

Lending Compliance:

The Process, Market Impact & Resulting Needs

Bill Klewin, Lending Product Compliance Leader
Pam Schnagl, Market Research Analyst

Executive Summary

In order to thrive, it is important for any organization to make changes that are necessary to adapt to its environment. Over the last several years, increased regulation has affected the way that credit unions and other financial providers do their business. The pace of that regulation has picked up and this increased pace needs to be addressed by putting into place processes that effectively address the compliance changes.

Research shows credit union concerns about keeping up with this pace of change. Although there is uncertainty in terms of what recent legislation will actually mean day-to-day,

In order to be successful, the change on the inside of an organization needs to match the change on the outside. It is a rapidly changing marketplace – more dynamic than in the past.

credit unions know they will be spending more time and resources on compliance issues. Currently, credit unions say they are keeping up, but this is based on the lack of citations or negative legal outcomes, which provides more long term, rather than immediate feedback. Concerns about tardiness have been expressed. In an environment, where enforcement may be more stringent, waiting for the negative outcomes becomes more risky.

In order to be successful, the change on the inside of an organization needs to match the change on the outside. It is a rapidly changing marketplace - more dynamic than in the past. Therefore, internal change may need to be continuous to address regulatory issues. Internal processes related to implementation need to adjust to the pace to be effective. Being prepared is the best strategy. Compliance program management can facilitate the process.

Compliance is a primary benefit offered by lending document providers. Overall, credit unions are satisfied with the document providers and generally feel they receive a good value now. Research indicates that document providers occupy different positions in the

marketplace. For example, CUNA Mutual Group is differentiated from others by its compliance knowledge, commitment to credit unions, and expertise and experience with regulatory compliance as it applies to credit unions.

As priorities change, though, these relationships will experience greater pressure in implementing the increased regulation. The research shows opportunities for customization, consultation and innovation. Support is generally limited to providing the actual documents, updates as new changes occur and additional explanations. Credit unions tend not to outsource the more consultative aspects of compliance.

There are gaps in compliance support. Credit unions acknowledge the importance of more broad compliance support to facilitate keeping policies and procedures up-to-date. Credit unions are not always aware of the extent of the compliance support provided by their document provider. Sources for this type of information seem fragmented. Credit unions recognize the need for support and would like to see a process whereby they can be automatically advised that changes are coming and how the documents, process and procedures need to change to be in compliance.

In order to expand these relationships, there needs to be greater collaboration and partnership between the providers and credit unions. This relationship will be based on evaluation of current credit union compliance management and building a program that matches the rigor with which the regulations are being made. Credit unions say compliance-related expenditures will increase in the next five years, and to effectively manage these budgets a systematic approach becomes more necessary. Compliance program management should help to improve the process so risk is reduced in not keeping up-to-date resulting in gaps that create greater concerns.

Compliance program management should help to improve the process so the risks associated with not keeping up-to-date are reduced.

Introduction:

Regulatory Landscape

As a result of the financial crisis, the regulatory landscape is changing and will continue to change. Congress, banking regulatory agencies and Securities Exchange Commission were criticized for their lack of oversight and bankers for their lack of management and failure to act to mitigate the losses. The reaction has been the most extensive banking legislation since the 1930s.

There has been an increase in the number of informal/formal enforcement actions. However, the Dodd-Frank Act will have an even greater overall impact on credit unions. The Act implements financial regulatory reform and was passed in response to the late-2000s recession. Its goal is to provide rigorous standards and supervision to protect the economy and consumers.

A wide range of banking issues are affected, including capital requirements, interstate branching, executive compensation, deposit insurance and interchange fees. The Consumer Financial Protection Bureau (CFPB) will have rule-making authority for all federal consumer financial laws such as Truth in Lending, Truth in Savings, etc. CFPB will have the authority to issue regulations to prohibit acts and practices that are unfair, deceptive or abusive.

It provides regulation of residential mortgage lending in addition to other kinds of consumer lending. The new rules for federal pre-emption and past perceived abuses also encourage states to put in place their own consumer financial protection laws. Based on this legislation, credit unions can expect heavier regulation in all areas of consumer lending and possibly more aggressive state laws (and state law enforcement). Increased class-action litigation arising from alleged noncompliance may result.

In order to navigate in this environment, credit unions need to invest in their regulatory management and those relationships. Self assessment and strategic planning related to these regulatory changes becomes increasingly important. Compliance needs to be enhanced with respect to consumer financial products because risk of enforcement and private litigation could be more significant.

Dodd-Frank was designed to protect from systemic risk. At the core of the recent economic crisis was that a bad decision in one place – such as a poorly written mortgage – could cause damage to the entire system due to its compounding. However, complying with any new regulations is a difficult and time-consuming process. Being able to address this new regulatory environment will consume greater resources.

Prior to Dodd-Frank, there has been a great deal of regulatory activity relating to consumer purpose loans covered by Regulation Z. A primary purpose of the Truth-in Lending Act is to provide borrowers with a uniform system of disclosures for stating terms, rates and changes. It also protects borrowers against inaccurate and unfair billing and credit practices. Many areas have been affected by Reg Z changes including consumer open-end disclosures, credit cards, escrow, mortgage reform, consumer lending and retail installment contracts.

The current credit union compliance process is based on a less aggressive regulatory environment. Starting with the Reagan administration, deregulation had been the focus, meaning a significant amount of regulation was not added, not necessarily that regulation was removed. Therefore, due to the changing environment, compliance-related processes should be re-examined.

Complying with any new regulations is a difficult and time-consuming process.

Being able to address this new regulatory environment will consume greater resources.

Today credit unions gather information on regulatory changes from a number of sources, but they tend not to be structured or comprehensive.

Based on the research, possible concerns with current processes are as follows:

- Organizationally, compliance is more likely to be decentralized than centralized. If decentralized, credit unions may lack the focus they need. Someone may also have this responsibility but it is not necessarily their sole concern.
- Today credit unions gather information on regulatory changes from a number of sources, but they tend not to be structured or necessarily comprehensive. The sources include leagues, other trade organizations, list servs and loan document providers. Because it is not systematic, credit unions may miss out on timely information.
- Due to the lack of resources, credit unions at times want to be told what to do. They do not always have the resources to evaluate the changes.
- Due to resource constraints, credit unions need to sometimes pick and choose what they will focus on. Assessing these priorities in a changing environment is harder to do.
- Credit unions may not be doing their own compliance evaluation - self testing. They don't necessarily look at their own vulnerabilities.

With the passage of Dodd-Frank Act, it may become more risky today than in 1980 to use a less systematic approach to compliance. Next steps for credit unions could include an increased organizational focus as well as improving structure around its administration. Resources place a constraint, so expertise is necessary in deciding how to assess priorities in allocation.

We are all designers. Decisions are made in practice about what works best when someone uses a design. The more insight you have into the use and the user, the better a design becomes. It creates a clear vision on how things should be (Peter Merholz and Brandon Schauer, Subject to Change: Creating Great Products and Services for an Uncertain World, 2008).

But most organizations don't actively participate in design. Organizations are more likely to use ad hoc approaches to try to address potential problems rather than directly confront them. Design creates the opportunities to confront and make decisions to better facilitate processes. Developing design as a core competency will be a key business practice for any size organization in the future. The increased regulations create the opportunity for design.

The purpose of this white paper is to examine market perceptions of consumer lending compliance: how it can be enhanced and the role of the lending document provider. It is

primarily based on 2011 research conducted by Blackstone Group¹ for CUNA Mutual Group that interviewed 10 credit unions \$50 million or more in assets in-depth on their lending compliance needs as well as surveyed 331 credit unions of similar asset size on the value of compliance. Credit unions say they are keeping up with changes but they do voice concerns regarding timeliness and accuracy. Their bottom line has been to keep the credit union “out of trouble” by making certain that regulations and requirements are met. Credit unions are saying significant problems have not arisen, however the concerns being voiced are a call to action. Research shows that relative to other credit union objectives, compliance rates high in importance. Compliance program management and effective integration of internal and external resources will help in its delivery.

Credit unions say they are keeping up with changes but they do voice concerns regarding timeliness and accuracy.

The paper is divided into four sections:

Section 1: Credit Union Process

This section summarizes key internal processes and their effectiveness. It looks at roles, internal versus external sources and training.

Section 2: Document Provider Roles

Lending document providers play an important role in delivering compliance to the credit union. By looking at the features and benefits currently being provided, the position in the compliance market place is examined.

Section 3: Credit Union Needs - Gaps and Improvements

Related to consumer lending documents, opportunities exist in customization, consultation and innovation. Even though credit unions do not generally use broad compliance support, there is recognition of a major benefit in having access to compliance specific knowledge and experience.

Section 4: Keeping Up with the Changing Regulatory Landscape

Credit unions would like to see a process whereby they can be automatically advised that changes are coming and how the documents, process and procedures need to change in order to remain in compliance.

¹Blackstone Group is a marketing research firm based in Chicago that conducted the research and provided reporting of the results.

Not only do documents need to contain the correct disclosures, but credit union processes and procedures need to comply and compliance needs to be timely.

Section 1: Credit Union Process

According to the research, a credit union's goal regarding lending compliance is to keep the credit union "out of trouble" by making certain that all regulations and requirements pertaining to the credit union's loaning of money are met. This means documents contain the correct disclosures and that credit union processes and procedures comply and further that compliance is timely. Staying out of trouble means no criticism, no fines and no lawsuits.

Roles and responsibilities. Typically, all staff involved with loaning money, those in direct contact with members and those who indirectly support lending, are educated and trained on compliance requirements. Compliance is often not just assigned to one person but it is distributed widely throughout the organization.

Overall accountability for compliance generally resides at the executive level with the CEO or COO or with vice presidents of lending or compliance. Generally, this accountability is in regards to outcomes (e.g., any problems) rather than focusing on specific implementation steps. Day-to-day responsibility is often at other levels, with loan department managers or with a specifically titled compliance manager. The day-to-day responsibility is delegated by the executive level to other staff within the credit union.

The compliance manager or compliance officer has the responsibility of staying current on changes to existing regulations and on new regulations and then to make certain the appropriate credit union staff is aware of the changes and trained on them. A compliance officer is not limited to lending compliance, but has responsibility for all compliance.

Neither the state nor the federal government provides direction - they simply issue the regulations and expect credit unions to comply. Credit unions are responsible for disseminating the correct information and implementing in an approved format and process. Discrepancies or deficiencies only show up after the fact. Because these outcomes are delayed in providing this feedback, this can make it more challenging to organize an approach to circumvent issues.

Use of outsourcing. In general, documents, audits and training appear to be most often outsourced, but this is certainly not universal. Some credit unions create and maintain their own documents while others outsource this function to a third party. Credit unions are less likely to be outsourcing the more consultative aspects of lending compliance. They don't always know these services are even available.

Generally, credit unions are satisfied with their document providers. At the same time, they also do not appear to use the document provider for a great deal of service and support beyond the documents themselves. So satisfaction is based generally on their experience with the documents and not on other compliance products and services. Use of outside resources for compliance needs to be cost justified. When there isn't systematic evaluation related to processes, being proactive becomes a challenge. Documents are concrete and less abstract than other consulting aspects. Regarding the compliance support related to processes, internal metrics or evaluation becomes more important in a cost justification.

Information sources. Credit unions find compliance information from multiple sources. Twenty-six percent of CUNA Mutual Group's LOANLINER® customers say they have a compliance officer as a primary source of assistance for federal lending operations. A slightly higher percentage (34 percent) says the consumer lending documents provider is a primary source. Of those using their provider, the majority (55 percent) say they are using this provider a couple times a year with 17 percent using once a month or more. Other sources are the League (22 percent) and a credit union attorney (10 percent).

Credit unions with another document provider are more likely to use a compliance officer (39 percent) and less likely to use their lending documents provider (8 percent). Overall, those using a document provider are more likely using these providers only for document compliance rather than process issues.

Training. Regarding compliance training, about 60 percent say they receive compliance training in-house either from the compliance or training staff. About one third (32 percent) receive it from third parties. Staff involvement extends from frontline staff to the CEO. Frontline staff and executives directly involved with lending receive the most training.

Credit unions are less likely to be outsourcing the more consultative aspects of lending compliance. They don't always know these services are available.

Credit unions are satisfied with their current lending documents providers. Those who receive regular updates on impending changes cite this as an indication of that good value .

Training is ongoing. Training effectiveness is impacted by the timeliness of making changes.

Credit unions rely heavily on league alerts to know when a regulation is going to change or when new regulations are going to be issued. Training, especially webinars, is available from leagues and vendors. Depending on the extent of the changes, communication can be ad hoc, with department managers holding meetings, or more formal with employees attending webinars or off-site training. Credit unions maintain training modules online, which their employees are requested to review each year. The alerts must be turned into actions - documents updated or created, procedures modified or revised.

Section 2: Document Provider Roles

Those interviewed in-depth are satisfied with the current documents. They don't apply a certain set of criteria to evaluate. The bottom line is whether or not the credit union has problems with the regulatory compliance related to the documents. Most feel they are getting an overall good value. Those who receive regular updates on impending changes cite this as an indication of that good value.

Generally, their providers are meeting their document product and service needs. As mentioned, they don't see these providers as necessarily delivering compliance consulting beyond the document support. Support generally consists of periodic document updates and the opportunity to ask specific questions regarding meaning or interpretation.

CUNA Mutual Group is differentiated in the marketplace from other document providers, according to the research conducted by Blackstone Group. Credit unions interviewed describe CUNA Mutual Group as committed to credit unions, knowledgeable about credit union needs and processes, and as having expertise in regulatory compliance. For customer credit unions, no single provider is able to match CUNA Mutual Group in terms of breadth of knowledge or product offerings and often unable to match in terms of depth of knowledge. Although non-customers don't have the experience to be able to know the products and services, they do describe their providers as more limited in knowledge, but this doesn't necessarily affect their satisfaction. Preferences may be based, too, on variation in what is important in a document provider.

Knowing the documents are in compliance is a primary benefit, which is demonstrated by receiving updates and notices. Credit unions, particularly CUNA Mutual Group customers,

feel they can rely on their provider's knowledge and expertise to make sure the documents are in compliance.

Generally, relationships with document providers have been in place for a long period of time. In the interviews, many were unable to address questions regarding provider selection because the way things are done currently is generally the way that they have been done for a while. In a rapidly changing environment, these relationships may be pressured to adapt.

The move to electronic documents, which can be printed out in the credit union when needed, was the most frequently mentioned improvement to their processing. Electronic documents impacts ease of use. The documents are printed out as needed and the core system can often pull member data and automatically enter it on the documents. This has eliminated the need to stockpile documents which must be discarded when changes occur.

Survey results confirm credit unions see their lending document provider as knowledgeable regarding compliance and that compliance is an important benefit. Ninety-one percent say the compliance guarantee is a valuable feature in that it provides peace of mind. Overall, high percentages say the consumer lending document provider is very knowledgeable about compliance (87 percent) and more specifically federal compliance regulations (87 percent).

A high percentage also says that review of regulation change is ongoing (83 percent). And regarding timeliness, document providers are meeting needs. The percentages are as follows.

Overall, high percentages say the consumer lending document provider is very knowledgeable about compliance (87 percent) and more specifically federal compliance regulations (87 percent).

Lending Document Provider: Timeliness & Access

Characteristics	Percentage of Credit Unions Describing their Provider
Compliance questions are answered in a timely manner	81%
Compliance is kept up-to-date	80%
Compliance support is easily accessible	78%
Changes are made in a timely manner	77%

In addition to compliance, high percentages see ease of use as a strength. Eighty-five percent report their consumer lending documents are easy for their lending staff to use and 73 percent say their consumer lending documents are easy for their members to use, too.

Regarding other aspects of compliance support, the percentages drop but still represent the vast majority. These aspects are education/training, continuity, integration and notification meaning the right information at the right time that is actionable.

Lending Document Provider: Compliance Support

Characteristics	Percentages of Credit Unions Describing their Provider
Support and education regarding regulations are ongoing	74%
Immediate notification of compliance changes to consumer lending documents is provided	73%
Compliance expertise related to ongoing use is provided	68%
Compliance changes to the consumer lending documents are easily integrated into credit union processes	68%
Training on consumer lending document use meets our credit union's need	62%

In addition to compliance, high percentages see ease of use as a strength. Eighty-five percent report their consumer lending documents are easy for their lending staff to use. Ease of use may be impacting loan processing efficiency in that 77 percent say consumer lending documents make loan processing more efficient for their credit union.

In the in-depth interviews, credit unions' comments do emphasize ease of use from the members' standpoint. A high percentage of credit unions surveyed confirm in that 73 percent say their consumer lending documents are easy for their members to use, too.

Although still relatively high, somewhat lower percentages say their members find the documents easy to understand (65 percent), and that their consumer lending documents minimize paper work for their members (64 percent).

In Blackstone Group's analysis, comparisons between providers show high scores for all. However, CUNA Mutual Group is more likely to be differentiated on the following:

Lending Document Provider Comparisons

Characteristics	Percentage of CUNA Mutual Group Customers Describing Their Provider	Percentage of Other Document Provider Customers Describing Their Provider
Very knowledgeable about compliance	90%	75%
Advocate for credit unions regarding regulations	80%	52%
Compliance up-to-date	83%	70%
Timely response to compliance questions	83%	72%
Easy access to compliance support	80%	67%

Lending document providers are differentiated in the marketplace. Credit union preferences are based on their needs for support.

Table note: "Other document provider" includes any providers other than CUNA Mutual Group in the marketplace. Therefore, these results indicate CUNA Mutual Group's overall market position rather than its competitive advantage related to any particular provider.

Survey results confirm findings of the in depth interviews. CUNA Mutual Group appears to be differentiated by a number of attributes: its compliance knowledge, commitment to credit unions, expertise and experience with regulatory compliance as it applies to credit unions, timeliness and access. In addition, whereas overall a high percentage say compliance guarantees are valuable, compared to CUNA Mutual Group customers, non-CUNA Mutual Group customers are less likely to say a compliance guarantee is valuable feature in that it provides peace of mind (84 percent compared to 93 percent of CUNA Mutual Group customers). Again, this data shows priorities may vary in the marketplace.

Credit union need for support is being impacted by the increase in regulation. The document value related to compliance has not changed in that now and into the future a credit union wants to be in compliance.

However, given the changes in the regulatory landscape, these provider differences may become more important. Document providers have established positions in the marketplace that differentiate their products and services. Positioning is about what is communicated and delivered. In light of the changes, document providers evaluating this positioning and corresponding strategy will be better able to deliver on heightened expectations. A position takes into consideration not only a company's strengths and weaknesses, but those of its competitors as well (Al Ries and Jack Trout, Positioning: The Battle for Your Mind, 2001)

In maintaining the relationship with a document provider, company reputation is important. Access when questions arise and accuracy of responses are also important. At the end of the day, what the provider delivers has to be accurate and complete, because the credit union is going to rely on the documents to be fully in compliance with regulatory requirements. A primary benefit provided is compliance knowledge and understanding of credit union needs. As a result, the credit union can rely on what the vendor provides them and be confident that they are always in compliance. This compliance support provides credit unions with peace of mind.

Section 3: Credit Union Needs - Gaps and Opportunities

Credit union need for support is being impacted by the increase in regulation. The document value related to compliance has not changed in that now and into the future a credit union wants to be in compliance. Even though credit unions do not generally use broad compliance support, there is recognition of major benefits in having access to compliance-specific knowledge and experience related to their processes. However, keeping abreast of changes in the regulations and requirement is more hit or miss and it seems to be an area where opportunity exists for internal process management.

Where comfort can be improved is in the ease of making changes and revisions and in learning about changes in regulatory requirements. The major concern is simply that of being always in compliance, which given the number and frequency of changes is challenging. As mentioned, credit unions that receive regular updates on impending changes cite this as an indication of good value.

Credit unions have used the current document providers for long periods of time and thus may have little knowledge about what else may be available. The status quo is reinforced and improvement opportunities diminished. Without critical review, it becomes more difficult to enhance current processes.

As the research has shown, the compliance support generally provided by document providers consists of periodic updates and the opportunity to ask specific questions regarding meaning and interpretation. It is limited to providing the actual documents, updates as changes occur and additional explanations.

Even though compliance support, defined as compliance training, education, consulting, updates and reviews is not generally used, there is an understanding of a basic benefit of such support. The value of being able to use someone who has knowledge and understanding of regulatory compliance is immense. Credit unions can concentrate on other areas knowing nothing is going to sneak up on them, or be overlooked or deadlines missed, because someone has that responsibility.

For document providers, the research also shows opportunities for customization, consultation and innovation regarding the documents. On consultation, knowledge of the credit union serves as a barrier. Document providers receive their lower marks here.

The value of being able to use someone who has knowledge and understanding of regulatory compliance is immense. Credit unions can concentrate on other areas knowing nothing is going to sneak up on them, or be overlooked or deadlines missed, because someone has that responsibility.

Lending Document Provider: Consultation

Characteristics	Percentage of Credit Unions Describing their Provider
Very knowledgeable about their credit union's lending operations	52%
Understands credit union's lending goals and strategies	45%
Proactively recommends consumer lending documents that suit credit union needs	44%
Consults with credit union to uncover its needs for developing new consumer lending documents	37%

Eighty-four percent say their documents fit the way the credit union does consumer lending. However, when it comes to greater customization and innovation, there are gaps.

Compared to other document providers, a higher percentage of credit unions (48 percent versus 31 percent) say CUNA Mutual Group understands their credit union’s lending goals and strategies. Larger credit unions are more likely to say their provider understands these goals and strategies.

Eighty-four percent say their documents fit the way the credit union does consumer lending. However, when it comes to greater customization and innovation, there are gaps, as shown below.

Lending Document Provider: Customization & Innovation

Characteristics	Percentage of Credit Unions Describing their Provider
Documents customized to meet specific needs of the credit union	66%
Continually streamlines the consumer lending documents	47%
Offers innovative solutions to facilitate lending process	45%
Helps to position the credit union as the member’s primary financial institution	43%

Overall, thirty-nine percent say their consumer lending documents provide a competitive advantage in the marketplace. However, a higher percentage of CUNA Mutual Group customers (41 percent) say the documents provide a competitive advantage compared to those with other providers (28 percent). Past consumer research has shown consumers are looking for streamlined processes, and loan transactions should be no exception. Innovation to create this involves collaboration between credit unions and their document provider. Again, CUNA Mutual Group differentiates in the marketplace, in that a significantly higher percentage of its customers (74 percent compared to 58 percent) indicate having multiple options available for consumer lending documents is important in meeting their credit union needs.

In the in-depth interviews most credit unions indicated they would be willing to purchase outside support if the need arises - meaning generally, only if they were unable to keep up with regulatory changes or if their efforts began to result in problems such as citations, fines, member complaints or law suits. Most of the credit unions interviewed believe they are able to keep up with the changes; even though it is sometimes a struggle. It is this struggle, though, that is the concern regarding adapting to the future, which in comparison to today, may be significantly more challenging.

The major future challenge is to continue to be in compliance and to achieve that compliance on a timely basis. Training that provides understanding of and familiarity with the requirements for staff and management is a priority. The amount of regulation is increasing but internal processes to make these changes have stayed the same - roles have not always adapted. Document providers and credit unions need to shift to accommodate and adapt to environmental changes.

Credit unions can see their documents provider in a limited way, i.e., keeping the documents not necessarily their processes compliant. Other credit unions express a need to have greater involvement of third parties to assume responsibility for making certain that the whole process, not just the documents are compliant. As the pace of regulatory changes increases, the need for this support could increase as well. It will be up to credit unions to involve third parties in providing this level of service.

The regulatory changes encourage review of internal processes. By reviewing compliance process as a business process, it can save a credit union time and money by simplifying overly complex and expensive processes, and it can help identify entirely new processes (Improving Business Processes, Harvard Business Review Press, 2010). It is important to detect any signs of trouble such as complicated or lack of procedures to address issues, and variation in the amount of time that it takes to accomplish tasks. A process that involves assessing, evaluation and planning creates a win, heading off any future problems, and creating peace of mind.

Currently, compliance is not always centralized in credit unions. Given the needs for support this can also create its own challenges in terms of harnessing resources most effectively. In the research, it seemed the total budget amount might not be gathered under one line item and thus would not be easily identified because it is spread out among departments.

The major future challenge is to continue to be in compliance and to achieve that compliance on a timely basis. Document providers and credit unions need to shift to accommodate and adapt to environmental changes.

Credit unions voice concern about the increasing pace of regulatory changes. In order to address this, credit unions can evaluate their internal processes to ensure effectiveness.

However, whatever the current budget actually is for compliance or the amount currently being spent on compliance, the expectation is it will increase over the next five years. With increased spending, roles, organization structure and use of third parties will also change to accommodate its management.

An outsourcing arrangement or use of third parties requires a greater emphasis on a management style that is based primarily on influence. It takes time to set up, and needs to be done with a plan and roles, procedures clearly defined (Tom Kendrick, Results Without Authority: Controlling a Project When The Team Doesn't Report To You, 2006). A relationship based on order taking will be less successful in building this type of relationship with outside parties because it will limit their ability to provide more consultative support. They need to be able expand their knowledge base on a credit union's operations and processes, as part of the services they are providing.

In order to increase effectiveness, it is important to clearly define the role of third parties in the process, such as document providers. External providers have their strengths and weaknesses, and their strengths should compliment internal staffing. In a dynamic regulatory environment, credit union needs may shift requiring these relationships to evolve over time.

Section 4: Keeping Up with the Changing Regulatory Landscape

In the research, credit unions voice concern about the increasing pace of regulatory changes. In order to address this, credit unions can evaluate their internal processes to ensure effectiveness, and they can also coordinate resources, internal and external, to increase efficiency. As expenditures on lending compliance increase over the next five years, management becomes even more important.

Principles of operations management can be used to review. Compliance is an operational aspect of lending that can be monitored and controlled using these techniques. Its success is based in planning. (John Kamauff, Manager's Guide to Operations Management, 2010).

Compliance program management may help to improve the process so risk is reduced. It means being more thoughtful about compliance. An example of this type of management includes preparations made for an audit. The risk of not keeping up-to-date can result in gaps today that are more likely to create concerns and have negative repercussions. It may be important to centralize some compliance aspects to increase the ability to streamline.

The steps to plan and administer include:

- Project Development

Due to issues created by regulatory change, it is important to allocate the resources to examine the options. Prior to becoming part of the day-to-day operations, it may be important to establish as a project, to be able to prioritize. To be successful, outcomes need to be defined. What are the goals? How is compliance effectiveness defined in this new environment?

- Process Documentation

This step focuses on outlining the current internal process for updating compliance, documents, processes and procedures. It should describe the internal process in detail and record performance. This performance provides input for evaluating the effects of internal process changes.

- Process Analysis

The process for making updates to the compliance is charted, so that efficiencies and gaps can be identified. It prioritizes any issues, generates possible solutions, prioritizes the solutions and then decides on the improvements.

- Process Mapping

With the inputs of the process analysis, mapping or structuring of the process eliminates gaps and restores efficiencies. Timeliness of compliance changes is important and mapping helps to facilitate that. Metrics can also be established as part of this mapping.

- Resource Allocation

In order to accomplish results, resources have to be allocated. This phase is used in building a budget. A review of external resources to complement those available internally is important. Efficient use of resources will help to justify any additional expenditure.

- Evaluation

Given criteria for success, it is important to monitor the process, and make sure that any problems are addressed. If a bottleneck is removed, for example, another one may develop. Whenever there are multiple activities operating at different speeds, there is a need to facilitate. Design is iterative. Metrics for success are integral to evaluation. "No lawsuits" as an absolute measure is not sufficient, because of the increased vulnerability in this rapidly changing environment.

Credit unions acknowledge the importance of more broad compliance support to facilitate keeping policies and procedures up-to-date. Third-party vendors, including their document providers, can be a source for this support.

Credit unions acknowledge the importance of more broad compliance support to facilitate keeping policies and procedures up-to-date. Third-party vendors, including their document providers, can be a source for this support. Currently, sources for this support seem fragmented in the marketplace. Although compliance is an important benefit being offered by document providers, it is primarily related to keeping the documents up-to-date with less focus on the processes. In the research, credit unions said they would like to see a process whereby they can be automatically advised changes are coming and how the documents, process and procedures need to change in order to remain in compliance.

Document providers occupy different positions in the marketplace. For example, CUNA Mutual Group is differentiated from others by its commitment to credit unions, knowledge of credit union process, expertise and experience with regulatory compliance as it applies to credit unions. All providers show some similar strengths related to compliance updates and related document support, integration into credit union process, and ease of use for credit unions as well as their members. Generally, credit unions say they are satisfied with their document providers.

However, in planning for the future, the document provider role is potentially open to expansion to include greater value in consulting on process-related issues. This is an opportunity for the credit union and provider to build their partnership. In this partnership, the credit union defines its needs. The research shows that most providers have to become more aware of credit union needs. It is important in recasting this partnership for credit unions to be fully aware of the provider's capabilities and resources. It is structured to address credit union goals, and only credit unions can provide this type of leadership.

Credit unions are faced with a rapidly changing marketplace - more dynamic than in the past. Process and procedures need to adjust to the pace to be most effective. A process evaluation can be used to assess priorities and improve cost effectiveness. Compliance program management that incorporates this type of evaluation is adaptive. The interweaving of internal and external resources effectively is a valuable component driving success.

If you have any questions or comments about this study or anything else related to our Voice of Customer program, please feel free to contact, David Polet, Program Director, at **800.356.2644** or **David.Polet@cunamutual.com**.

CUNA Mutual Group is a leading provider of financial services to credit unions, their members, and valued customers worldwide. With more than 75 years of market commitment, CUNA Mutual Group's vision is unwavering: to be a trusted business partner who delivers service excellence with customer-focused, best-in-class products and market-driven innovation.



P.O. Box 391
5910 Mineral Point Road
Madison, WI 53701-0391
800.356.2644
www.cunamutual.com