



Alternatives Federal Credit Union: A Shared Technology Platform to Improve Performance and Service

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Introduction

Alternatives Federal Credit Union (Alternatives) provides its members with a wide variety of products and services to build wealth and create economic opportunity for underserved people and communities. This case study outlines how the credit union changed its core processing system to a shared technology platform that enables Alternatives to meet member demand for more technology-based services, improve lending efficiencies, and enhance member services.

While focused on technology within a credit union, this case study examining the processes of selecting and using a shared technology platform is relevant to all types of community development financial institutions (CDFIs), particularly as they scale.

Organization Overview: Mission and Value Proposition

Over thirty years ago a group of small businesses wanted to expand and were unable to secure capital from the banking system. Alternatives was chartered to address this problem. Today, this CDFI's mission is to *build wealth and create economic opportunity for underserved people and communities*.

Target Market

Alternatives is a combination of a traditional member-driven credit union and a not-for-profit community development organization. The organization's social mission is integrated into its economic mission. The credit union has designed its deposit and loan products to meet the financial needs of the members of the community, especially members with a lower income.

The credit union's primary market area is Tompkins County. Tompkins is a mostly rural county in the Finger Lakes region of central New York. The largest city in the county is Ithaca, the home of Cornell University. The county has a population of 101,723 with 20.4% of county residents living below the federal poverty level (compared to the 14.5% of residents in the United States living in poverty).¹ After decades of resisting regional and economic downturns, Tompkins County is now experiencing low wages, underemployment, and high housing costs which have created significant financial difficulties for the non-college population. As such, Alternatives has seen requests for financial counseling and assistance with credit repair increase exponentially in the last few years.

In addition to Tompkins County, Alternatives offers a full range of banking services to anyone who lives or works in the city of Ithaca or the adjacent counties (Cayuga, Chemung, Cortland, Seneca, Schuyler and Tioga). Much of the service area is the northern fringe of Appalachia, a region scarred by loss of industrial jobs and population decline.

Key Demographics

While Tompkins County has experienced some population growth, it has not kept pace with the country as a whole. From 2000 to 2008, the United States' population increased by 8%, while Tompkins County increased by a mere 2.7%. This modest growth occurred despite significant population decreases in most counties in upstate New York.² According to the U.S. Census, in Tompkins County 82.4% of

¹ Tompkins County QuickFacts from the US Census Bureau

² Tompkins County QuickFacts from the US Census Bureau



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residents identify as Caucasian, 4.3% as African-American, 9.7% as Asian, and 3.1% as Other or more than one race. Hispanics represent 4.6% of the population and 12.7% are foreign-born.

The City of Ithaca has unusual ethnic diversity for upstate New York, related to the presence of Cornell University and a large immigrant population; 70.5% identify as Caucasian, 6.6% as African-American, 16.2% as Asian, and 4.3% as Other or more than one race. Hispanics represent 6.9% of city residents and 18.2% are foreign-born.³ Alternatives has a special focus on increasing membership among, and loans to, residents of the City of Ithaca, especially the downtown neighborhoods closest to the credit union office.

Challenges with Existing Technology: An Antiquated Core Processing System

While Alternatives is a relatively small credit union with just over \$81 million in assets, it offers its approximately 9,600 members a wide variety of products and services including:

- Deposits and checking services to individuals, businesses and non-profits
- Auto and personal loans
- Mortgage/home loans
- Business loans
- And more

This product breadth is more typical of a larger institution and Alternatives began to face numerous challenges and growing inefficiencies with its core processing system which was designed for small credit unions with a limited product and service mix. Considerable time and effort were needed to manage transactions that could be far more easily serviced by a stronger, more robust core data processing system and the credit union found itself limited in its ability to execute on strategy due to these technological limitations.

Some of the challenges Alternatives faced with its legacy system included:

1. Data was not easily accessible. The IT Department had to pull information from many data sources, resulting in the need for multiple manually maintained spreadsheets and Crystal reports to obtain information. Double data entry was common in many processes, especially lending.
2. The system provided no means to create and expand informational fields. Information within the database could not be utilized such that the core system would function as a repository of information (for example, the credit union was unable to easily and effectively collect, manage and utilize demographic information).
3. The system did not align with other systems, more specifically, those of key product providers and strategic partners.
4. As a “code based” system, there was no potential to create a Training Database for use and experimentation. This feature in and of itself is key when training new staff and plays an important role in new product development to ensure systems are accurately established.
5. The legacy core system and support mechanisms represented increased risk factors for the credit union in terms of managing data processing and IT functions, especially related to disaster recovery and business continuity.

³ City of Ithaca QuickFacts from the US Census Bureau



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Compounding these technological difficulties, Alternatives has a small IT staff. The credit union relies on one in-house IT staff member to meet the organization's technology needs. With such limited staffing, the credit union was unable to support expansion into new technologies. Alternatives also faced considerable business risk in relying on a single staff person for network administration, system maintenance and security.⁴

Facing these challenges, the credit union recognized the need to improve its data processing system in order to support future growth, improve efficiencies in lending, increase scale, and meet member demand for more technology-based services.

Vendor Selection Process

Alternatives worked with an outside consultant throughout the process of identifying possible systems, negotiating a contract with the vendor, and implementing the new core system. The following section outlines the steps taken to select the new technology vendor.

The process for interviewing and evaluating vendors involved multiple steps. After Alternatives identified three data processing providers, these organizations were invited to make a presentation structured as an interview and based on 1,700 questions, mostly open ended, developed by staff. These questions became the scripts that were part of the initial Request for Proposal (RFP) process.

During this evaluation period, a lab environment was also set up, allowing staff the opportunity to test and evaluate systems. This process was critical to obtain "buy-in" from staff, and to begin the education process regarding the new core system even before selection had been finalized. As part of this process, the credit union completed a Gap Analysis, documenting each instance in which a gap existed between what Alternatives would want and what a particular system delivered. The credit union would then ask each provider to document in writing how they proposed to fill each gap.

Scorecard Model

To bring objectivity to the selection process, Alternatives used a scorecard model developed by its Consultant, in which staff from Alternatives stack ranked various features of the system and technology vendor (functionality, strategic fit, strategic initiatives and cost). Functionality rankings were heavily influenced by staff (end users) who participated in the vendor presentations and tested the respective modules.

The use of the scorecard and the overall vendor selection process is detailed below:

1. Four data processing providers were invited to Alternatives to present to management and the entire staff.
2. After one was eliminated, the remaining three submitted RFPs based on the 1,700 questions generated internally by the staff.
3. A matrix was developed by management to evaluate the systems. Four factors were weighted:
 - a. Functionality
 - b. Strategic fit (e.g. quality of vendor, comfort level and fit)
 - c. Ability to support strategic initiatives (the credit union looked at services and initiatives that were part of their strategic plan and evaluated the degree to which the new system would support these strategies (e.g mobile banking, PTP transfers, etc.)
 - d. Cost

⁴ Interview with Alternatives CEO, Tristram Coffin, December 17, 2012

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4. Managers weighted their relative priority by percentage (e.g. 40% cost, 30% strategic fit, etc.). The priorities were ranked in this order: Functionality, Strategic Fit, Initiatives, Cost.
5. These results were averaged into an organizational weighting by percentage.
6. The various components of each criteria were broken down into their component parts (e.g. within functionality were included various product lines and transactions, such as teller operations, loan apps, etc.). These were similarly weighted according to what the Management team prioritized.
7. The Project Manager, IT Manager and CEO analyzed the data and recalibrated scores as new information about each system became known.
8. From all of this data, each vendor was assigned an overall score.

Symitar and Synergent: Selection of a Shared Technology Platform

Through the vendor selection process outlined above, Alternatives selected Symitar as its core system. This platform is the system of choice among credit unions that have product breadth comparable to Alternatives. Among credit unions with over \$1 billion in assets, Symitar has more than double the market share of any other product. Because of its widespread use, Alternatives will be able to better collaborate with other organizations to manage transactions common to all credit unions, thereby improving service quality and allowing Alternatives to refocus resources away from operational problems and toward member development and outreach.

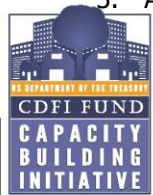
Rather than run Symitar in-house, Alternatives selected to utilize a service bureau, outsourcing the hosting of the data processing system. Symitar paired Alternatives with Synergent, a consortium owned by the Maine Credit Union League operating on the Symitar platform. Synergent provides the credit union with a greater degree of server capacity and technical support than it could ever maintain on its own. In addition to maintaining the credit union's server in a state-of-the-art data center, providing daily data processing, and implementing regular upgrades and new releases to the Symitar core system, this partnership also includes disaster recovery through a separate facility. Through these resources Synergent is able to provide Alternatives with stronger system security than it had previously maintained.

The Symitar system has many functions that are far beyond the capabilities of Alternatives' legacy system, including:

1. Streamlined account opening process. integrated with credit bureau reports to help identify ways in which they can immediately help new members;
2. Integrated Member Business Services and Member Relationship Management;
3. Integrated and customizable Electronic Forms, along with an imaging and recordkeeping system;
4. Member selectable eAlerts for account events;
5. Shared branching (allowing members to perform Alternatives account transactions in other participating credit unions)
6. Remote deposit capture/merchant deposit capture
7. Mobile banking through a smartphone app
8. Data mining and customized promotions to members

The Symitar system also improves upon functions incorporated in the legacy system including:

1. More powerful, flexible and user-friendly teller transaction module.
2. More advanced system security, data encryption and auditing capabilities
3. Asset Liability Management and budgeting modules



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4. Integrated voice response system
5. Check processing
6. ATM network integration
7. Stronger internet banking module
8. More interactive electronic statements

Alternatives was somewhat successful in negotiating pricing based upon its Consultant's position of representing many different credit union clients. Synergent is a CUSO of sorts managed by the Maine Credit Union League. However, what would have been more powerful would have been to negotiate based on the aggregate buying power of a group of CDFIs. This is a prime example of where a networked business model would be key to growth in the CDFI Industry. Through a networked business model, Community Development Credit Unions (CDCUs) could access the most robust core data processing system from a dedicated third party while receiving support for programs specifically targeted to low-income clients from the participating CDCUs.

Alternatives' Model: Structure and Scale

Alternatives' brand is based on Social Responsibility. However, in order for this to be a differentiator, the credit union needs to be, at a minimum, on par with other financial institutions in terms of operational convenience and sophistication. Having a robust core system is central to Alternatives' strategic business model and is central to its ability to support and provide community service programs.

Partnerships

The partnership with Synergent will enhance efficiencies for the credit union, while helping the organization grow in a competitive marketplace. In today's financial services environment, offering technology such as the latest in online and mobile banking is a necessity in growing and retaining credit unions' membership. Synergent is able to offer a wide range of services to credit unions, allowing them to stay on the cutting edge of technology simply and efficiently.

Alternatives' vision is for an industry built on collaboration. Scale is difficult when each organization (credit union, loan fund, etc.) is investing in its own infrastructure for transactions and processes which are common to all credit unions. Alternatives' goal was to partner with a high quality provider of these services, so that staff would be freed up to spend more time delivering individualized solutions to its low-income members.

Results to-date

Increased/Expanded Services

Home Banking Platform: The credit union's new, more robust home banking platform has been very well received by its members.

Call Center: For the first time, the credit union is able to integrate with a third party call center for overflow calls. This has all but eliminated the need for members to wait on hold. Members can now speak to a call center in Illinois that works exclusively with credit unions. Through a middleware connection those representatives can access accounts and provide basic transactional support, referring more complex requests back to Alternatives.



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Mobile Technology: Mobile technology was not possible under the legacy system. With the new system in place, mobile banking usage is growing. Mobile banking through a smartphone application will be released in the first half of 2013.

Teller/MSR/Lending Functions: As the technology implementation has been fairly recent, the credit union is still experiencing a learning curve. There have been a few glitches with components of the lending module. These are being addressed and are part of the overall conversion process. The credit union will be rolling out a new loan application process in 2013.

Shared branching: The credit union can now support shared branching and has enrolled in a national shared branching network. This is planned to be rolled out to the membership in the later part of 2013.

Cost-Benefit Analysis

The actual financial cost/benefit analysis is difficult to complete at this time as Alternatives is still in the implementation stage and has not had experience working with the full functionality of the system. However, it is believed that efficiencies will not be gained through immediate reduction of staff, rather, this new core processing platform will help the credit union to “scale up” its ability to expand volumes of business without requiring a parallel increase in human resources.

Lessons Learned

As previously mentioned, the credit union is still in the phase of learning how to maximize the full functionality of the system. To-date the biggest lessons learned are the following:

- Allow more time for vendor selection and contract negotiation
- Allow more time for staff training. This includes providing training on an individual basis and in small groups as opposed to larger group training in a classroom environment.
- Plan to conduct a mock conversion prior to going live.

It is worth noting that in advance of the conversion, the credit union benefited from others’ past experience regarding the communication of changes to both staff and members. This is an area they took to heart and made a top priority throughout the entire process. This went a long way in preserving staff morale through the conversion and ensuring their understanding and support of the changes in their interactions with members.

Alternatives strives to deliver products with the same level of operating efficiency and ease of use as leading competitors. By becoming more efficient, the credit union is able to increase their capacity to serve new members and add more value for existing ones. With the new core system, Alternatives is now poised to become more efficient in working with an expanding product and service base, and increase its impact in serving the people of upstate New York.

Alternatives believes its experience is a valuable one for other credit unions and CDFIs, as negotiating based on the aggregate buying power of such a group would be extremely powerful. This is a prime example of where a networked business model would be key to growth in the CDFI Industry.

