

Financial Industry Update

Meeting Challenges, Providing Services

By Tom Schuman

No one will argue against the fact that security is a paramount concern for financial institutions. For banks and credit unions, protecting the assets of their customers is akin to protecting their livelihoods.

How do you help ensure security? For many, the answer is rules and regulations. Putting those systems in place, however, are an alphabet soup of federal and state agencies. They range from the FDIC (Federal Deposit Insurance Corporation) and the NCUA (National Credit Union Administration) to the OCC (Office of the Comptroller of the Currency) and beyond. And that's just at the federal level.

Helping ease the way, however, are the FFIEC (Federal Financial Institutions Examination Council) and the EGRPRA (Economic Growth and Regulatory Paperwork Reduction Act). No wonder Ron Budzinski, president of the La-Porter Federal Credit Union based in Michigan City, says, "The No. 1 thing hurting financial institutions is regulations."

Todd Beehler, vice president of lending for Beacon Credit Union in Wabash, adds that the auditing process requires "more documentation, more paperwork they want to see. It gets more complicated all the time."

Industry associations are fighting the regulatory battle in Washington. Closer to home, Budzinski and others do what they must to comply while seeking solutions to the technology challenges that often accompany such security concerns. The answer for La-Porter (which primarily serves health care and education employees from a seven-county area in Northwest Indiana) has come through a cooperative effort.

"We used to have an in-house system, IBM, that we switched out every three years to keep up," Budzinski recalls. "With our data processor, we decided to go online. A group of credit unions pooled our resources. My costs have continued to go down."

Michigan-based CU*Answers is owned by more than 50 credit unions nationwide. Its programmers, designers, hardware gurus and other professionals offer a wide array of services.

"We don't have to keep up with the technology — they do. They take care of all the security, the monitoring 24/7," Budzinski states. "We always believed in in-house. We thought we could do it better and faster. Not anymore."

Keeping pace

Utilizing outside resources has also been beneficial for STAR Financial Bank. Headquartered in Fort Wayne, STAR maintains 40 banking centers throughout central and northeast Indiana and has more than \$1 billion in assets.

Company president Jim Marcuccilli explains that STAR and other banks benefit from the security and computer protection work that takes place at both Purdue and Ball State universities, as well as several start-up companies.

Other parts of the country, he feels, lack some of those resources.

"In our business, it's always been a challenge on how to keep the bandits, the bad guys, out," he contends. "We've added more resources in fraud prevention and network concerns. We're using new software to detect areas of vulnerability for both the bank and our customers."

At Beacon, Beehler reports that a technology committee reviews all security issues on a regular basis. Part of the challenge, he says, is that the needs are constantly changing.



Business leaders, including the financial community, express concern about excess regulations at the state and federal levels. Those leaders learn about a wide variety of issues at the 2006 Central Indiana Legislative Preview.

“You either have to upgrade who you’re with or look at other vendors in your market. It’s a very high maintenance area.”

Farming focus

Meeting customer needs is one of the goals of any financial institution. Beacon’s primary area of expertise is on the farm, ranking as the largest agriculture lending credit union in the country for the last five years.

The credit union was founded in 1931 as a cooperative for area farmers. It has never strayed far from that mission.

“Our niche has really been in the surrounding rural communities,” explains Beehler, noting that Beacon serves employees or residents in 15 counties. “In 2000, we branched out and placed lenders with ag loans in the communities we serve. We have individuals who are very seasoned (four of six with more than 20 years experience in the field).”

Agriculture loans account for more than 80% of the \$176 million in business lending in a recent quarter. The role is becoming even more important in light of the current industry trends.

“It’s becoming tougher and tougher for the small guy to compete. The economies of scale indicate you need to become larger,” Beehler identifies. “The input costs keep rising and prices are pressed downward. One of the challenges is trying to meet the needs of the smaller family farms – keeping them in operation.

“Back in the old days, farmers borrowed money in the spring to put the crops out. They harvested the crops in the fall and took them immediately to the grain elevator,” he continues. “They paid off the bank and kept the profit. Today, it’s much more complicated. There’s hedging, government loan programs, people storing grains much longer.

“We spend a lot of time at the farm, working with them. Our people are very mobile. You learn a lot more about someone at their kitchen table or in their shop.”

Customer service

For La-Porter and STAR Financial, the evolution of services is a little more conventional. An interesting dimension is balancing the electronic capabilities with the traditional banking centers. This comes despite a natural consensus that online banking will continue to grow.

“As the cultural shift to the younger generation continues, there’s automatic (online) growth built in. They’re not of the old mind-set. Theirs is that the only way to do business is on the computer,” Marcuccilli points out. “We still have many customers, though, wanting to have a person to talk to. The branch system is pretty effective, whether it’s the teller, customer service or the loan officer.”

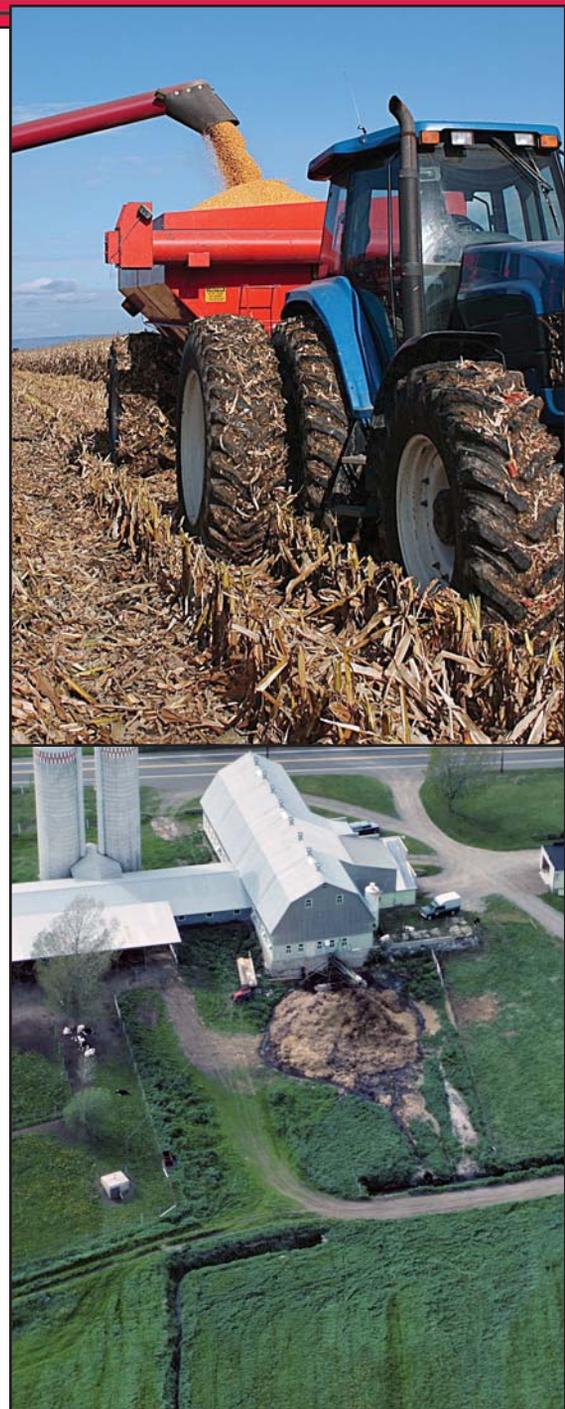
Some financial institutions are expanding their home offices or branches into destinations – providing amenities to allow the customer to accomplish several tasks in the “one-stop shopping theme.” STAR Financial customers have said thanks, but no thanks.

“We’ve done some study of our customer base,” Marcuccilli says. “They said, ‘We don’t come to your bank to drink your coffee. We come to your bank to do banking business.’ I’m not sure folks in the Midwest are ready for all that. We do things to attract customers, though, just like any retailer would.”

The implementation of the 1999 Gramm-Leach-Bliley Act has allowed STAR Financial to enter into insurance offerings and wealth management. The result is a more proactive relationship with customers and a shift from being just a banker to a “financial solutions provider,” according to Marcuccilli.

Meeting needs

The expansion is at a little more guarded pace for an institution like La-Porter. “When you’re a small credit union, a lot of times you can’t add them (new services) all at once. You don’t have



Beacon Credit Union works closely with farmers throughout its 15-county service area.



Financial institutions must balance online opportunities with personal customer service.

the operating expenses or marketing budget,” Budzinski offers.

E-statements, VISA gift cards and first mortgages are among the services that have been added. Beginning in December, La-Porter was to have the ability to scan all deposit checks and send them electronically under the Check 21 federal law that is being implemented.

Partnerships come into play again. La-Porter has worked with a financial planner over the last five years and recently entered into an agreement with an insurance company.

“The financial planner is here one or two days a week and meets with people, mostly by appointment. Members don’t know where to go for financial planning. They want people who know them,

people that can be trusted,” Budzinski reasons. “We survive by working together. Otherwise, I wouldn’t be able to keep up with the large financial institutions.”

Specific business services and loans are not among the portfolio at this time, but in the development stages for the next 18 months. Budzinski reports that more and more businesses belonging to credit unions are requesting such services.

Community players

Beyond the role of serving individual or business customers, financial institutions are key community partners and keepers of a close watch on economic conditions. Beginning in the fall of 2005, Marcuccilli saw an increased in demand – more utilization of credit lines and capital investments from businesses.

Although certain areas and industries suffered from defections to other states and countries, he views the most recent downturn more a result of companies becoming much more efficient. He compares the manufacturing transition to that of agriculture 50 years ago.

No matter the reason for economic woes, Marcuccilli says banks are there as part of the solution.

“In our service as a community bank, the key word is community. You don’t expect government (state or local) to be the lenders of money. They may provide incentives, but banks have the leverage to provide the economic engine to the market,” he attests. “There’s always competitiveness (between financial institutions) going on, but you put that aside and do what’s best for the market. That’s all of our responsibilities as community bankers.”

INFORMATION LINK

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