

South Carolina CUSO Capital Campaign to Help Fuel National Expansion

By MICHELLE A. SAMAAD

The year was 1969 and in a move to help credit unions meet more of the needs of their members, the South Carolina Credit Union League invested \$45,000 to start a new subsidiary to make it happen.

Over the years, the only way to add capital seemed to be through retained earnings, said Mark Curran, senior vice president of business development at Palmetto Cooperative Services LLC, which had since evolved from Credit Union Marketing Services Inc. and South Carolina Service Corp., the CUSO's previous names. As Palmetto expanded into check processing, e-statements and other technologies, the operational expenses continued to grow. The services brought in \$6 million with all of it coming from retained earnings.

"If we wanted to go to an additional level, we would need more capital," Curran said.

To that end, PCS launched a capital infusion campaign from June 1 to Dec. 1, 2009. Responding to a private placement offer, 26 South Carolina credit unions joined with the South Carolina Service Corp. to provide more than \$8 million in capital. In business since 1969, PCS was a wholly owned subsidiary of the South Carolina league prior to becoming an independent CUSO in early 2009.

The recent collective investment is an early milestone on the CUSO's new path and one that will enable further shifts, according to Ed Culpepper, president/CEO of PCS. He said the new funding will be used for debt restructuring, research and development, and marketing enhancements.

With a few outstanding mortgages on property it owns, PCS has not amassed a lot of debt, Curran said, adding it made sense to pay down those commitments



in the midst of a shaky economic climate.

The additional capital will also give PCS the means to offer additional products and services such as mobile banking. PCS currently provides item processing services, Check 21 solutions, paper and electronic statements. Even with the continued decline in check volumes nationwide, PCS processing continues to grow, Curran said. To keep up with that growth, the CUSO is adding new equipment and servers. Those costs could go as high as \$2 million.

On the marketing end, PCS is gearing up to reach out to the Midwest and the West coast. Most of its processing is currently done in states such as North Carolina, Virginia and Georgia. The CUSO plans to sponsor more meetings, set up exhibit displays and hire more people on the ground in untapped territories.

"Because we grew up with the credit union league, we still have lots of relationships with [leagues] across the country. We want to continue to expand them," Curran said.

As some credit unions seek alternatives to their corporate credit unions,

PCS expects to add more item processing customers this year, Curran said. The CUSO's existing customers currently have access to Check 21 solutions such as branch capture, teller capture, merchant capture and ATM capture. There are really only a few major players in the check processing arena with many opting to partner with their local corporate, Curran noticed. He predicts that there will be disintermediation from corporates in 2010.

"They're going to be recapitalized. I don't see a lot of credit unions that will have the stomach for that, so they will look for alternatives" such as the Federal Reserve or a local bank, the latter probably being less of an option because "these are the same local banks

who are working hard to put credit unions out of business." PCS might have the Fed beat when it comes to efficiency, Curran contended. "It's really going to come down to pricing," as credit unions seek out others.

Meanwhile, PCS has relied on corporates to be its marketing arm in several states including North Carolina, Virginia, West Virginia and Louisiana. The corporates here tend to be small or midsize that offer item processing through the CUSO. Curran said those relationships have served PCS well.

Another reason for the capital campaign involved expanding outside of South Carolina. Over the past ten years and more so since 2004, PCS had branched out serving nearly 400 credit unions with just 65 of them in the Palmetto State. With an allegiance still intact to South Carolina CUs, the CUSO wanted to give those outside the state more of a voice through investment opportunities and board representation. The league is still PCS' majority owner, a status that is likely to change if more credit unions become owners.

"This is in no way an indictment of the South Carolina Credit Union League board. Their leadership and influence have been instrumental in getting us to this point," Curran said.

PCS' new board structure has three directors. That number will increase to five when the CUSO receives \$10 million in capital contributions, to seven at \$12 million and to a maximum of nine at \$15 million.

According to Culpepper, consideration will be given to expanding the ownership opportunities during 2010.

"The board of directors wanted to ensure that South Carolina credit unions had the first ownership opportunities," Culpepper said. "After all, they're the ones that had the vision to create the company and the ones who have supported us for the past forty years."

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