could more effectively build and maintain their member base through a combination of referrals and exceptional service. During lunch, Robert Parrish, Supervision Analyst for Region III of the National Credit Union Administration, gave a lesson on best practices from an examiner's perspective. The afternoon was broken into two tracks: marketing and credit training.

"I'm positive this year's attendees walked away with concrete ideas and an improved understanding of the process," Gallagher concluded. "I look forward to developing another timely program next year."

## **Business Continuity Workshops Coming to Pensacola and Tampa**

Southeast Corporate will be conducting several intensive, one-day programs designed to give attendees the tools they need to put a better, more compliant structure around their business continuity planning process. The workshops will be held August 25 at the Marriott Courtyard Pensacola and September 22 at the Marriott Courtyard in Tampa, FL.

The course includes a comprehensive "how to" manual, along with an accompanying CD that contains templates, macros, spreadsheets and other tools to help the part-time (or full-time) person responsible for business continuity create a professional, usable, executable plan. The workshop is specially designed to help credit unions build a plan in a day.

The cost to attend the course is \$400 for members and \$795 for non-members and includes a continental breakfast plus lunch. For complete details and for workshop locations and dates, visit the Webinars/Training section of Southeast's Web site at [www.secorp.org](http://www.secorp.org).

# Maintaining Good Internal Controls During Bad Economic Times



*By Fred Culcleasure, Vice President of Internal Audit*

**T**he current economic environment is clearly taking its toll on organizations, forcing many to cut back, downsize, and restructure their operations. Consequently, many businesses are operating with leaner budgets and are making due with fewer resources. Credit unions, of course, are no exception. However, as budgets are reduced, care must be taken to ensure the control environment remains intact. To meet this challenge during these times of belt-tightening, consider giving your credit union this quick four-step review:

## **1. Review Specific Controls Related to the Current Uncertainty**

The current economic climate is changing credit unions risk profiles. For example, financial uncertainties surrounding asset valuation can result in adverse capitalization, liquidity constraints, increased regulatory scrutiny, and cost cutting measures. Operational uncertainties due to a loss of cash flow can result in staffing reductions, deferred spending on technology and infrastructure, delayed training, and reduced compliance resources. Because budget cuts can impair your control environment and your ability to achieve some business objectives, extra care is needed to maintain adequate control coverage. In addition to reviewing financial controls (those dealing with safeguarding assets and resources) and operational controls (those dealing with internal processes and systems), pay particular attention to credit controls (a borrower's ability to honor a contractual obligation) involving your members, suppliers, and vendors. The focus should be on risks that can destroy member value or hinder your credit union from building value.

## **2. Review Fraud Controls**

Tough economic times are sparking an increase in workplace fraud and it is expected to worsen as layoffs leave holes in organizations' internal control systems according to an Association of Certified Fraud Examiners' report, Occupational Fraud: A Study of the Impact of an Economic Recession ([www.acfe.com](http://www.acfe.com)). More than half of certified fraud examiners surveyed reported an increase in the number of fraud cases and the dollar amount lost to fraud during the past year. The type of fraud that increased included embezzlement, identity theft, con schemes, and

securities fraud. Especially now, organizations must be vigilant by ensuring proper internal controls are in place. Be alert to red flags. A single red flag, explored more fully, can lead to the discovery of much bigger issues. Be aware of the elements of fraud or what those in our profession call the fraud triangle: pressure, opportunity, and rationalization. Pressure usually comes from financial needs, opportunities can be created by layoffs and weak internal controls, and rationalization justifying fraudulent behavior as acceptable and normal (theft is considered borrowing or an entitlement due to mistreatment of job dissatisfaction). The tone at the top is very important and it enables a positive control environment. If the senior management team incorporates a culture of ethics by implementing strong internal controls, your credit union can remove much of the opportunity for fraud to occur and can increase the chances of detecting it.

## **3. Review Business Operations**

Distinguish between "must haves" and "nice-to-haves" in order to cut costs. In a sense, the recession is just accelerating changes that need to happen anyway. It is forcing us all to take a hard look at what we are doing and determine how we can work smarter, better, and quicker. Many processes have evolved over time without scrutiny. Perhaps there are opportunities to streamline how your business is conducted by performing end-to-end examinations of processes. Inefficiencies in execution often result from too much or too little documentation, and too little use of technology.

## **4. Review Existing Competencies**

This may be a good time to review your credit union's skill complements to ensure core competencies are aligned with environmental opportunities. If there are skills gaps, look for short-term, creative ways to fill those gaps through mutual partnerships. Foundational to a good controls environment are skilled and knowledgeable employees.

The current economic environment and its onslaught of issues are causing belt tightening and reallocation of resources. Credit unions can best respond to these conditions by reviewing: specific controls related to the current uncertainty, fraud controls, business operations, and existing competencies. The need for a robust system of internal controls is greater now than ever.



# Are We There Yet?

By Peter Gibson, Director of Investment Advisory Services



## ACCOLADE

INVESTMENT ADVISORY, LLC

*“The only function of economic forecasting is to make astrology look respectable”*

*Ezra Solomon, Council of Economic Advisers, 1971-1973*

The current recession has driven home the importance of understanding the economic environment within which we all operate. Indeed, many previously little-followed economic indicators have gained popularity as individuals look for any data which will help them understand their own economic conditions. Amid all the economic releases reported with what seems to be a daily frequency, there are some useful indicators to focus on in order to gain an understanding of where the economy currently is, and possibly, where it is headed. However, before we turn to any effort to forecast economic activity, we need to address both the current state of the economy and the difficulties inherent in measuring the performance of the economy in real-time.

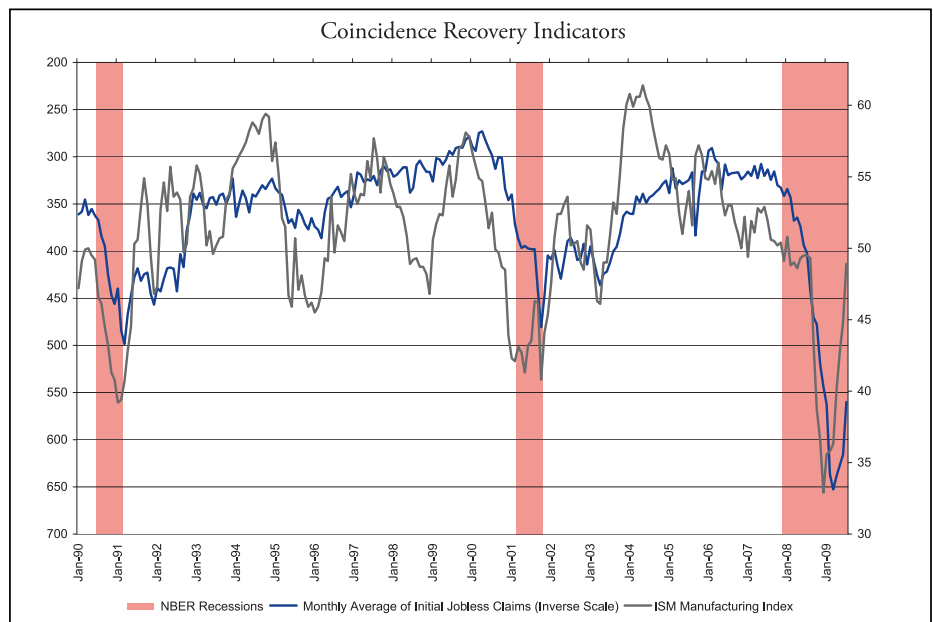
Given that we are currently in a recession, we start by looking at the definition of a recession according to the National Bureau of Economic Research (NBER), the research organization tasked with identifying turning points in the business cycle. According to the NBER, “A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.” While each slowdown and subsequent recovery bears the imprint of the changing composition of US economic output which contributed to the prior expansionary period, the NBER focuses on these economic series as they each tend to have a high correlation to the overall business cycle. In other words, they are known as coincident economic indicators, as their performance tends to coincide with changes in the overall economy.

As useful as each of these data series is, their utility is limited by delays in their (sometimes infrequent) reporting schedules. Readings of GDP are only conducted quarterly and are subject to frequent revisions, making their use as a current barometer of economic activity less practical. The other measures mentioned also have reporting lags associated with them, so when looking for turning points in the economy in real time, we instead need to look for economic indicators which give timely approximations of those series, instead of waiting for the official readings.

Of course, the recognition of these economic indicators must be conducted ex post, handicapping the ability of market participants to rely upon the same indicators over the years. Nevertheless, the composition of the economy is stable

enough that there are a series of data sets which reliably perform in line with the overall economy. Chief among these is the Institute for Supply Management’s Purchasing Managers Index (PMI) (a proxy for industrial production) and weekly initial claims for state unemployment insurance benefits (a proxy for employment). The current economic cycle has been driven by a collapse in the labor markets and a significant pullback in private domestic investment and industrial production. Economic indicators such as initial jobless claims and the ISM index provide early glimpses of changes in those sectors and can aid in our understanding of the business cycle. As the chart below indicates, these indicators point toward an end to the recession very soon, if in fact it has not occurred yet.

So what does the impending end of the recession mean for credit unions? A nascent recovery in the labor markets may give the Federal Reserve the ability to tighten monetary policy. Although the Fed has been slow to raise rates following the last two recessions (waiting on average over two years to raise rates), the excessive levels of financial stimulus the Fed has deployed in fighting the current recession may cause them to raise rates more quickly than history would indicate. More importantly, a stabilization in economic activity, paired with a stronger labor market, is likely to pare the level of bankruptcies and loan delinquencies. As a result, loan losses in 2010 are likely to be significantly lower than the levels currently being experienced.



# Innovative Ideas Jump Start Business Services at Credit Unions



*By Marjorie LaPorte, Marketing Supervisor*

Credit unions “thinking outside the box” have had success in getting business services off the ground. Two business partners of Member Business Services (MBS), the CUSO owned by Southeast Corporate and Georgia Central CU, share their innovative successes.

MBS partner, South Carolina Federal Credit Union headquartered in Charleston, SC, has been especially successful in developing their business services division. They started offering business services approximately three years ago. Since that time, they have generated \$9 million in loans and \$24 million in deposits.

South Carolina FCU’s business services strategy is unique. For starters, they hired a V.P. of Business Services, John Tobin, to roll-out their business services division. John, who joined the credit union in 2002 with a business banking background, as well as a prior CU background, understood how banks operated and had a vision as to how business services could be successful at the credit union. First he put into place a core infrastructure set up much like a bank’s Business Services Department. His vision was for a full-service business services division that mobilized an organization-wide sales culture. Working through human resources, the SCFCU set up goals, incentives, and hired the right people. Then John trained staff to prospect for business member leads.

“The training included a mindset change,” said Tobin. “Everyone uses small businesses, from the plumber that comes to your house to the florist you order flowers from, to your dry cleaner and so on. Staff were trained how to share the benefits of joining the credit union when interacting with a small business.” With staff goals in place and incentives for providing leads, the credit union now averages 60-80 new business accounts per month.

To communicate leads that come from 20 branches, Tobin incorporated a Member Resources Management referral program (much like a CRM) that sends the leads to the Business Services Officers. The Business Services Officers develop the relationship with the business, similar to what a Personal Banker employee would do at a bank. South Carolina FCU’s two Business Services Officers spend the majority of their time following up on leads the credit union staff generates, eliminating the need for extensive cold calling.

“Sharing the benefits that credit unions can provide business owners over a bank has been instrumental to their success,” said Tobin. “We were not doing business services prior to the creation of the Business Services division at the credit union, so everything we get from a business account is a nice addition to the consumer portfolio. New checking accounts have come from businesses that are looking for the

extra perks they can get from a credit union. And deposits are where it’s at. Business deposits are just as valuable as a business loan because once the relationship has been established through a checking account, they will come to us when they need a loan,” said Tobin. Tobin chose MBS to handle their underwriting and loan documentation. “It made sense to have MBS as our partner because it would cost too much to hire someone with the level of expertise and experience that MBS has,” said Tobin. “Managing costs at start-up is very important in a new operation. Securing the expertise needed for complete underwriting analysis while reducing the associated costs is a win-win for both parties.”

Another MBS partner that showed innovation in getting business services started is a CUSO owned by three Tallahassee, FL credit unions: Envision CU, Tallahassee Memorial Hospital CU and Focus CU. The CUSO, United Member Business Services, was the brainchild of the three credit unions to get their business services program launched. The credit unions hired Kevin McAlphine, who had 25 years of banking experience in commercial lending, as their Chief Operating Officer. They directed McAlphine to set up loan policies and procedures and to identify the types of businesses to offer business loans to.

McAlphine focused on owner occupied real estate and equipment loans. These loan types were targeted due to the lower risk profile and the ease of servicing. The CUSO started in September 2008 and has been lending since February of ’09. To date, it has generated \$6 million in loans. McAlphine gets referrals through developing relationships with real estate brokers, CPA firms, and law firms representing real estate clients.

The practicality of the operation is that none of the credit unions could have afforded to hire a seasoned business lender with McAlphine’s credentials. Sharing his expense was a win-win for all. Not only do the three credit unions share the expense of the CUSO, but they share the profits as well. In addition, they leverage their shared assets for loan participations – opening the door for larger loans than they might be able to handle individually.

While these credit unions have been successful in creating a successful business services infrastructure, they couldn’t have succeeded without their partner in business, MBS. MBS acts as the credit union’s business lending department providing loan services for all types of member business loans including loan documentation, underwriting and servicing, as well as participation brokerage.

To date, MBS has helped credit unions generate nearly \$1 billion dollars in business loans. To learn more visit the MBS Web site at [www.mbsllc.org](http://www.mbsllc.org) or call toll-free at 888-627-7881.

## Southeast Corporate Elects Board and Officers

### New Board Members



*Robert Fertitta, CFO, Navigator CU*



*William "Bill" Marquardt,  
President/CEO, City County CU*

At Southeast Corporate's Annual Meeting, June 18, in Orlando, FL, the results of the election of directors and officers were announced. Mr. Richard Tolar, SVP, CFO, Keesler FCU in Biloxi, MS, Mrs. Debbie Jones, President & CEO, UT FCU in Knoxville, TN and Mr. Robert Fertitta, CFO, Navigator CU in Pascagoula, MS, were each elected to a three-year term. Mr. William "Bill" Marquardt, President & CEO, City County CU in Ft. Lauderdale, FL was elected to a two-year term. Mrs. Linda Darling, CFO, Suncoast Schools FCU in Tampa, FL did not seek re-election to the Board and Mr. Bill Gregg, President & CEO, of JetStream FCU in Miami Lakes, FL retired from the Board.

Immediately following the Annual Meeting the Board held a reorganization meeting to determine Board officers. The Board elected the following officers who will serve until the 2010 Annual Meeting:

Chairman	Tim McMurry, President & CEO, PowerNet Credit Union
Vice Chairman	Jim Mitchell, President & CEO, Army Aviation Center FCU
Financial Officer	Ralph Crockett, President & CEO, BrightStar, CU
Secretary	Debbie Jones, President & CEO, UT FCU

The new Supervisory Committee consists of Mr. Robert Fertitta, Chairman, CFO, Navigator CU, Pascagoula, MS; Mr. Richard Simonton, President & CEO, Insight Financial CU, Orlando FL; and Mr. Jerry Maughon, President & CEO, Okaloosa County Teachers FCU, Crestview, FL. In addition Mr. Richard Tolar was re-appointed to chair Southeast Corporate's Asset Liability Committee.



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TALLAHASSEE, FL  
32311

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