

## CASE STUDY:

FORUM  
CREDIT  
UNION

# Transformation Innovation Competitive Success

## AT FORUM CREDIT UNION

Fierce competition is a daily reality in the financial services sector. Nowhere is that more evident than among credit unions that are today battling with other financial institutions over every dollar in the loan market.

As early as the mid-90s, FORUM Credit Union recognized that a new, more aggressive business strategy was necessary to enable continued competitive success. Headquartered in Indianapolis, FORUM serves about 95,000 members and is in the top-2 percent of credit unions nationwide with assets of more than \$1 billion.

Developing and executing a business strategy that is built on business process transformation and technology innovation has proven essential to maintaining that top-tier position. This is especially true in an environment where, as reported in *The Credit Union Times*, fewer than 100 new credit unions have been chartered over the last 10 years compared to about 1,200 banks over the same time period. According to Tom Davis, chairman of NACUSO, a credit union trade association, and president of Davis & Company, a management consulting firm, there are currently only about 8,700 U.S. credit unions compared to an estimated 27,000 in 1977. Statistics such as these provide hard evidence that innovation and transformation can't be viewed as vague goals, but as specific objectives that must be achieved for competitive success and survival.

### Finding the Right Target

One of the front lines of the competitive financial services battle is in the area of vehicle loans. These loans make up about 37 percent of the total \$499.2 billion credit union lending portfolio, according to figures as of Sept. 30, 2006, from Callahan & Associates, Inc., a national credit union research and consulting firm based in Washington, DC. However, credit unions have only an estimated 15.3 percent of all U.S. auto loans. FORUM takes the position that credit unions are definitely capable of handling more than one out of six auto loans, making this financial services sector an appropriate target for business growth.

A close examination of the auto loan market revealed that the ability to process loan applications very rapidly is a critical success factor in securing the loan as part of the organization's portfolio. This observation was a driver

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behind the decision to develop an automated lending application called Total Account Processing System (TAPS) Enterprise Lending. The first version of the system, which was launched in 1999, was built on the CACHÉ post-relational database from Cambridge, MA-based InterSystems Corp. running on Windows-based servers. Developed and implemented in just over three months, TAPS leveraged the performance of CACHÉ to enable credit union customers to get faster response to loan applications via the Web. And, in addition to delivering faster loan decisions, the TAPS system included capabilities for analyzing application data for potential cross-marketing opportunities, offering options such as credit cards and credit life and disability insurance. As a result, FORUM's insurance penetration with its customer base went from five percent to about 40 percent in about two years, providing concrete evidence that technology innovation can deliver business success.

### **Next Step: A Technology Spinoff**

FORUM's credit union competitors observed what technology innovation FORUM had achieved with TAPS Lending and came calling. A commitment to work closely with other credit unions in winning the battle against banks in delivering financial services and the realization that technology could, of itself, be another avenue for financial growth led to the formation, in 2000, of FORUM Solutions, Inc.

Creating wholly owned FORUM Solutions, which is what's known as a Credit Union Service Organization (CUSO), represented a move into a new industry sector—that of technology products, services, and consulting. From one perspective, that move could be seen as one that involved a fairly high degree of risk. However, several factors combined to minimize risk and maximize the potential opportunities that could result from this move.

First, FORUM has been a leader in leveraging technology to attain business goals. For example, in the mid-80s, FORUM was one of the first credit unions in the U.S. to launch Internet banking. In addition, the corporate culture has historically encouraged innovation as a means of enabling ongoing growth.

And it's also true that the formation of CUSOs as catalysts for creativity and change is a growing trend in the aging credit union industry. A CUSO such as FORUM

Solutions helps enable innovation through collaboration—something that is essential if the industry is going to remain competitive.

With the CUSO model, collaboration is an underlying philosophy, one which FORUM Solutions is committed to at every level. The credit unions to which our lending software is being marketed are regarded as partners. Our business relationship is based on trust and that calls for honest dialog between technology supplier and customer. We make that approach very clear to prospects and take the stance that the relationship can't succeed if they aren't willing to work collaboratively.

Combining this commitment to a partnership model with the entrepreneurial spirit that is an ongoing constant in our corporate culture smoothes the road to building innovative solutions. We can, for example, develop new capabilities and try them out at FORUM before deploying them in other credit unions. That makes the organization, in effect, its own beta test site, adding great credibility to our solutions once they reach the market. Our partners know that new solutions have been tested and proved to work in a real-world financial services environment before they are ever offered to the credit union market.

The organic growth of FORUM Solutions since its inception validates the commitment to industry collaboration. Profitable from day one, the CUSO grew more than 27 percent during 2006 and currently has 34 employees, including technology specialists and financial services consultants who are totally focused on the operational side of credit union processes.

And, reflecting our commitment to examine what works and change what doesn't on an ongoing basis, FORUM Solutions is now shifting from a product-based business model to one that's focused on services and solutions. This transformation is in response to an overall trend of credit unions examining strategies other than lending—improving customer relationship management, for example—as a means of supporting future business growth. In many instances, our organization has already achieved success in these areas. As a result, rather than limiting the CUSO to software license and maintenance revenues, we are currently adding consulting services as revenue channels in areas where we have proven expertise.

### **Business Intelligence: Lending in Seconds**

In 2005, FORUM demonstrated yet another example of our corporate focus on growth through innovation. The implementation of the first generation of TAPS had opened the world of the Web to our customer base. And, as those customers became increasingly sophisticated and Web-wise, their expectations continued to grow.

Where, prior to 2000, the ability to process a loan application via the Web was a major achievement, the environment has changed to the point where processing a loan in seconds rather than in days, hours, or even minutes, seems reasonable. And a few years ago, FORUM saw the emergence of a trend in auto financing where car dealerships rather than financial institutions were increasingly in control of the point of sale for a vehicle loan.

Today, the typical scenario begins with the decision to buy a car, which involves interaction with the dealership's purchasing manager. The next step is to meet with the dealership's financial manager who assists with filling out the loan application. Once that process is complete, the finance specialist submits the loan application to financial institutions via the Web. Often, the site to which the application is sent is DealerTrack.com, a Web-based portal that automates loan processing for car dealers throughout the country. Like other loan portals—home mortgage sites, for example—financial services firms that partner with DealerTrack examine the loan application, make a decision on the terms that will be offered, and return a response via the portal. And, in many cases, speed of response determines which company is going to get the loan business.

In this loan scenario, FORUM was effectively eliminated from the processing loop and we began to see a drop in car loan market share. Our credit union members were effectively voting with their wallets. Everyone is starved for time, and our members want the convenience of one-stop shopping at the car dealership for their automobile and financing.

Simultaneously with the emergence of this one-stop trend, FORUM Solutions was building a new generation of TAPS. As the CUSO grew its customer base, it became evident that the requirement to interact with multiple institutional technology platforms, host systems and legacy applications meant that every sale required major site-specific customizations to the lending application. As a result, each customer deployment required a significant time and resource investment.

FORUM Solutions examined multiple integration products with the objective of adding universal connectivity that would provide a significant decrease in TAPS deployment time. After running into major roadblocks with one integration product, the CUSO re-examined integration software offerings and opted for InterSystems' Ensemble rapid integration software running on Dell servers with

Windows 2003 as the foundation for the new-generation TAPS application. This solution provides a unified graphical, XML and code-based development environment that accelerates modeling and automates business processes for business analysts as well as software developers. As a result, development and deployment proceed more rapidly than with other approaches.

Equally important, InterSystems had a successful track record with FORUM. We have a working relationship where we operate as partners rather than just as vendor and customer. Their technology specialists took the time to gain domain knowledge about loan processing in a credit union environment, which made it possible for them to provide very useful recommendations as the new TAPS application was created. We were able to embed a loan decisioning rules engine into TAPS, dramatically cutting the processing time for most loans from minutes to seconds.

The combination of advanced integration technology, in-house loan expertise and an effective one-to-one partnership with our solution providers, InterSystems and Dell, made it possible to begin beta testing the new TAPS system just four months after development began. And the release of new-generation TAPS not only enabled FORUM Solutions to cut deployment time with each new customer but also gave the credit union the product needed to approach DealerTrack about adding FORUM to the group of financial institutions that have access to car dealerships via the Web portal.

### **Selling a New Idea: Collaboration Means Success**

Initially, the response from DealerTrack to adding FORUM to its base of loan providers was less than enthusiastic. The portal does not charge dealerships any fee. Its profits come from each loan application that is processed and, from the portal company's perspective, FORUM, as a single credit union, just wasn't large enough to provide the volume of loan business DealerTrack expects from each financial institution. FORUM countered by negotiating with DealerTrack through FORUM Solutions, which, at the time, represented more than 30 credit unions that were potential loan providers. It was a scenario where competitive collaboration among the credit unions was enough to make DealerTrack reconsider and, in 2005, FORUM became the first individual credit union in the U.S. to join the competition for dealership-originated car loans via the Web.

The impact from the DealerTrack initiative was immediate and almost overwhelming. As the interface to the portal from TAPS was turned on, the number of applications flooding in was so large that FORUM technologists actually suspected the existence of coding errors in the business rules engine. As it turned out, the only issue was that, although we intended to start up with access to loans via just one dealership, FORUM

opened the gateway for all dealerships that were accessing DealerTrack. It turned out to be a true test of Ensemble's ability to handle high-volume transaction processing in real-time, the stability of the Dell servers, and TAPS' capabilities for managing car loan applications via an almost totally automated process.

Once the loan application comes in from the dealership, TAPS pulls a credit bureau check and the application is scored based on the decision criteria such as credit bureau delinquency score, credit bureau bankruptcy score, credit scoring model, debt-to-income formulae and any other data element that a credit union may want to include in the application's rules engine. If the application passes the criteria configured in TAPS, the loan is automatically approved and the response is returned to DealerTrack in a matter of seconds. If the loan application fails to meet the criteria specified in the rules engine, the loan is routed to an underwriter for manual review and the underwriter receives an instant notification that a review is needed. Once a decision is rendered, it's sent back to DealerTrack in a turnaround that is much faster than any previous review process.

The results from the TAPS/DealerTrack implementation were even more successful than had been initially anticipated. During the first quarter of 2005—the time when the interface went live—FORUM approved more than \$26 million in new loans. That represented an 84 percent increase over the same quarter in 2004. By the end of that year, more than \$153 million in vehicle loans had come through DealerTrack, representing a 109 percent increase in indirect vehicle loan volume over the previous year.

The success of the Web loan processing initiative continued throughout 2006. Although dealership sales were significantly slower and the sales promotions that abounded in 2005 nearly disappeared, resulting in lower loan volumes, about 95 percent of indirect vehicle loans came through DealerTrack. And FORUM now frequently claims the top spot for financial institutions granting used car loans in the Indianapolis metro area as well as being listed in the top-five for new car loans. Finally, and most important for our members, the overall impact on FORUM has been extremely positive with assets climbing from about \$875 million in

2005 to more than \$1 billion at the start of 2007.

### Success Breeds More Change

Speeding up the front-end of the vehicle loan business process has made it possible to provide car dealerships with loan dollars faster than ever before. As a result, dealerships are approaching FORUM with requests to finance consumers who don't meet prime lending criteria and have challenged credit. To meet this need, FORUM identified a company that provides insurance for these sub-prime loans. Using that firm's decision model, FORUM is creating a deeper loan product line and providing more types of financing within approved guidelines.

This type of creative product development is an absolute necessity in a market where the yield curve, which is the amount of money FORUM pays for deposits compared to what is realized on loans, has been fairly flat with little change projected through 2007. Other innovations include opening up lending on FORUM's Website for what are termed "lifestyle loans" to provide financing for large-ticket items such as orthodontics, veterinary services and even funeral planning. The flexibility delivered by the Ensemble-based TAPS system combined with the stability of the Dell servers makes it feasible to bring a new loan product to market very rapidly—a significant advantage in a very competitive market.

FORUM also plans to add interfaces from TAPS to RouteOne.com and to CUDL.com. RouteOne is a new dealership portal that's beginning to provide DealerTrack with some competition. DealerTrack was so wildly successful that major car manufacturers found they were losing financing to that portal, a scenario that spurred the roll out of RouteOne as a portal alternative. Adding the new interface ensures that FORUM stays loan channel neutral and maximizes the opportunities for bidding on vehicle loans. Credit Union Direct Lending (CUDL) is a portal that's the largest point-of-sale and indirect lending network for credit unions in the U.S.

To summarize, FORUM's strategy will continue to focus on identifying new opportunities, transforming business processes whenever necessary and taking advantage of whatever technology is most appropriate in order to compete at the market's top tier. It's a formula that's proven successful so far and one that we expect to build on for the future. **a**



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### Takeaways

- In today's business environment, effective transformation depends on leveraging information technology. Don't hesitate to change technologies if the first selection isn't the optimal choice.
- Commitment to collaboration with vendors and competitors can provide the capabilities needed to explore new business directions.
- An enabling corporate culture that supports innovation at all organizational levels is critical to transformation and competitive success.