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## LENDING

### A Heritage of Excellence

Heritage Family Credit Union of Rutland, Vermont, implemented a risk-based lending system and a sales-and-service culture in 2004—two huge factors in winning a 2005 Credit Union Excellence in Lending Award from the CUNA Lending Council and CUNA Mutual Group.

The credit union boasted a 35.9% combined increase in auto and recreational vehicle loans, HELOCs, and credit cards—more than doubling its goal. HFCU developed a scoring model that generated loans from members who previously wouldn't have qualified. And it gave loan officers more authority to decide loans based on the member's past performance and ability to repay, rather than on the value of collateral.

Learn more about the credit union's success in the December 2005 issue of *Lending Resource* newsletter, available free online from the home page of [www.cunamutual.com](http://www.cunamutual.com) under "Publications." ●

## Lose the paperwork, keep the loan

A 'too easy' open-end system streamlines CoVantage's lending process, and saves members time and money.

By Vicky Franchino

The lending staff was skeptical when CoVantage Credit Union introduced open-end lending in 2001. "My loan officers thought it was just too easy," says Paul Grinde, VP of Lending.

"It seemed like something was missing because they'd never originated a loan without getting a signature."

Their doubts quickly disappeared. Open-end (OE) lending really was that easy, for staff and members alike, and it helped the Antigo, Wisconsin, credit union win loans it previously lost to dealer-financed auto loans, for example.

"Dealers used to have a tremendous advantage over us because they could provide financing when our offices were closed," Grinde says. "Now, with open-end lending and a pre-approved draft, our members can buy a car anywhere, any time. They're prequalified, and we keep the loan."

CoVantage began as a farm cooperative credit union and today serves a dozen counties in Wisconsin and Upper Michigan. Its lending program helps generate loans from rural members who don't have easy access to a branch. "Many of our members earn an hourly wage and had

to miss work to sign documents. Getting a loan wasn't just an inconvenience, it was actually an expense," Grinde says. "It shouldn't cost your members money to do business with you."

CoVantage offers members an incentive of 1% of the loan amount to use its pre-approved draft program. It has issued 775 pre-approved drafts since launching the program in January 2002. With an average loan of \$15,000 per draft, the program has added more than \$11 million to CoVantage's auto loan portfolio.

Grinde says members, especially those in rural areas, use OE lending because they can purchase the car on one trip to the dealership, without a separate trip to a branch to arrange for financing, and without going through the dealer financing process. Overall the CU's consumer loan portfolio has grown an average of 12% annually since the change, and Grinde says OE lending is an important reason for that.

OE lending can be used for personal loans, such as cash advances, vehicle loans, and overdraft protection, but not for real estate loans.

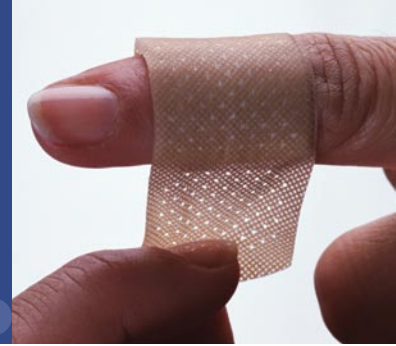
Once an OE agreement is signed—ideally, when a member joins the credit union—the member can originate a new consumer loan over the phone or in person, usually without signing additional disclosures. However, OE lending is different from a self-replenishing line of credit that doesn't allow underwriting after the initial loan.



Paul Grinde

# Are you covered?

P R O T E C T I O N



Your fidelity bond protects against lots of things—but not everything.

By Kimberly Killerud

How well do you know your bond?

A fidelity bond provides “must-have” coverage for credit unions; you really can’t set up shop without one. It protects your monetary assets from a host of potential pitfalls, including employee theft, robberies, and some forms of plastic card fraud.

Unfortunately, the bond is not almighty, and it does not protect against every possible danger. Additional coverages are available, and many credit unions use them. Some CUs, however, don’t have everything they need. When a claim arises, they discover that the particular incident is excluded or that limits are too low. Others have adequate protection, but they don’t keep it all straight; it takes them awhile to figure out which claim to file and where to file it. And sometimes policies overlap.

## Bond Checklist

Review your fidelity bond to determine how well it protects you for:

- Lawsuits against employees or volunteers.
- Property damage.
- Plastic card losses.
- Employee theft or dishonesty.

certain amount of coverage for each person, but it was really a lump sum limit for the entire credit union,” Thomson explains.

That’s not all a policy review revealed at the Pickstown, South Dakota, credit union (\$8 million assets; 1,600 members). “There were a couple of places where we could cut back because we were over-insured,” she says. “Then we could add on coverage where we were under-insured.”

CEO Julie Thomson did not wait for a claim when she learned that the bond coverage at Fort Randall Federal Credit Union left employees and volunteers vulnerable to lawsuits.

“We thought we had a

Chances are you did a fairly thorough review with your carrier when you purchased coverage. But as Fort Randall’s experience shows, be sure to re-evaluate your coverage annually. Even if your review shows no “holes,” new board members may not know the ins and outs of your bond coverage. And threats, especially new forms of plastic card fraud, can arise, altering your needs. Carriers can modify their coverage, too. They’ll let you know, but be sure you understand what the changes mean.

Then there are some exposures that the bond almost never covers.

Catastrophic property loss is on everyone’s minds after Hurricanes Katrina and Rita. In most cases, the bond does not protect your physical property, but



Julie Thomson

a commercial multi-peril package would. As credit unions along the Gulf Coast are finding, bonds won’t cover flood damage, either. If you are in a floodplain, you will need federal flood insurance. It is expensive, and few credit unions have it—or really need it.

Also, as Thomson learned, “directors, volunteers, and employees insurance” could provide Fort Randall with additional protection for individuals named in a lawsuit. Your credit union might want the extra coverage, too.

After all, few credit unions get by with bond coverage alone—even the ones that think they do. Most have myriad policies guarding against myriad risks. “I did think that the bond insurance would cover some things that it didn’t,” Thomson says. “I’ve had to use some of the extra coverage that we have.”

While there is no immediate harm in referring to all insurance as “the bond,” you are far better off if you make it a point to understand your coverage before you have to use it. ●

*Killerud is an Account Manager for CUNA Mutual Group. She is based in Grand Junction, Colorado.*

# Are you due for a check-up?



## EMPLOYEE BENEFITS

Know the benefits of offering health insurance to your employees.

By Neil Bartlett

With rising expenses and ever smaller margins, many small credit unions are tempted to look for ways to trim their biggest employee benefit—health insurance.

While not every credit union can afford to pick up the cost of health insurance, each one should examine the options. Maybe that means sharing the cost with staff or brokering a deal with other credit unions. One thing is for sure: Health insurance can be a bargaining chip for hiring and keeping good employees in the competitive financial services industry.

"I've worked in credit unions as small as \$4 million in assets, and we had health insurance," says Dave Hendrey, CEO at \$14 million Columbia (Mo.) Municipal Employees Credit Union. "It's affordable for small credit unions. It's a matter of deciding that you want it and then allocating money for it."



Dave Hendrey

In a 2004 Met Life survey, employees ranked health benefits as more important than job security or having enough money to make ends meet. Even though employees demand it, credit unions, especially small ones, have been slow to make health benefits a part of employee packages.

According to CUNA's 2003-2004 Staff Benefits Survey, 41% of credit unions with fewer than \$10 million in assets offer group health insurance. Among those between \$10 million and \$20 million, that figure rises to 69%.

Health insurance "cements our ability to get the individual we want, and it allows us to be more selective about who we hire," says Hendrey, who has six full-time employees. Among reasons to offer health insurance are:

**To compete with the big guys.** It helps Columbia Municipal Employees go toe-to-toe with large employers like the University of Missouri, Square D, and 3M.

**To stay in the ballgame.** Most job candidates compare health insurance plans; many reject employers who fail to offer one. "Not having health insurance is a deal-breaker for many candidates, no matter how good the job is," says John Golden, director of group benefits for CUNA Mutual.

**To hold down replacement costs.** Logic tells us that it's cheaper to keep a good employee than to try to replace one. Columbia Municipal rolled along for four years (2000-2004) without losing an employee. Average annual turnover for credit unions is 14%, says CUNA. "Offering good health insurance has helped keep our turnover low," says Hendrey.

**To keep job training in check.** It takes time—and money—to bring a new employee up to speed. "When someone in a small credit union walks out the door, they take a lot of knowledge with them," says Golden. "It requires a lot of time and training to get it back."

**To stay ahead of the curve.** All signs point to a continuing trend of higher medical costs. Health insurance premiums increased 13.9% in 2003, 11.2% in 2004, and 9.2% this year, according to the Henry J. Kaiser Family Foundation, and they are expected to increase another 7.3% in 2006.

Hendrey says offering good health insurance is also the right thing to do. "Today, there are more single parents and single employees," he says. "If we're not providing them with decent health-care benefits, we're hurting them."

"I tell my board that we want to hire professional employees," Hendrey says. "If the board was unwilling to offer health insurance to our staff, I'd ask them, 'Would you work without health insurance benefits?'" ●

### Credit Unions Offering Group Health Insurance

Asset Size	%	No.*
Less than \$2M	6	71
\$2M-\$5M	29	109
\$5M-\$10M	41	103
\$10M-\$20M	69	83
\$20M-\$50M	95	86
\$50M-\$100M	98	102

M=Millions; Source: CUNA's Credit Union Staff Benefits Survey, 2003-04

\*Credit unions participating in survey

Bartlett is an associate editor of Dimensions Report.

# Beyond absenteeism

EMPLOYEE BENEFITS



You stand to lose more with presenteeism—when employees who shouldn't be, are at work.

By Neil Bartlett

Worried that your employees are absent too much? Shift your focus to employees who come to work when they shouldn't—a phenomenon known as "presenteeism." It can rob you of productivity and effectiveness.

"Sometimes, employees are physically at work but not engaged, and not performing to capacity," says Ron Goetzel, founding director of the Cornell (University) Institute for Health and Productivity Studies. "It often happens when individuals don't manage chronic health conditions like allergies, diabetes, heart disease, hypertension, arthritis, chronic headaches, and depression."

When ailing employees come to work, they really can't function effectively, says Goetzel, whose research has linked the return on investment (ROI) of employees to work-site health management programs. The key to maintaining productivity is treatment, and recognizing when it's needed. "With the right treatment, people can function with chronic conditions," Goetzel says.

## TO READ MORE

For a copy of the issue of the *Journal of Occupational and Environmental Medicine* with the presenteeism article (\$32), call **800-838-3030** and request the April 2004 issue.

Untreated, the impact can be substantial. Research shows that presenteeism (pronounced pree-zen-TEE-ism) costs employers more in workplace dollars than absenteeism and medical and disability benefits combined. A 2004 study published in the *Journal of Occupational and Environmental Medicine* found that presenteeism represented

up to 60% of the costs attributed to lost productivity in each of 10 chronic medical conditions. The lesson: "Broaden your view of health costs beyond the end cost of patient care," advises Goetzel.

He says these steps can help curb presenteeism and related workplace health issues to improve employee performance:

**Share the knowledge.** Encourage health education and promotion. The 1999 workplace review of health promotion programs by Goetzel and two other researchers shows a return on investment of between \$1.49 and \$13 for every dollar spent, and a 3-to-1 return is typical, says Goetzel. Employee Assistance Programs (EAPs), membership discounts to health clubs, and regular health screenings help curb presenteeism and lead to employees who are "more engaged."



Ron Goetzel

**Contain illness.** Cold or flu carriers shouldn't head back to work until they're no longer contagious. "In a small credit union with a limited number of employees, an infectious co-worker has a snowball effect on overall activity," says Goetzel. If they show up sick, send them home.

**Review your health plan.** For instance, if your plan pays for open-heart surgery but not for a cholesterol-lowering drug, it's not cost-effective and doesn't make sense. Find a plan that offers health and disease management.

**Don't go overboard.** Many credit unions pay for complete employee health coverage. No matter how extensively you decide to fund it, remember that to use health care cost-effectively, employees must have a stake in it. If your plan pays for anything, anytime, anywhere, some employees will misuse it, Goetzel says. That costs you money.

Think about your health program and structure it cost-effectively, so employees understand health care and receive good care upfront. ●

*Bartlett, an associate editor of Dimensions Report, wrote about e-training in the Summer 2005 issue.*

# Smart money

E F F I C I E N C Y



Cost savings can be hiding nearby, but you must know where to look.

By Greg Cieslewicz

With rising interest rates putting pressure on spreads, credit unions are looking for ways to reduce costs. Payroll is often an obvious and painful choice, but there are other ways to cut spending without reducing service to members.

Savings can be found in many unglamorous areas—service contracts, supplies, and phone services, for example—where a modest investment of time can save money for years to come. Christine Dawe, a former senior manager at credit unions in St. Louis and Bellingham, Washington, offers these money-saving ideas:

- **Equipment service agreements.** Many service agreements have ever-green clauses, which automatically renew the contract. But a service agreement can become obsolete when a new product can be purchased for less than the annual service contract. “Know the expiration dates and perform a cost-benefit analysis to determine if continuing the agreements is worthwhile,” Dawe advises. An alternative: Purchase an “umbrella” service agreement that covers a comprehensive list of products. A bundled agreement can save money and make it easier to keep track of products.
- **Telephone services.** Competition has dramatically lowered service prices. Don’t simply renew your contract; work with phone company reps to evaluate what lines and services are being used. You may be able to realize dramatic savings. At one of Dawe’s credit unions, an evaluation helped cut the monthly bill from \$4,000 to \$2,000. “That’s big money for a small credit union,” she says.



Christine Dawe

- **Supplies.** Designate a supply manager to set up an ordering system. “This will ensure that you don’t run out of items and that they are bought in cheaper bulk quantities,” Dawe says. The director can restrict access to the area and require requisitions. She adds: Develop relationships with two or three vendors who will compete for your business, offer sales, and usually provide free delivery.
- **Cash management.** Cash in the vault doesn’t earn interest. Weigh having excess cash vs. more deliveries, Dawe recommends. Credit unions need to have cash delivered, but the cost benefit of lost interest on excess cash often outweighs the cost of more frequent deliveries. Use historical trends to analyze how much cash you need and how often it should be ordered. Less cash on hand also means less risk of loss from robbery (and less cost if you have to pay a deductible).
- **Deposit relationships.** Explore available options. Make sure the credit union is getting the best deal and not overpaying for service fees. In general, Dawe says, corporate credit unions provide greater service and reduced fees compared to many other financial institutions.
- **Travel costs.** Trips provide good networking and training opportunities but can be costly. Consider Webinars for some of your employee needs. These interactive events are packaged in many forms and at various times, and they are relatively inexpensive.

Although many credit unions already operate very efficiently, Dawe says, a routine analysis of daily operations might still uncover inefficiencies that could be costing you money. ●

*Cieslewicz is an associate editor for Dimensions Report. Dawe, formerly the CEO at Gateway Regional CU in St. Louis and CFO at North Coast CU in Bellingham, Washington, now works for CUNA Mutual Group as a Financial Solutions Consultant.*

# Spyware Terminator

TECHNOLOGY

A man on the inside tells how First Tech CU guards servers, PCs, and laptops against intruders.

Protecting a credit union's Internet-connected PCs from spyware isn't simply a matter of preventing annoying pop-up ads. Spyware can disable networks, shut down Web services, or worse, channel sensitive member data into the hands of criminals.

Spyware was among the top concerns of Clint Kaiser when he was director of information security at First Technology Credit Union in Beaverton, Oregon. As part of a 2005 interview Kaiser gave to *Dimensions Report's* online companion, *Added Dimensions*, he offered ideas about combating spyware.

**Dimensions Report:** We know spyware is pervasive, but how is it dangerous to credit unions and members?

**Clint Kaiser:** Spyware can be as benign as a program that tracks Web sites you go to and reports that to a Web site server on the Internet that collects that data. And it can be as malicious as

inserting a program to track and record every key stroke. It can then take that information and act on it: culling user names and passwords; maybe searching for 16-digit numbers, which would be credit cards, or for nine-digit numbers, which would be Social Security numbers; and reporting those to a server that could be used for identity theft and fraud.

**DR:** Have you had any spyware situations that were particularly difficult to take care of?

**CK:** We've seen the biggest problems on our laptops for users who travel outside of our corporate network. Oftentimes, if a machine is deeply infected with spyware, you just back up what you can off of it, [wipe the hard drive clean] and reinstall.

The spyware programs can really send some deep roots into the operating system, which can be very difficult to remove without doing damage to the OS.

**DR:** What do you recommend that a credit union do to protect itself against spyware?

**CK:** The biggest silver bullet I can think of is to install a Web browser other than Internet Explorer (IE) and make it the default browser on all your work machines. IE is

## PC STOWAWAYS

PCs were the unwilling hosts to an average of 25 spyware programs each time they were scanned for the stowaway software during 2004, according to Earthlink and Webroot. The companies culled this number from the results of more than 4.6 million scans run with their spyware detection program, SpyAudit, in 2004. The companies estimate that 90 percent of all Internet-connected PCs contain spyware.

embedded somewhat into the operating system, and over the past year there have been vulnerabilities within IE that Microsoft has not been able to patch.

**DR:** What can you do to alleviate the administrative headaches of removing spyware and spam and all the other things that go with them?

**CK:** Standardize the installation and configuration of PCs.

We use a program from Norton called "Ghost." We'll build a machine, install all the credit union's standard software, then save an image of that operating system. We can apply that image to any new PC. That reduces the initial build time, but it also helps out when we have to rebuild a PC because it's been infected too deeply with spyware.

Also, set up all your users to store their files on a network drive rather than on the local PC. If the solution is to rebuild that PC, you don't want user data or company data on that PC that you have to find and back up. ●



Clint Kaiser

# Know the e-rules

COMPLIANCE CORNER



You can conduct transactions electronically with members—once you have obtained their consent. Here's how you should go about it.

By *Beth Ringgenberg*

"Can we send loan documents to our members electronically?" The simple answer to that frequently asked question is, "Yes." The comprehensive answer talks about "when" and "how."

The simple "yes" answer takes its authority from the 2000 Electronic Signatures in Global and National Commerce Act, or E-Sign. The law, more accurately, addresses electronic transactions, not just signatures.

In fact, there is no need for an e-signature unless there is an e-document to sign.

Therefore, E-Sign sets the legal framework for delivery of electronic documents ("records"). Simply put, in a transaction with a member, if law requires information to be provided in writing, an electronic record can be used if the member gives consent to receive the record electronically.

To clear up confusion: The law does not require consent from the member for an electronic signature; it requires consent to receive the record electronically.

## FOR MORE INFORMATION

The Federal Trade Commission's Web site carries information on the Consumer Consent Provision in Section 101(c)(1)(C)(ii) of The Electronic Signatures in Global and National Commerce Act at [www.ftc.gov/os/2001/06/esign7/htm](http://www.ftc.gov/os/2001/06/esign7/htm).

Under E-Sign, however, the consent is not quite as easy as having the member say "Yes." First, you must disclose certain information in a "clear and conspicuous manner."

The disclosures include:

- Acknowledging the member's right to have the record provided or made available in paper form.
- Acknowledging the member's right to withdraw the consent to receive records electronically, as well as any conditions and consequences (including termination of the parties' relationship), or fees in the event of such withdrawal.
- Informing the member whether the consent applies only to the particular transaction (such as a car loan) or to identified categories of records (such as monthly statements).
- Listing the procedures the member must use to withdraw consent.
- Stating how the member should notify the credit union to update information on file, such as a new e-mail address, needed to contact the consumer electronically.
- Telling the member how to obtain a paper copy of an electronic document and whether a fee will be charged.
- Listing hardware and software requirements the member needs to access and retain the electronic records.

After providing these disclosures, you must obtain the member's consent to receive the documents electronically.

In most cases, you will do this electronically by having the member click a "Yes" button or check "Yes" on a screen after you have provided the disclosures.

If you choose to obtain the consent on a paper document, you must confirm the consent electronically to make sure that your member can receive the documents electronically. ●

*Ringgenberg is an Assistant Vice President of Lending in consumer products for CUNA Mutual.*

# Dimensions Report

Continued from Page 1

CoVantage loan officers complete an application electronically, pull a credit bureau report, and for car loans, do an NADA valuation. The entire process usually takes between 15 and 30 minutes, and the CU either deposits money directly into the member's account or generates a draft.

Before converting to OE lending, CoVantage and its data processing vendor reviewed the documentation flow and data processing system. Together, they pinpointed key changes that had to be made, including:

**Software updates.** Handled by the CoVantage IT department, these could be done by a data processor or other vendor.

**A switch to electronic documents.** The CU keeps a signed copy of the original paper OE agreement and maintains subsequent loan documents electronically.

**Gathering application data.** In the past, a CoVantage loan clerk

gathered data, then turned the application over to a loan officer. With OE lending, a loan officer handles the entire process.

Because OE lending was a new concept to most employees, CoVantage used a two-step training process: Staffers attended a presentation that provided an overview of OE lending, and those involved directly in setting up new accounts or overseeing lending also participated in a document walk-through.

Once employees were trained, the CU switched its entire system over to OE lending. Having one system in place is critical both from an administrative standpoint and to ensure parity for all members. "You don't want one member wondering why they have to come in to sign documents when another one doesn't," Grinde says. ●

*Franchino, a freelance business writer from Madison, Wisconsin, has also written for CUNA Mutual's Added Dimensions and Lending Resource publications.*

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Creating financial security

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Being the best at serving credit unions and their members

*CUNA Mutual Group is the leading provider of financial services to credit unions and their members worldwide, offering lending, protection, financial, employee, and member solutions through strategic partnerships, technological innovation and multiple service channels.*

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