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ALIGNING LARGE CREDIT UNION OPERATIONS

OPEN TECHNOLOGY SOLUTIONS



KEY CONCEPTS TO BE DISCUSSED:

- Founding Principles
- Current OTS Model/Business
- Operational Efficiency and Scale
- Create Scale through Collaboration – not Mergers
- Governance Matters
- Success
- Challenges
- Summary

FOUNDING PRINCIPLES

- Deep belief in operational efficiency and scale to return value to membership and grow credit union.
- Most effective way to create scale was through collaboration/partnership, not mergers.
- Real value in scale/collaboration only occurs if we combine large departments.

FOUNDING PRINCIPLES (Cont.)

- Computer system collaboration (running almost all the same systems) was the lynch pin to creating scale
 - Core system was the beginning, not the end game. We were not starting a service bureau business.
 - Governance mattered – both in terms of types of partners and the number.
 - Executive commitment is the key driver to success.

CURRENT STATE

OPEN TECHNOLOGY SOLUTIONS (OTS)

- Phase 1 of our scale and collaboration strategy
- Formed a CUSO in June of 2003 to run technology operations for Bellco and Bethpage
- Two primary goals:
 - Scale, skill sets and speed to market
 - Foundation for other scale projects

OTS FOUNDED ON TRUST/PARTNERSHIP

- Bellco and Bethpage – founded 6/03
- Equally sharing all investments and expenses
 - \$2 million in capital
 - All other budgetary expenses split 50/50
- Equal share of governance
- In business to create scale and return value to the partner CUs – NOT MAKE MONEY
- Ran OSI system as primary business

CURRENT OTS MODEL/BUSINESS

- Four partners
 - Bellco
 - Bethpage – converted 11/03
 - First Tech – converted 4/06
 - SECU of MD – will convert 4/08



SIZE/SCALE

- Over 690,000 members
- Nearly \$7.6 billion in assets
 - Bethpage: \$2.7 billion
 - State Employees: \$1.7 billion
 - Bellco: \$1.6 billion
 - First Tech: \$1.6 billion
- Would rank us together as the 4th largest credit union

KEY DRIVERS

OPERATIONAL EFFICIENCY AND SCALE

OPEN TECHNOLOGY SOLUTIONS

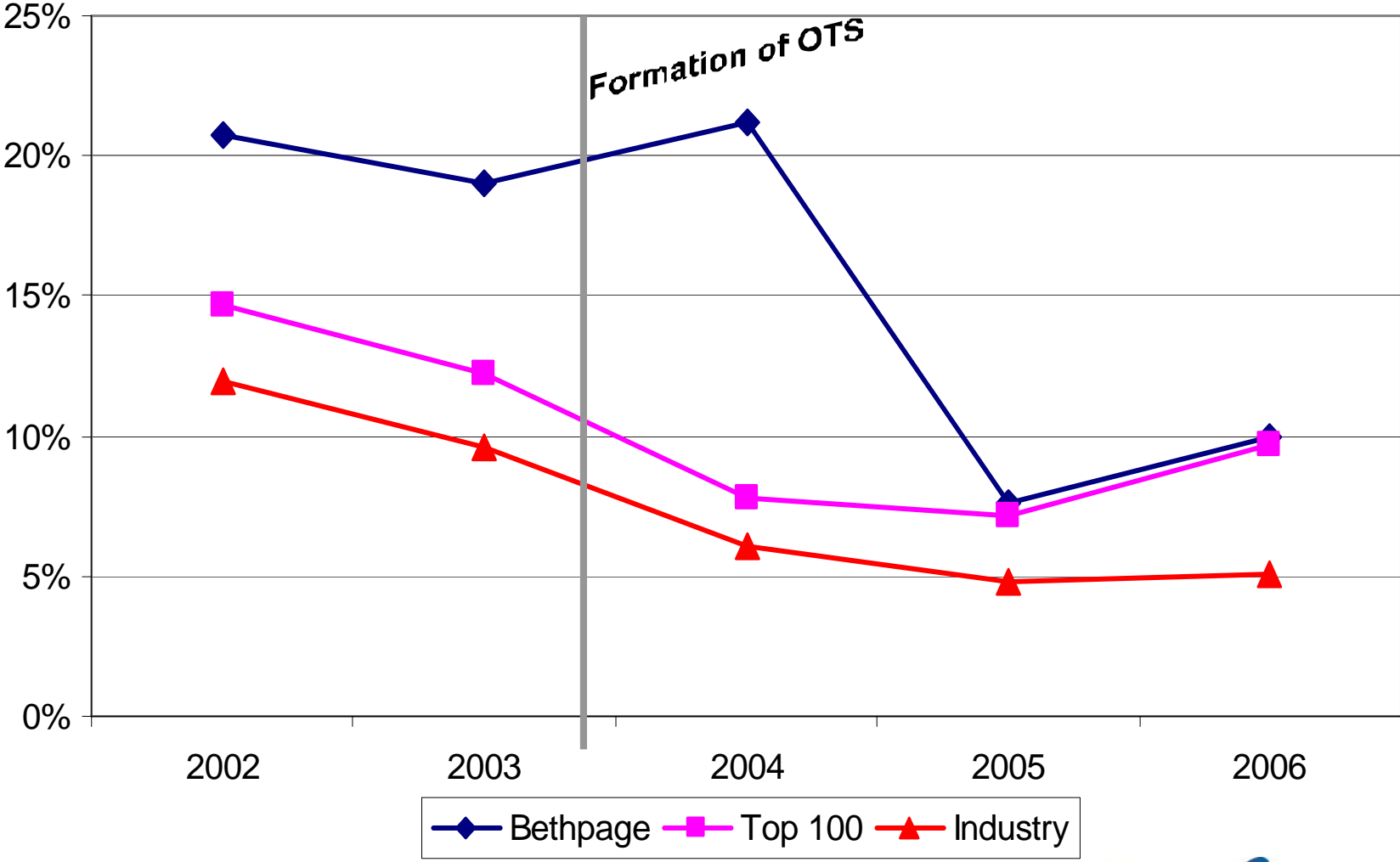


OPERATIONAL EFFICIENCY AND SCALE

- Our credit union wanted to manage costs so we could compete and win on **both** price and service
- Find the best way to strengthen our business and operations.

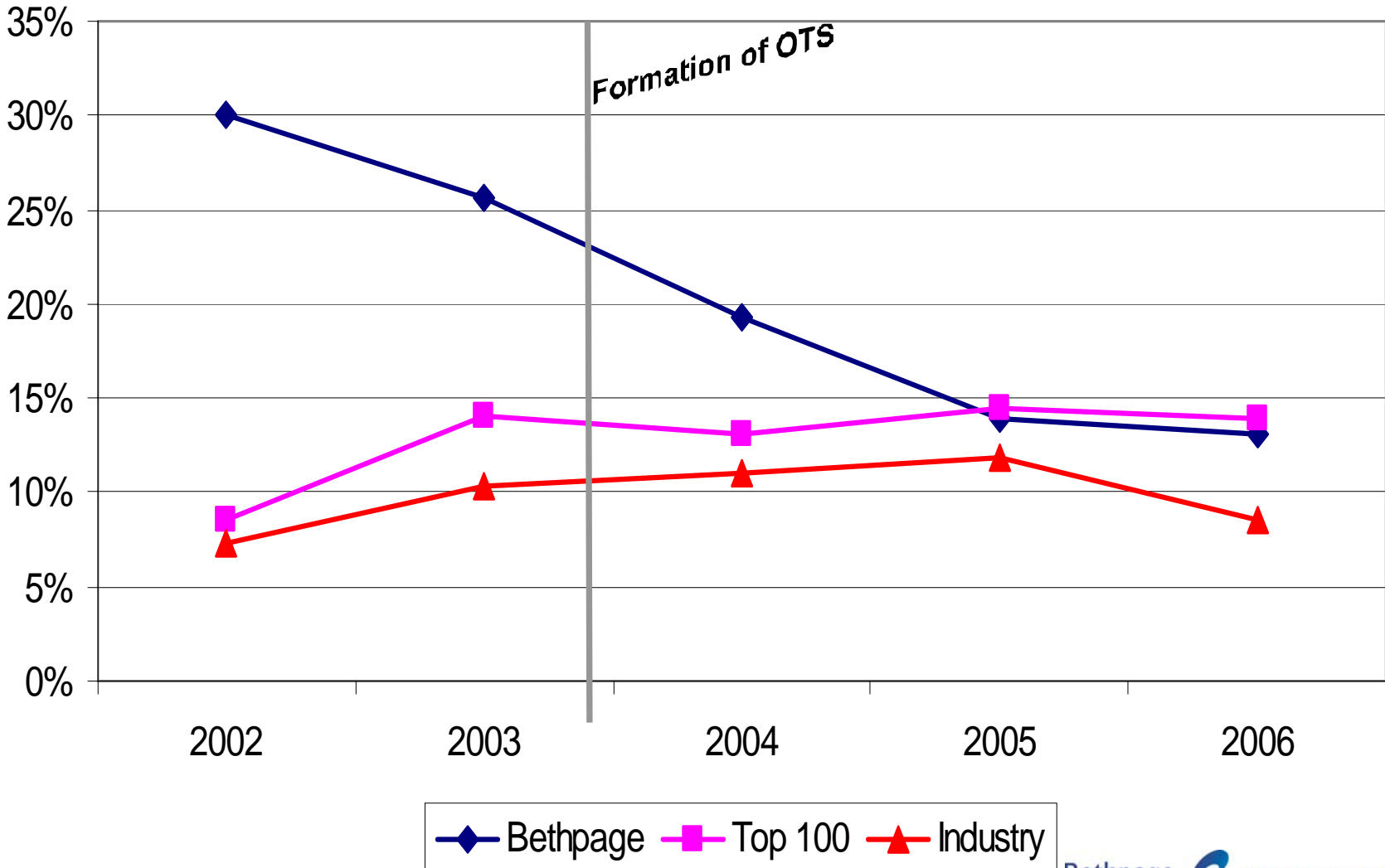
BETHPAGE GROWTH RATES

Share Growth

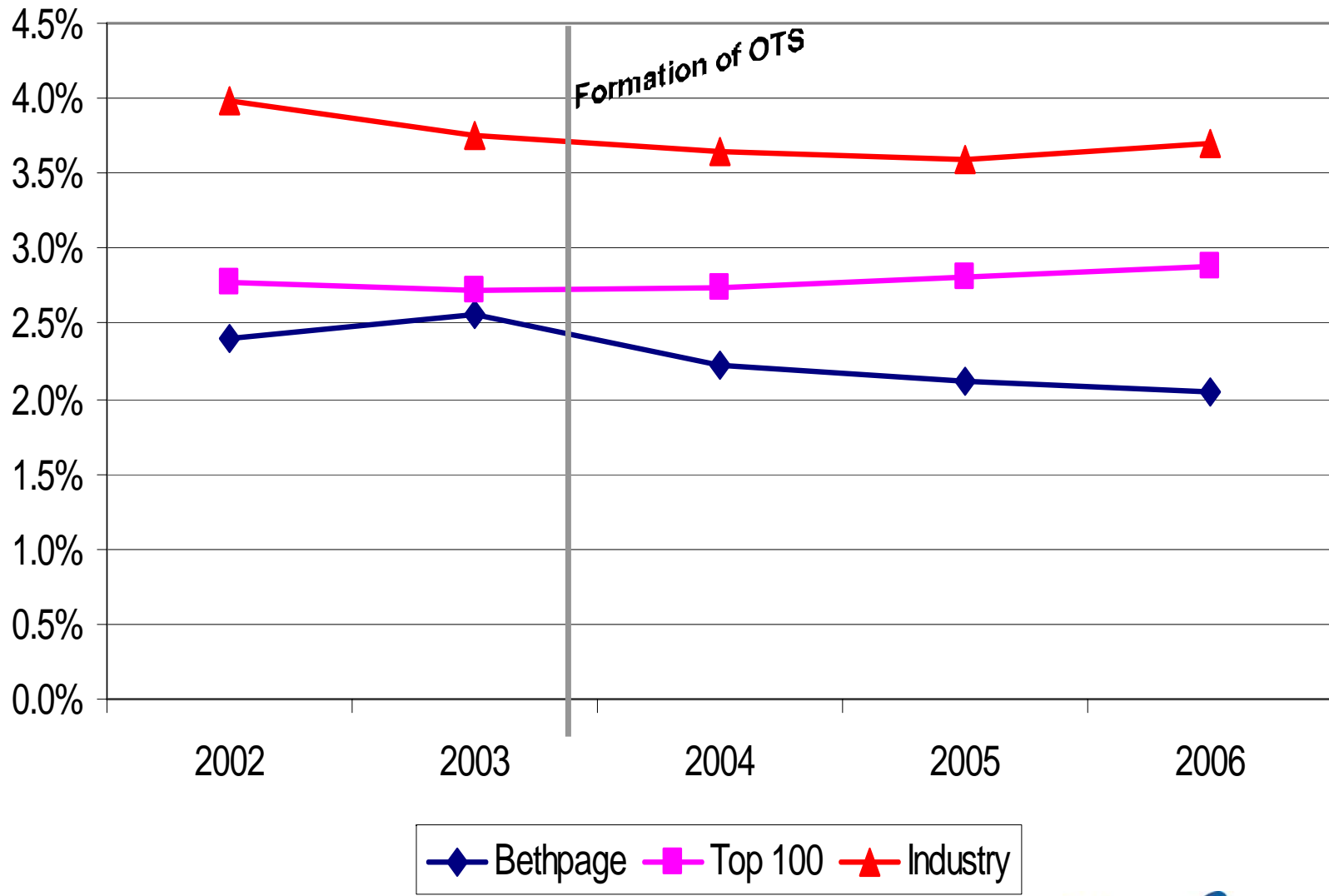


BETHPAGE GROWTH RATES

Loan Growth



BETHPAGE EXPENSE RATIOS



KEY COMPONENTS

- Reduce expenses per transaction (price)
- Increase skills/management
- Increase service (uptimes, 7 by 24, home banking, etc.)
- Speed to market (enhancements, new products, etc.)

**KEY CONCEPT:
TO CREATE SCALE ONLY OCCURS
IF WE WERE WILLING TO MERGE
LARGE OPERATIONS AND SEVERAL
OF THEM**

Technology is just the start – not the end

**STARTING POINT IS DATA PROCESSING
BECAUSE WITHOUT A COMMON
PLATFORM, THE REST OF THE
COLLABORATION
IS VERY DIFFICULT**

DATA PROCESSING WAS PARTICULARLY SUITABLE FOR COLLABORATION

Example Cost Savings

The following services provide examples of the available non-employee related cost savings to OTS credit union partners:

Service	Estimated Annual Cost Savings Per Credit Union
Managed Security (site license)	\$120-200k
HW/SW Monitoring (site license)	\$150-180k
Relationship Pricing (OTS-owned)	\$100-250k
Pre-negotiated OSI Licensing	\$50-100k
Pre-negotiated 3 rd Party Licensing (1)	\$50-100k
Storage Area Networks (OTS-owned)	\$200-400k
Disaster Recovery (OTS-owned)	\$120-250k
Online Banking (OTS-developed)	\$250-350k
Custom Report Library (300+ reports)	\$200-300k

(1) Including uMonitor, IA Systems, Prime Alliance, and CDW.

SERVICES AND PLATFORMS

OTS COLLABORATION TEAMS

Two primary projects being outlined for 2007:

- Call Center
- Finance

OTS COLLABORATION TEAMS

- Call Center
- Information Security
- OSI Core
- OSI cView
- eCommerce
- Lending
- Risk/Fraud Management
- Collections
- Technology
- Business Services
- Plastics

NEXT COLLABORATION PROJECTS 2007

Call Center – to open 1st/2nd quarter 2008

- 7 by 24 at same cost per seat (improved service/price)
- Better management skills
- Better systems
- Spring board for other operations
 - Collections
 - Lending Ops
 - E-commerce home banking software we wrote
 - Security engineers/audit

NEXT COLLABORATION PROJECTS 2007

Finance/Accounting Departments

- Spring board for:
- Better manage liquidity
 - Mtg pooling
 - Investments
 - Hedging

COLLABORATION INITIATIVES

The following collaborative solutions have been implemented:

- Online loan origination
- Member relationship management (cView-based)
- Redesigned in-branch new account opening process
- Online new account process
- Custom report generation
- Custom online banking
- Consolidated pricing for member statements and e-statements (RFP process)

We are jointly pursuing the following collaboration opportunities:

- Shared call center
- Shared fraud management service
- Consolidated pricing for debit/credit card services
- ATM intercept processing
- Profitability management and analysis
- Relationship management and pricing
- Bill payment

NEXT COLLABORATION PROJECTS 2008 AND BEYOND

We meet with the leadership of all 4 credit unions to set direction annually

GOVERNANCE MATTERS

- The CEO and the executive staff must understand how collaboration is key to their CU growth strategy
- Each CU needs to be committed to growth
- They must believe in being a credit union
- Cu's must have leadership that will value the collaboration partners in the same way they view their CU and staff.

GOVERNANCE MATTERS (Cont.)

- Boards must understand the strategy
- Goals and timeline commitments are essentials
- Limiting the number of partners was crucial to us – 4 to 8
(moratorium now at 4)

SUCCESS

- OTS – System operation from a service and cost perspective has been very successful
- New projects/products have constantly come to market quicker than we could do it individually
- We have implemented other collaboration projects

CHALLENGES

- Getting staff (executives included) to look past “we do it best” or getting into the blame game
- Cost – lots of money up front to create the infrastructure
- Constant management of another sizable enterprise

SUMMARY

- Collaboration takes vision, guts and dollars
- Large scale operations is where the opportunity is – not start up business
- Significant, long-term commitment is required
- Partnership and trust is the foundation, not legal agreements
- In the end, return to the member is what must drive you

THANK YOU!