CUNA/LEAGUE EXAM SURVEY REPORT

First Quarter, 2014

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SURVEY METHODS and RESPONDENT PROFILE

In December of 2013, all CUNA/league affiliated credit unions received an email from CUNA CEO Bill Cheney and their league president inviting them to complete an on-line survey on their most recent exam. In addition, the survey was prominently featured on CUNA's website, in CUNA newsletters, and by leagues in a number of their communications with credit unions. The questionnaire was almost identical to one used a year earlier, which had been sent to all credit unions except those in NCUA Region 2. By January 15, we had received 1,211 responses, representing 18% of all credit unions.

The table below compares the respondent profile to that of all US credit unions. The distribution of responding credit unions is very similar to that of the population in terms of charter type, and net worth ratio. However, responding credit unions were somewhat larger than all US credit unions: 19% of responding credit unions have more than $250 million in assets compared to 11% of the population. Nevertheless, there was strong response across all asset sizes. Because larger credit unions were more likely to respond, responses from single common bond credit unions were lower than the population, and community charters were more heavily represented. All totals reported in the survey have been weighted to the distribution of all credit unions by asset size.

RESPONDENT PROFILE

Responding Credit Unions Compared to Population

	Survey Respondents	**All CUs***
Number of CUs Responding	1,211	6,749
Charter		
State	41%	39%
Federal	59%	61%
Field of Membership		
Single common bond	24%	37%
Multiple common bond	31%	34%
Community	45%	31%
Asset Group		
$25 M or less	37%	52%
$25M - $250M	44%	36%
$250M - $500M	8%	5%
$500M - $1B	5%	3%
$1B or more	6%	3%
Net Worth Ratio		
Less than 5%	1%	0%
5% - 5.99%	1%	1%
6% - 6.99%	3%	3%
7% -9.99%	39%	32%
10% or greater	57%	64%

MAJOR FINDINGS

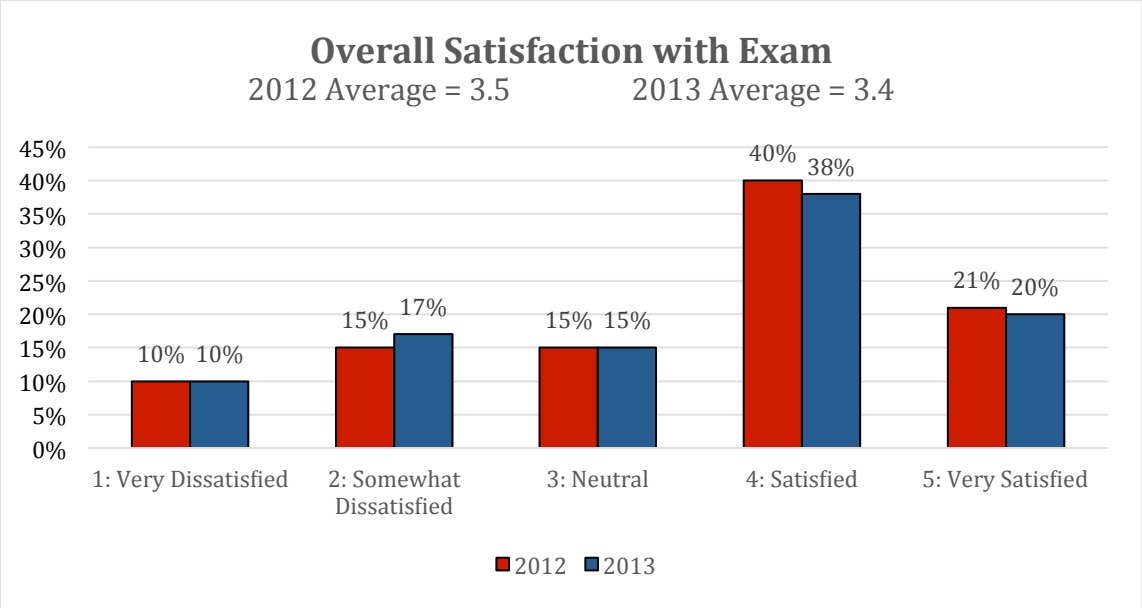
- More credit union CEOs were satisfied with their exams (58%) than dissatisfied (27%), although this finding has worsened slightly from last year (61%/25%).
- Exams tended to take longer in 2013 (9.1 days) than in 2012 (7.9 days).
- There was a slight decline in the number of credit unions reporting being under one or more Documents of Resolution (DORs), from 43% to 41%.
- Exams conducted by state examiners are substantially less likely to include DORs than exams in which NCUA is involved.
- Examinations conducted solely by state examiners tend to be rated slightly better than NCUA-only exams, but joint exams were rated much lower than either state or NCUA only exams.
- Not surprisingly, credit unions whose CAMEL ratings declined during the exam were not very positive about the experience. However, on many questions, credit unions with low net worth ratios appreciated the efforts and support of the exam team.
- Exam teams received positive ratings on a number of items, such as giving credit unions the opportunity to comment, being open to discussion, and knowledge of rules and regulations and the credit union.
- Exam teams received negative ratings on such things as making excessive use of DORs, applying "guidance" or "best practice" as regulation, and "covering" themselves.
- The biggest problem mentioned by credit unions is that regulatory and exam requirements in general are putting increasing pressure on credit union resources.

ORGANIZATION OF THIS REPORT

The report contains two pages each on a number of questions covering credit unions evaluations of the exam, the results of the exam, and assessments of the exam team in general, and in its dealings with volunteers. In each case, the first page contains a chart showing a comparison of responses to the question in 2012 and 2013, for all respondents. The second page has a number of smaller charts showing how responses varied according to field of membership, examining agency, change in CAMEL rating, agreement with CAMEL rating, asset size, and net worth ratio. The last two tables list, in rank order, more detailed ratings of exam teams and the exam process, and issues or problems raised during exams.

Notes:

1. Percentages may not add to 100% due to rounding.
2. Differences in the percent of credit unions responding to any question of 3 points or less are not statistically significant.
3. For most questions, averages are calculated on a five-point scale.

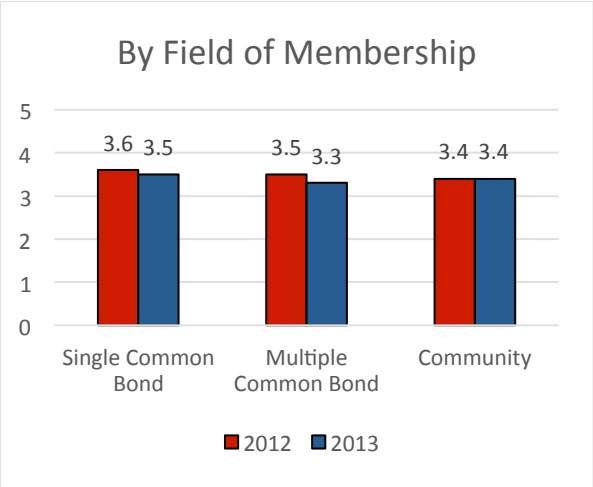


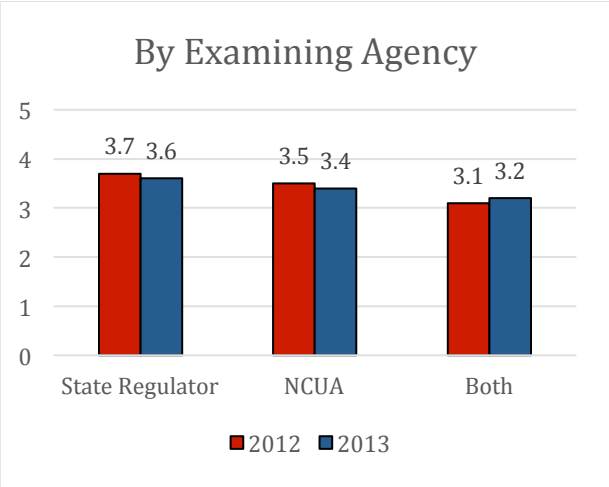
- Overall satisfaction with exams was slightly lower in 2013 than 2012. The average on a five-point scale fell from 3.5 to 3.4, with an increase in "somewhat dissatisfied" responses, and decreases in "satisfied" and "very satisfied".

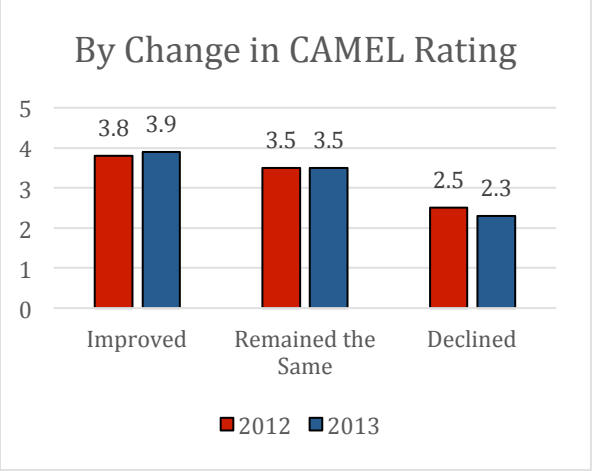
- Credit unions with a single common bond were slightly more satisfied than those with community charters, which in turn were more satisfied than those with multiple common bonds.
- Credit unions were more satisfied with exams performed by state regulators than by NCUA. Joint exams produced the lowest level of satisfaction, but satisfaction with joint exams improved slightly over 2012.
- Not surprisingly, satisfaction was higher for exams in which CAMEL ratings improved, and vice versa. Satisfaction was also strongly related to level of agreement with the CAMEL rating.
- There was little variation in satisfaction by asset size, although in 2013 credit unions with between $25 million and $250 million in assets tended to be least satisfied. In 2012, lowest satisfaction was at credit unions with between $250 million and $500 million.
- From 2012 to 2013, the gap between the lower levels of satisfaction at credit unions with lower capital ratios and higher satisfaction at credit unions with higher net worth ratios narrowed.

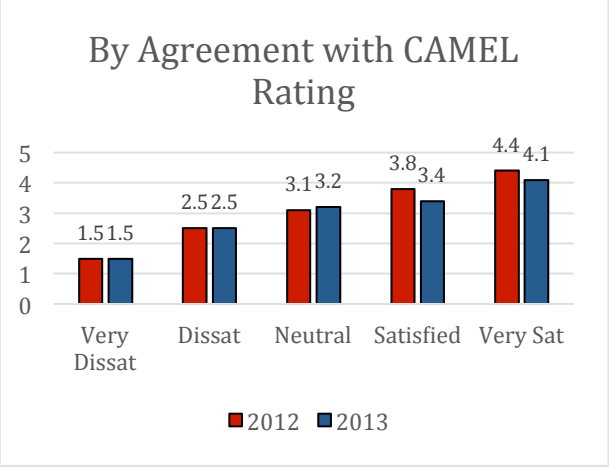
OVERALL SATISFACTION WITH EXAM

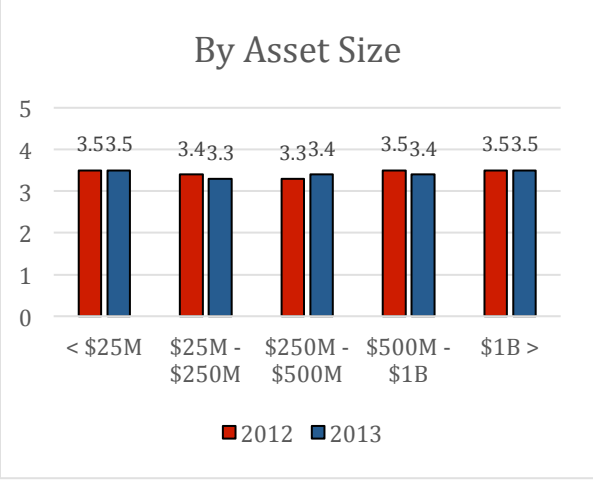
2012 Average = 3.5 2013 Average = 3.4

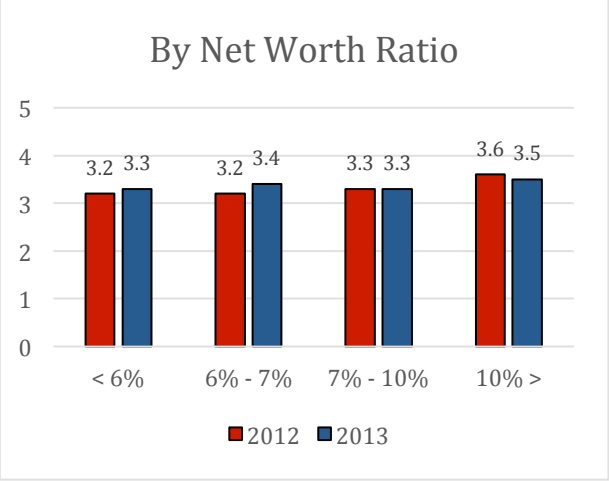


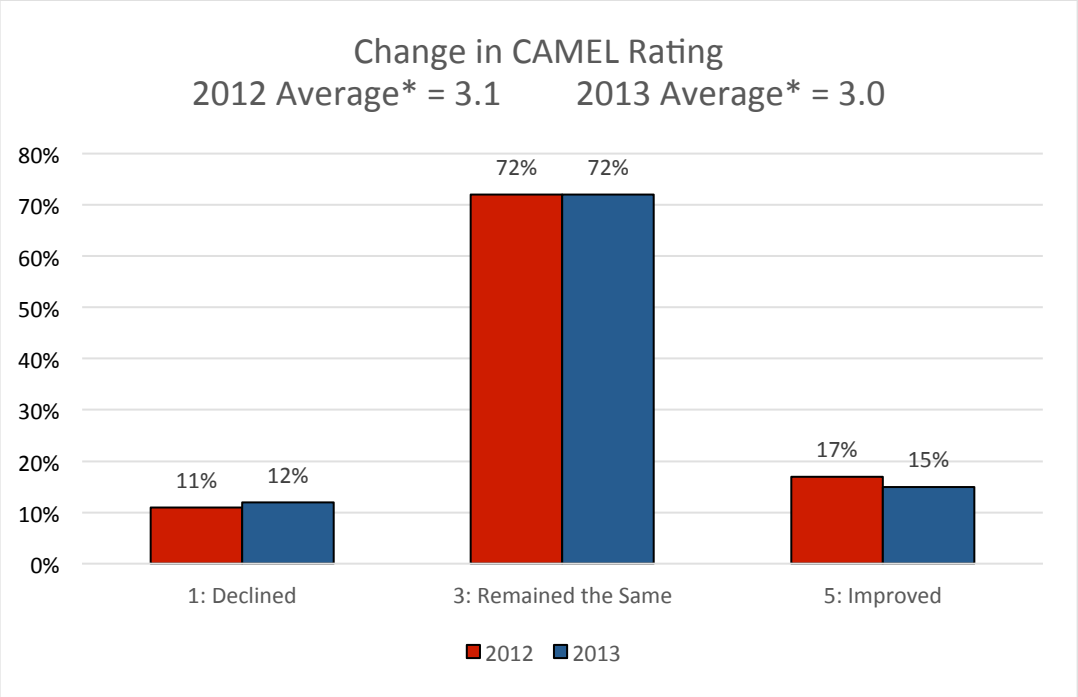












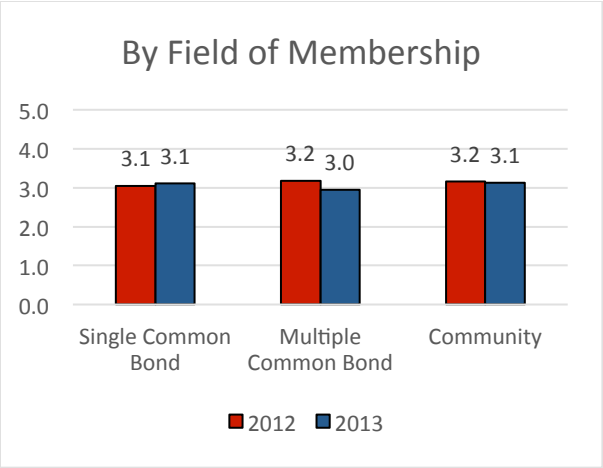
- As in 2012, the vast majority of credit unions had unchanged CAMEL ratings in their latest exams. There was a slight increase in declines and decrease in improvements, but not statistically significant.

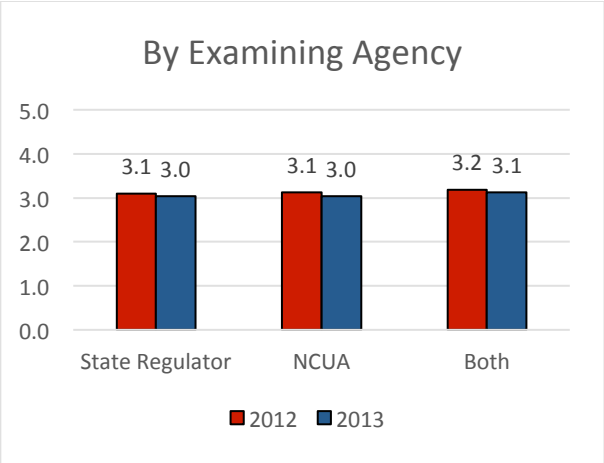
- Multiple common bond credit unions were more likely to experience declines in CAMEL ratings.
- There was essentially no difference in reported change in CAMEL rating according to the examining agency.
- The greater the level of agreement with the CAMEL rating, the more likely was the CAMEL rating to have increased.
- In 2013, credit unions with more than $0.5 billion in assets were slightly more likely to see their CAMEL ratings improve than other credit unions. In 2012, credit unions with between $250 million and $500 million were most likely to experience CAMEL improvements.
- Credit unions with the lowest capital ratios (below 6%) were most likely to see improving CAMEL ratings.

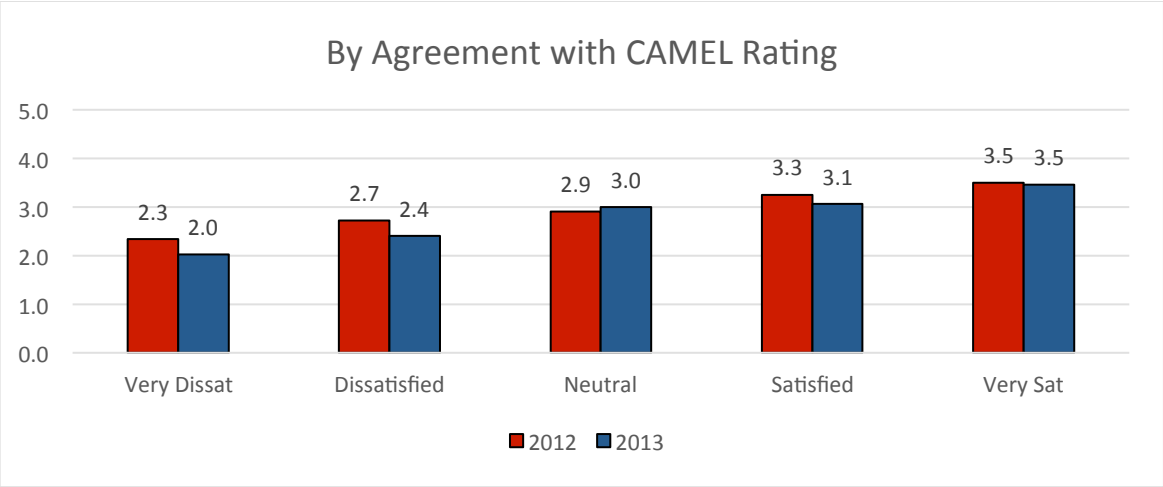
* Averages calculated on the scale: 1 = declined, 3 = remained the same, 5 = improved.

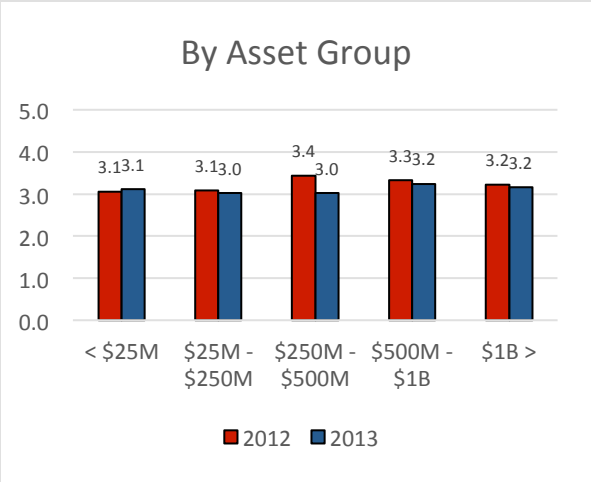
CHANGE IN CAMEL RATING

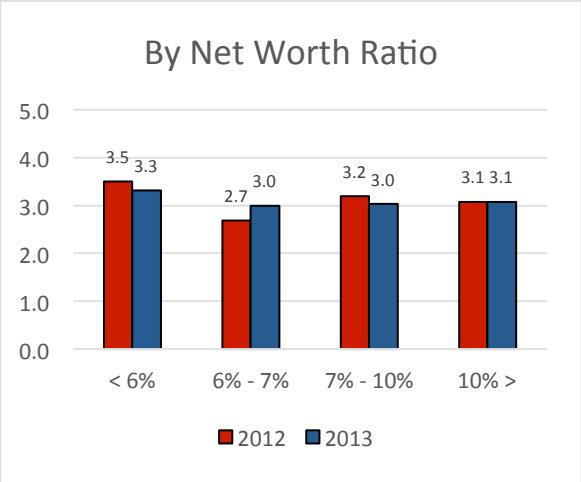
2012 Average = 3.1 2013 Average = 3.0



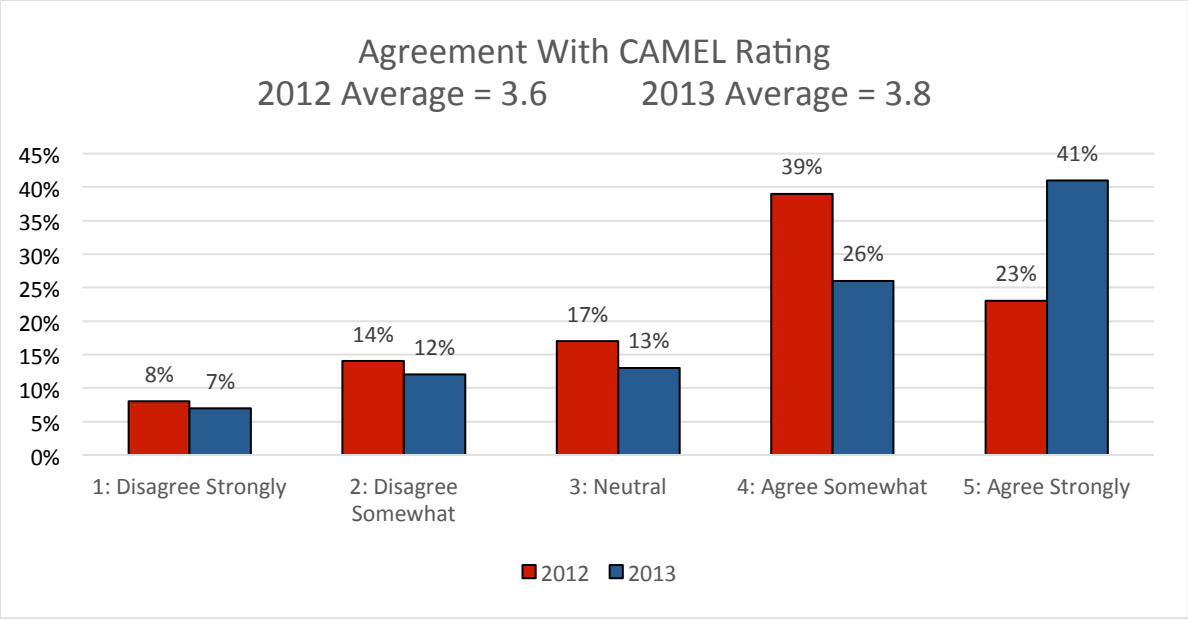








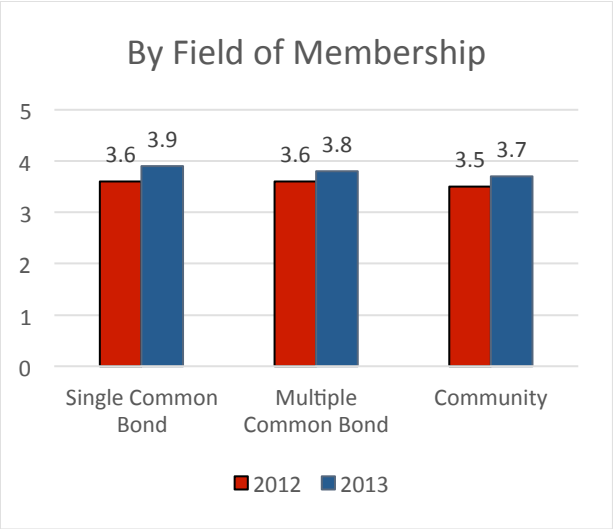
LEVEL OF AGREEMENT WITH CAMEL RATING

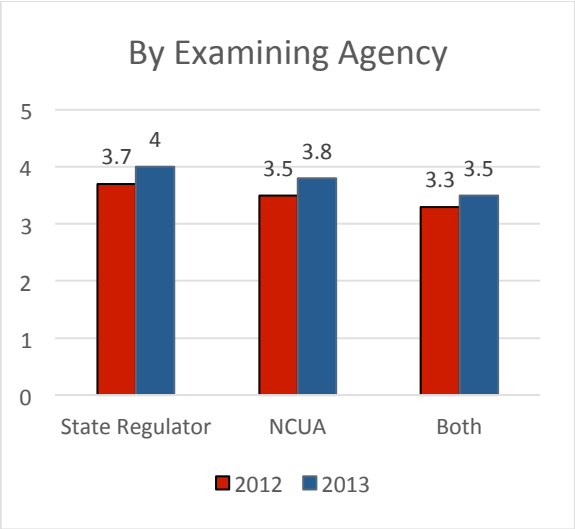


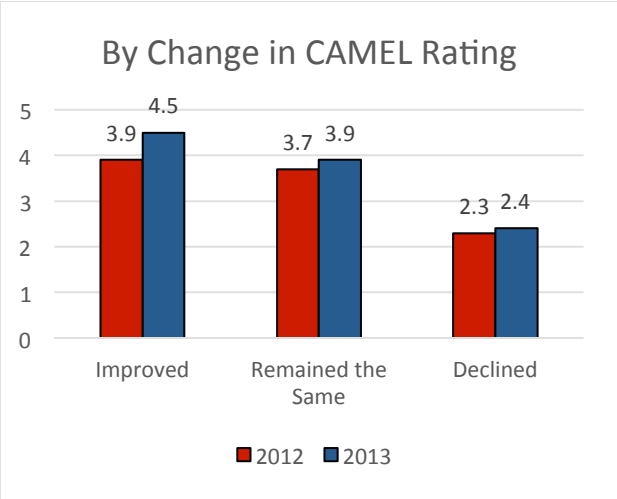
- The level of agreement with the CAMEL rating rose from 2012 to 2013. In particular, there was a substantial shift from those reporting they "agree somewhat" to those saying they "agree strongly."

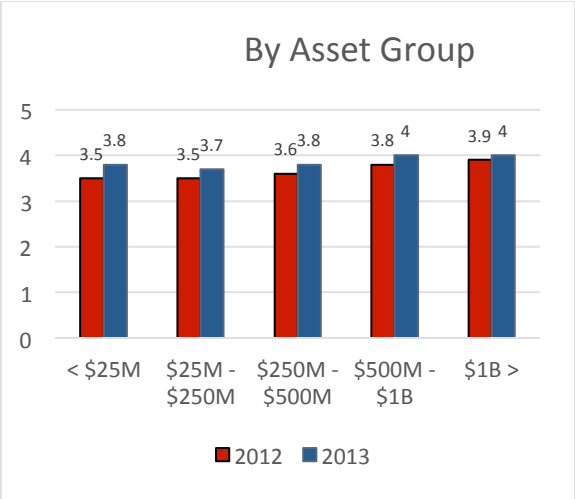
- Credit unions with a single common bond were more likely to agree with their CAMEL rating than those with a community field of membership.
- The difference between agreement with CAMEL rating on exams by a state regulator only and joint exams widened from 2012 to 2013.
- Of course not surprising, credit unions whose CAMEL ratings improved were much more likely to agree with those CAMEL ratings.
- Larger credit unions were slightly more likely to agree with their CAMEL ratings than smaller credit unions, although the difference by size narrowed slightly compared to 2012.
- Credit unions with either very low, or very high capital ratios were more likely to agree with their CAMEL ratings than credit unions with mid-range capital ratios.

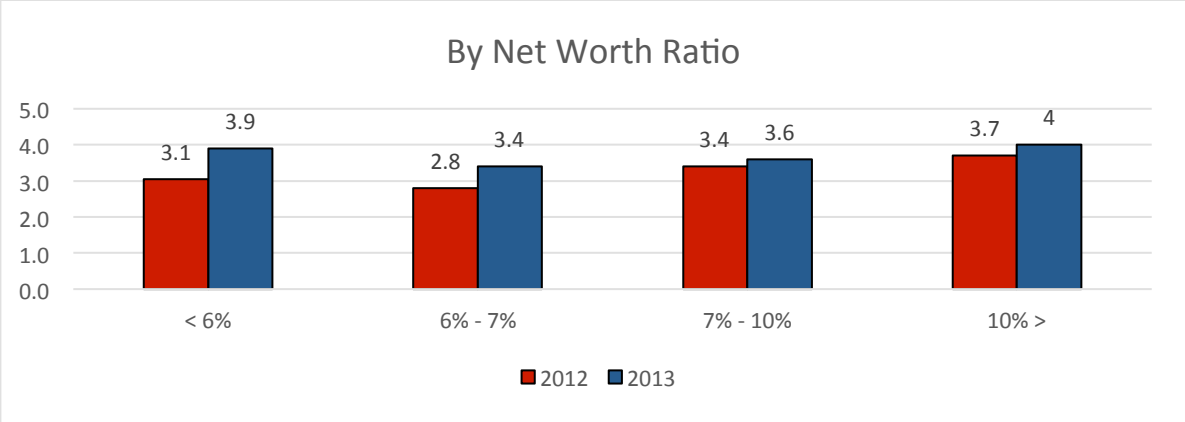
LEVEL OF AGREEMENT WITH CAMEL RATING
2012 Average = 3.6 2013 Average = 3.8



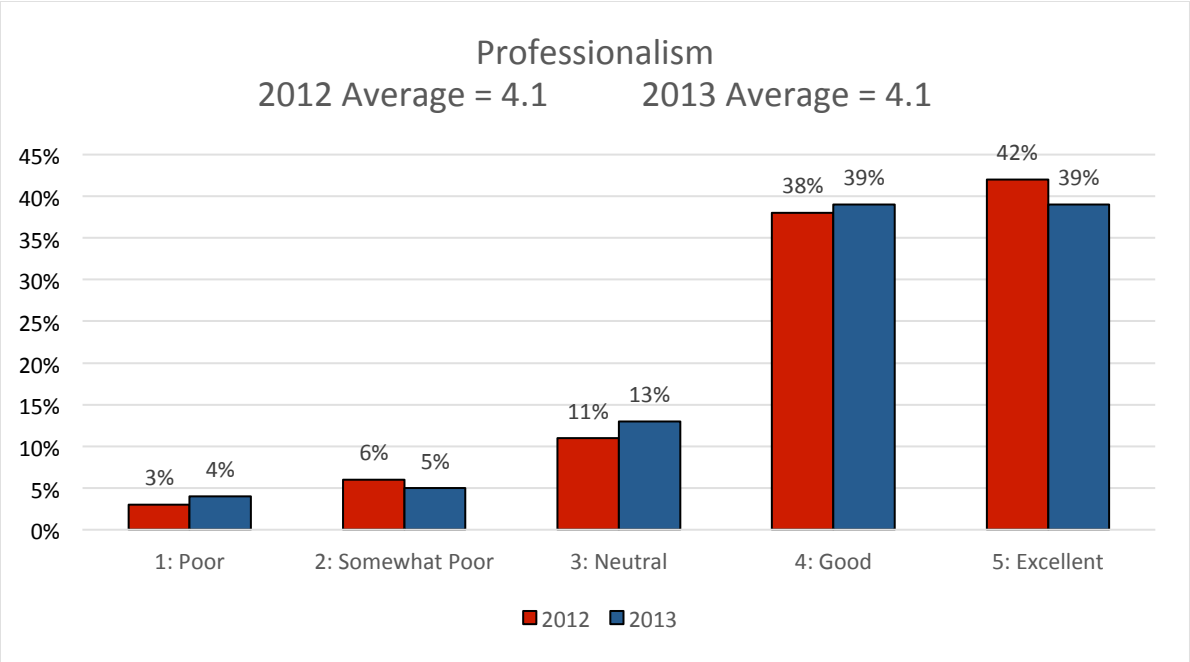








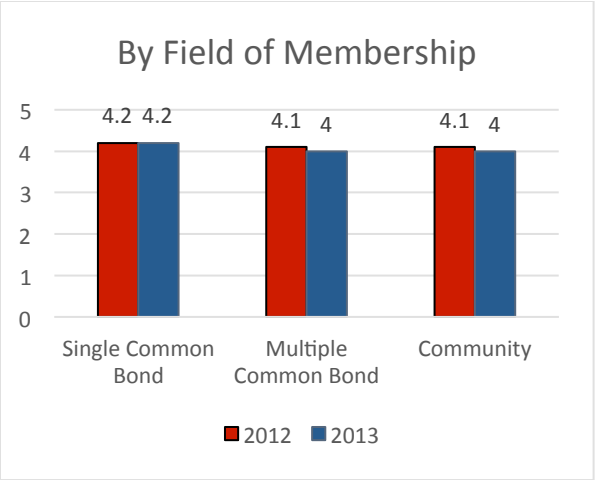
RATING THE EXAM TEAM
PROFESSIONALISM

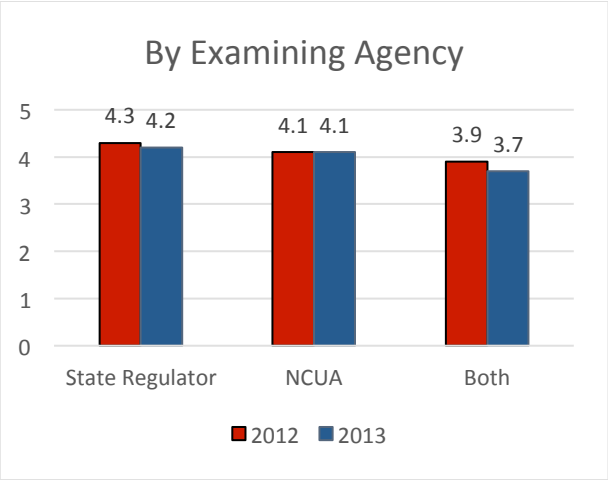


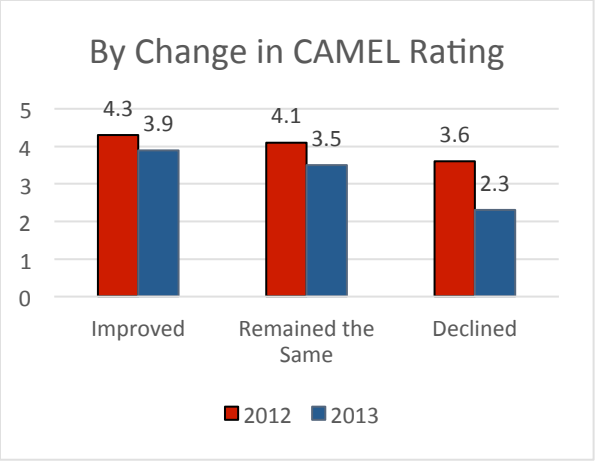
- The average rating of examiners on professionalism was unchanged from 2012 to 2013.

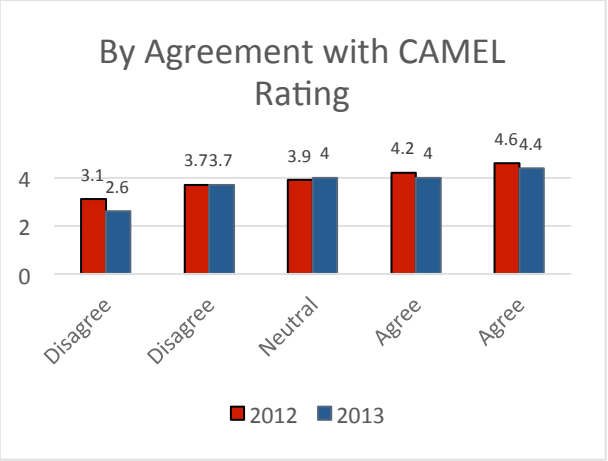
- In 2013, single common bond credit unions had higher evaluations of examiner professionalism that did multiple bond or community credit unions.
- Reported examiner professionalism was noticeably lower on joint exams than either state-only, or NCUA-only exams.
- Examiners who assigned reduced CAMEL ratings were demonstrably less professional than their peers who assigned higher ratings, at least in the eyes of the examined.
- Similarly, the greater the level of agreement with the CAMEL rating, the more likely was the credit unions to rate the examiners as highly professional.
- There was very little difference in the perception of examiner professionalism across asset sizes.
- Credit unions with net worth ratios under 6% gave the highest ratings for examiner professionalism. Those with net worth ratios between 7% and 10% gave the lowest.

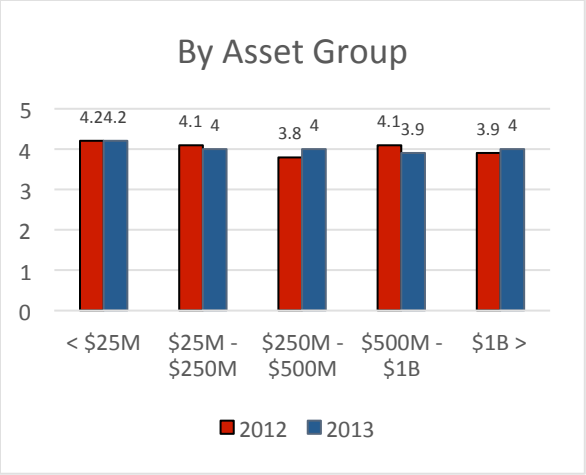
RATING THE EXAM TEAM
PROFESSIONALISM
2012 Average = 4.1 2013 Average = 4.1

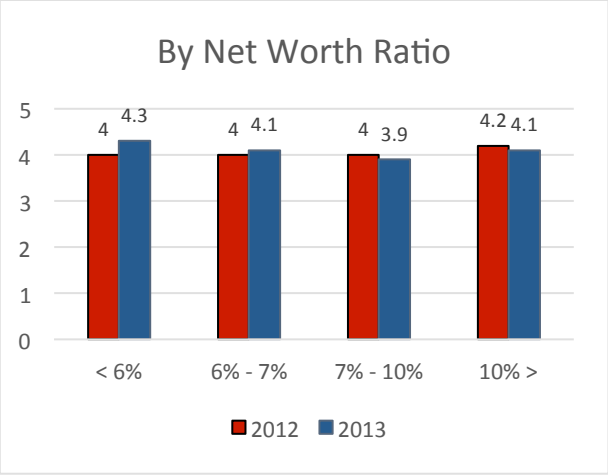




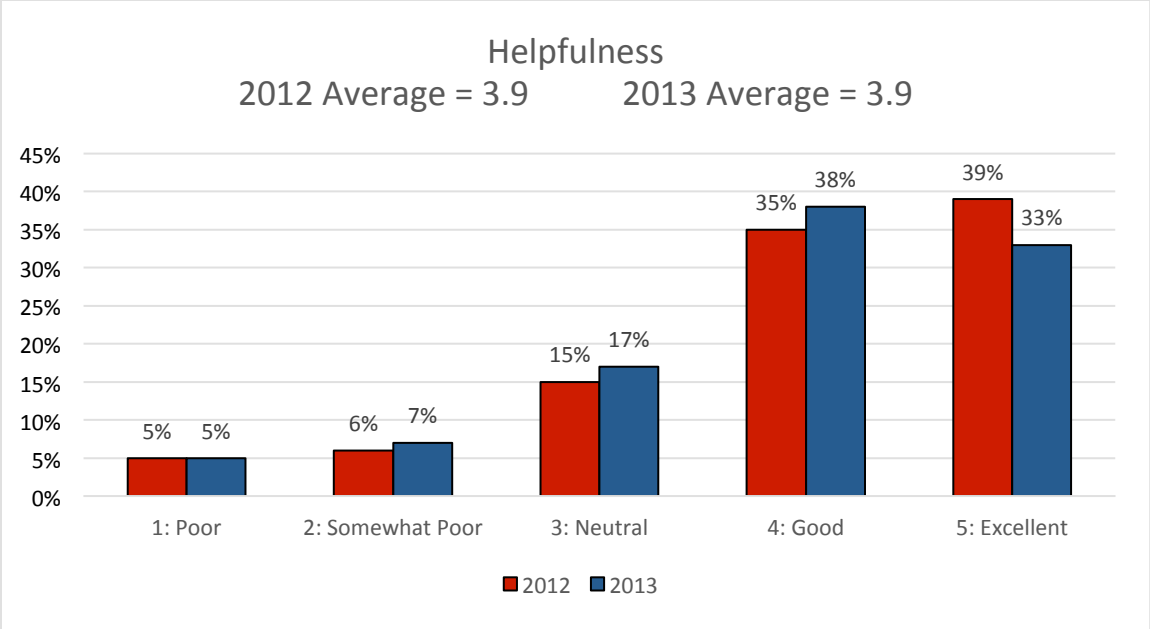








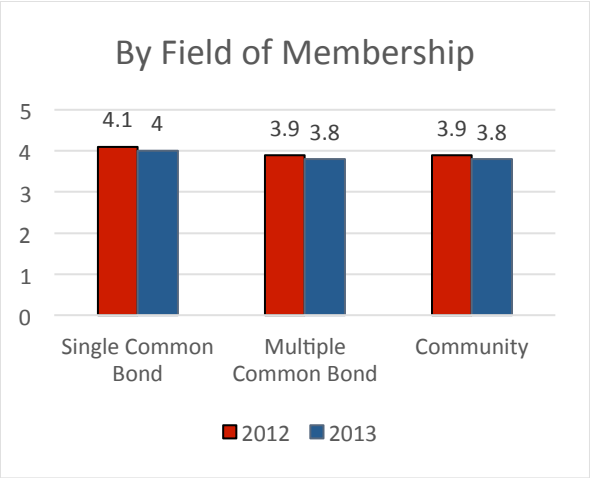
RATING THE EXAM TEAM

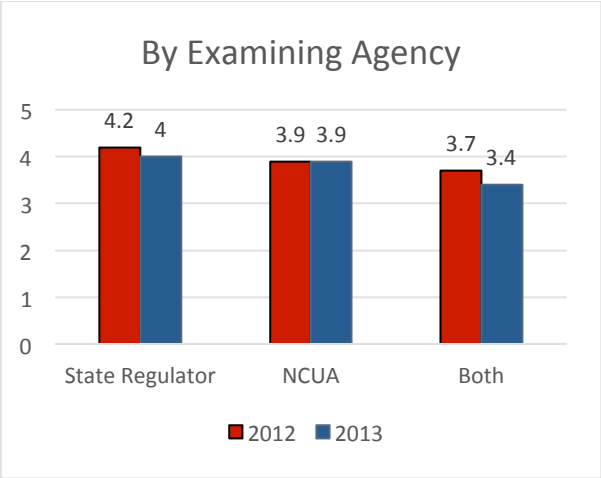


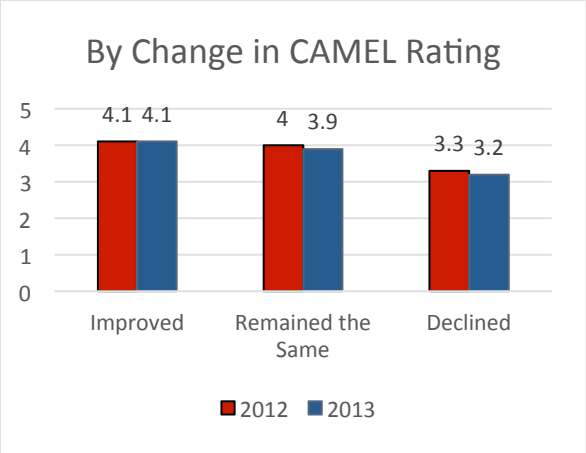
- The average rating of examiners on helpfulness was unchanged from 2012 to 2013.

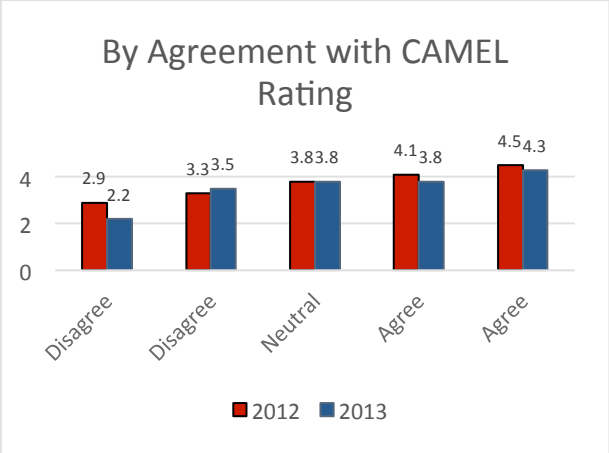
- In both 2012 and 2013, single common bond credit unions had higher evaluations of examiner helpfulness that did multiple bond or community credit unions.
- Reported examiner helpfulness was noticeably lower on joint exams than either state-only, or NCUA-only exams.
- Examiners who assigned reduced CAMEL ratings were deemed to be less helpful than their peers who assigned higher ratings.
- Similarly, the greater the level of agreement with the CAMEL rating, the more likely was the credit union to rate the examiners as helpful.
- Smaller credit unions were the most likely to rate the exam team as helpful. Somewhat surprisingly credit unions with assets over $1 billion were more likely to cite examiner helpfulness than those with assets between $500 million and $1 billion.
- Credit unions with net worth ratios under 6% gave the highest ratings for examiner helpfulness.

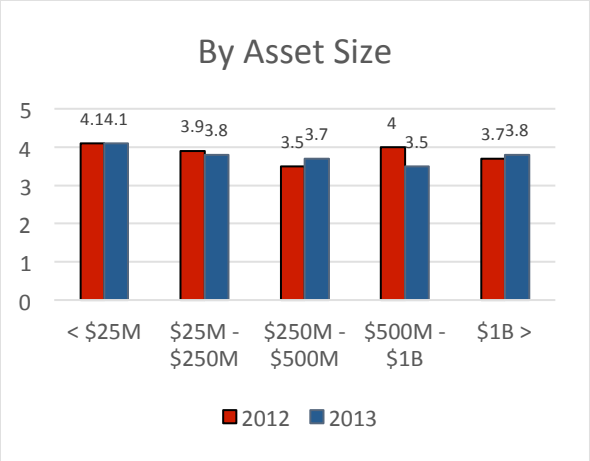
RATING THE EXAM TEAM
HELPFULNESS
2012 Average = 3.9 2013 Average = 3.9

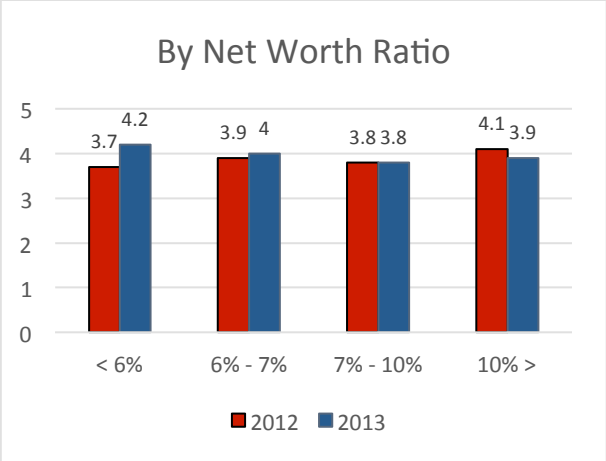




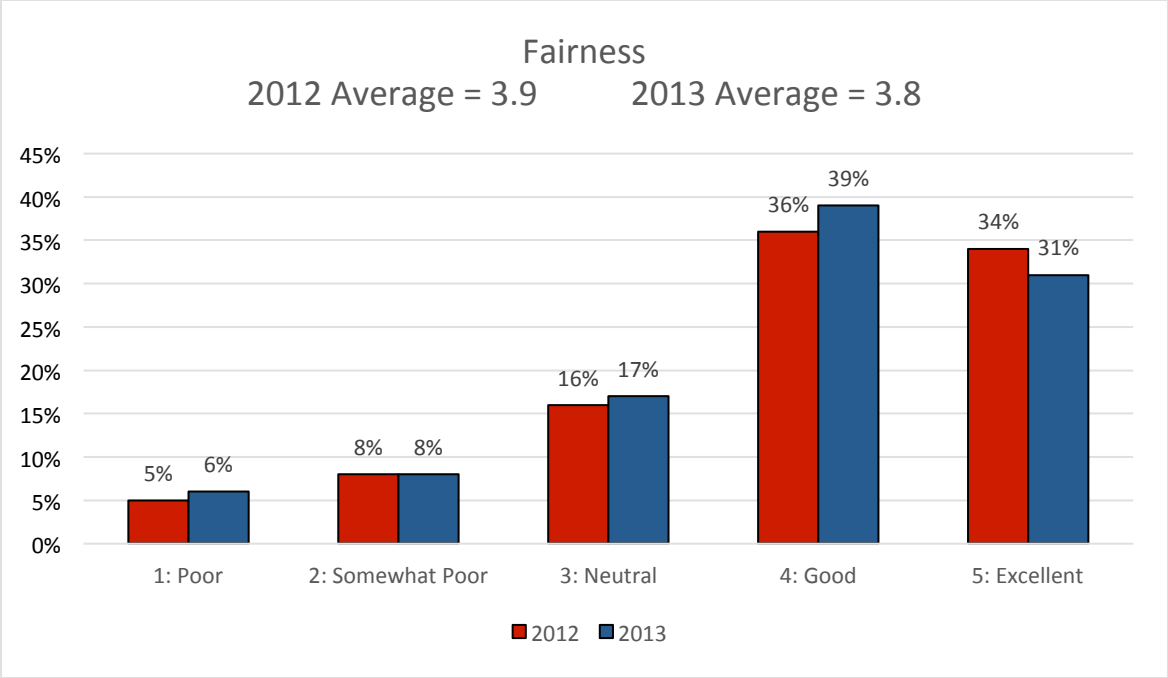








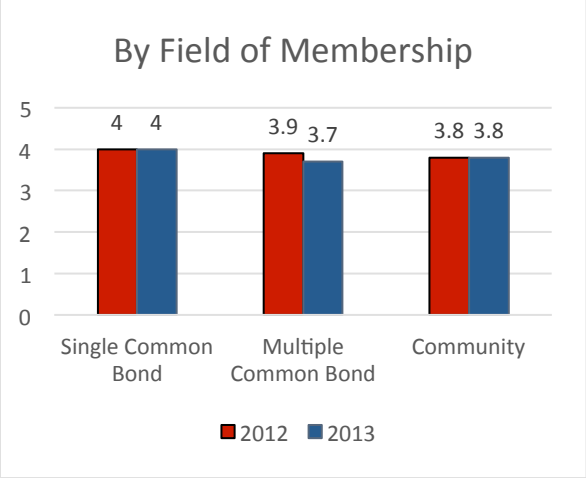
RATING THE EXAM TEAM

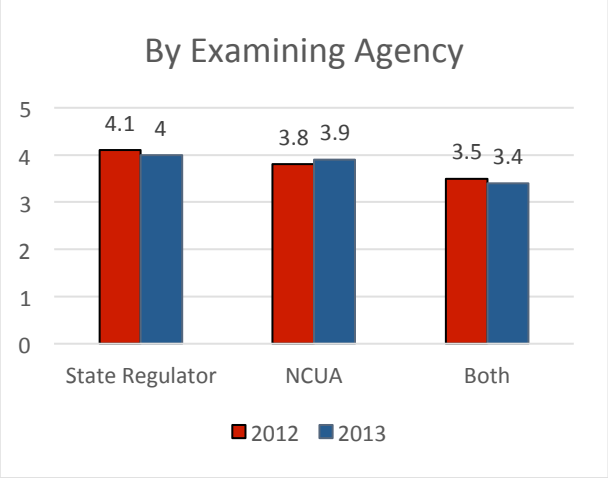


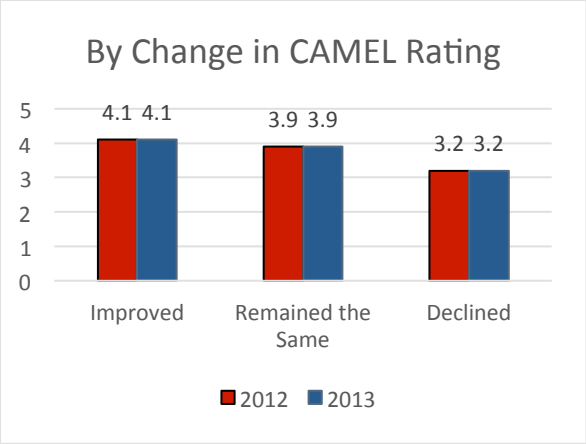
- The average rating for examiner fairness fell slightly from 2012 to 2013.

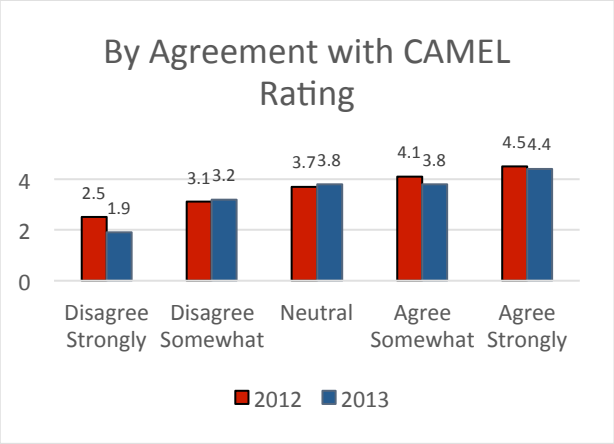
- Single common bond credit unions were more likely to describe examiners as fair than other credit unions.
- Examiners in state-only exams were slightly more likely to be rated as fair than in NCUA-only exams, but the gap narrowed from 2012. Examiners in joint exams were much less likely to be considered fair than in either of the solo exams.
- The better the change in CAMEL rating, the more likely was the exam team to be considered fair.
- The more the credit union agreed with its CAMEL rating, the more likely was it to consider the examiner fair.
- Credit unions with below $25 million in assets were most likely to describe the exam team as fair. Those with assets between $0.5 billion and $1 billion were least likely to do so.
- Credit unions with net worth ratios below 6% or more than 10% were more likely to consider examiners fair than other credit unions.

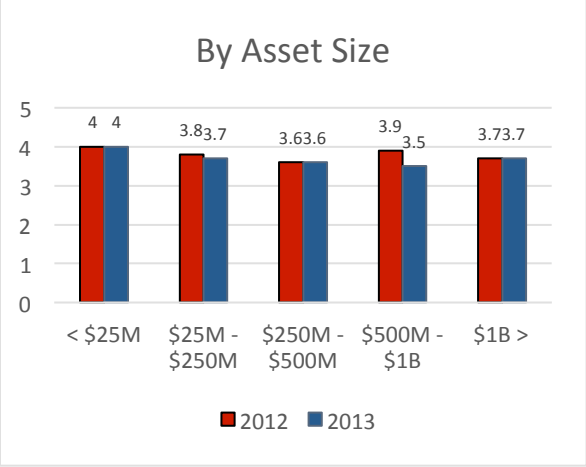
RATING THE EXAM TEAM
FAIRNESS
2012 Average = 3.9 2013 Average = 3.8

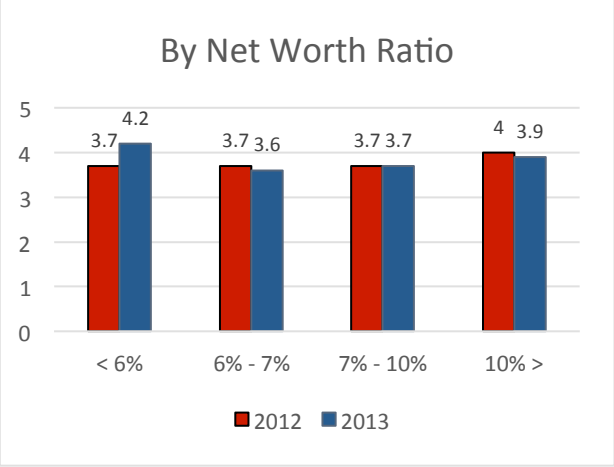




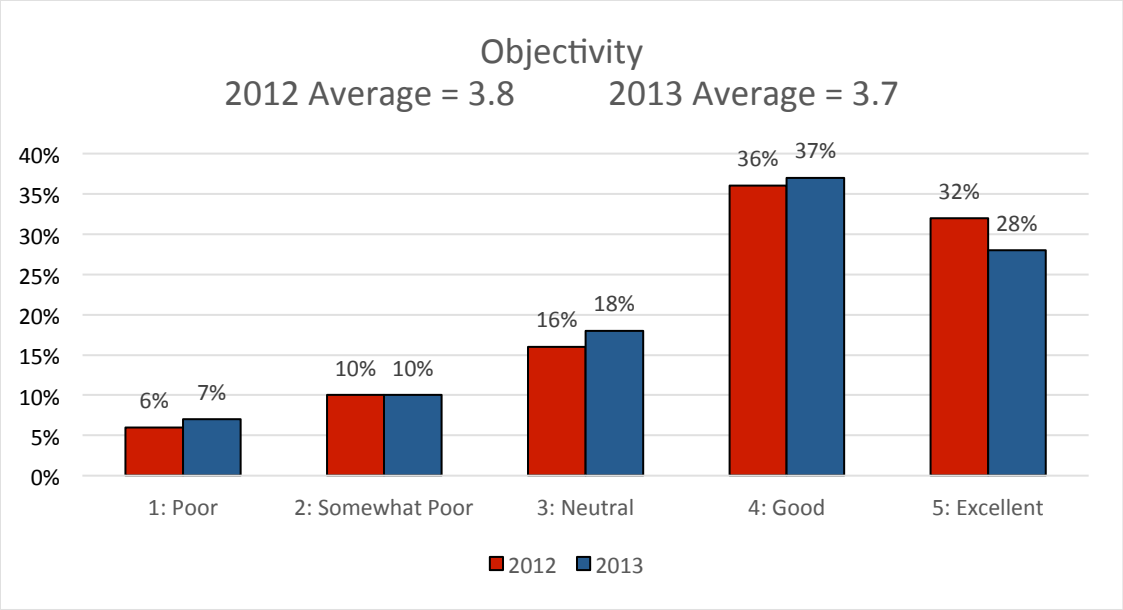








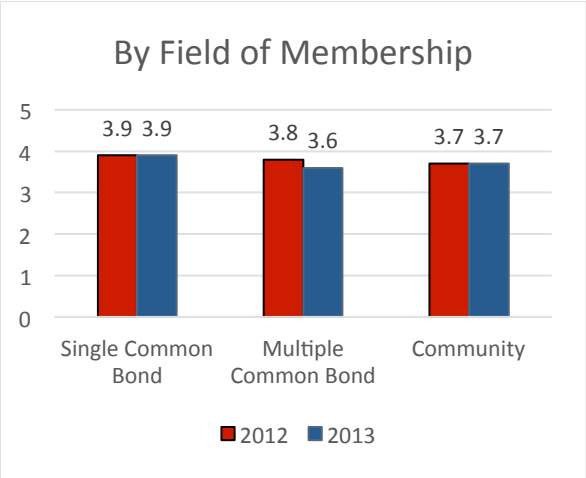
RATING THE EXAM TEAM

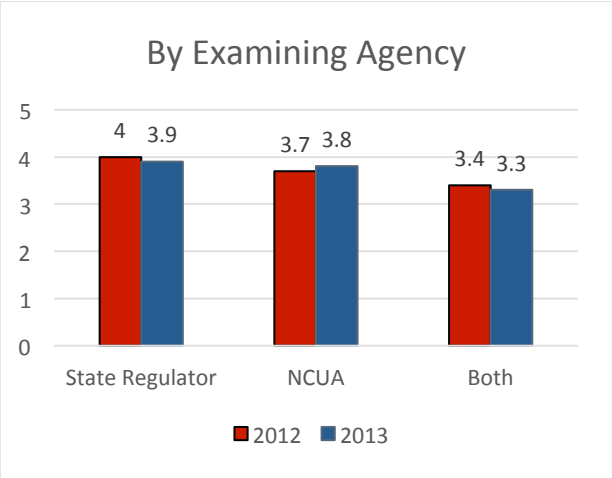


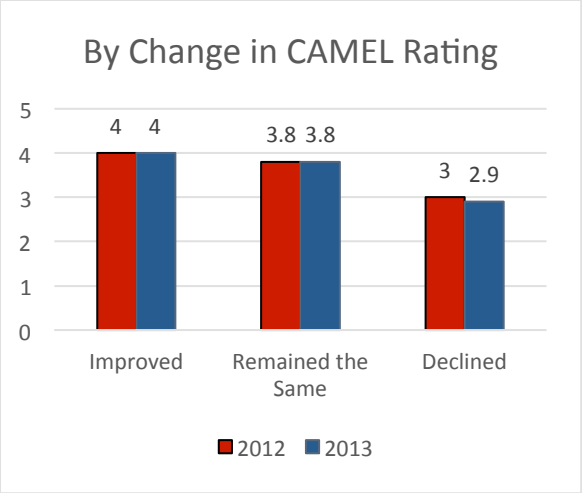
- The average rating for examiner objectivity fell slightly from 2012 to 2013.

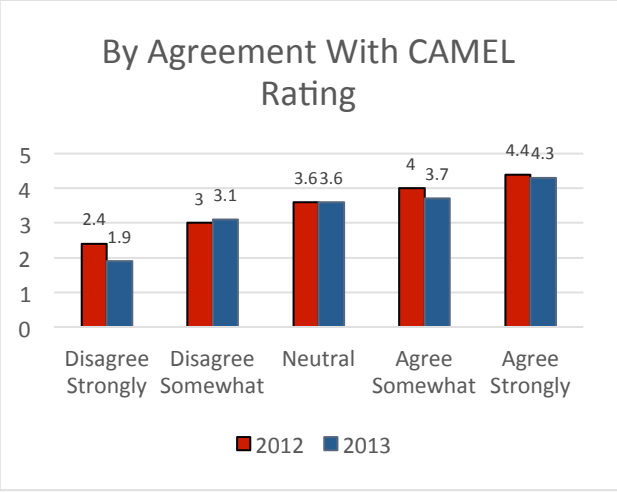
- Ratings for examiner objectivity were highest by single common bond credit unions, and lowest by multiple common bond credit unions.
- Credit unions rated objectivity similarly at state-only and NCUA-only exams, but much lower at joint exams.
- Examiners who assigned a lower CAMEL rating than the previous exam were considered to be less objective.
- The more a credit union agreed with its CAMEL rating, the more likely was it to rate the exam team as objective.
- Credit unions with assets below $25 million rated examiners as more objective than other credit unions.
- By net worth ratio, the highest ratings for objectivity came from credit unions with ratios below 6%. The lowest ratings for objectivity were from credit unions with net worth ratios between 7% and 10%.

RATING THE EXAM TEAM
OBJECTIVITY
2012 Average = 3.8 2013 Average = 3.7









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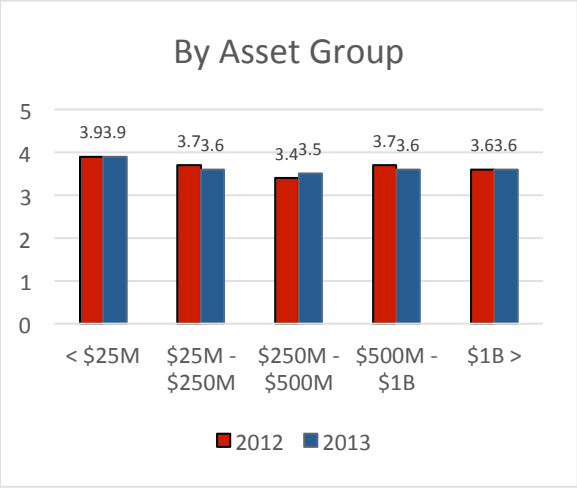
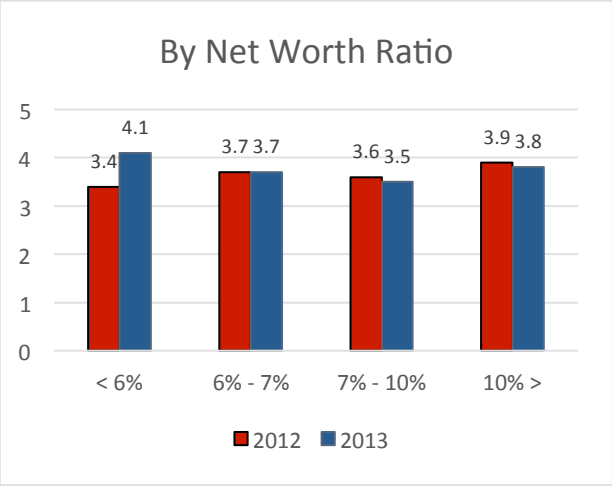
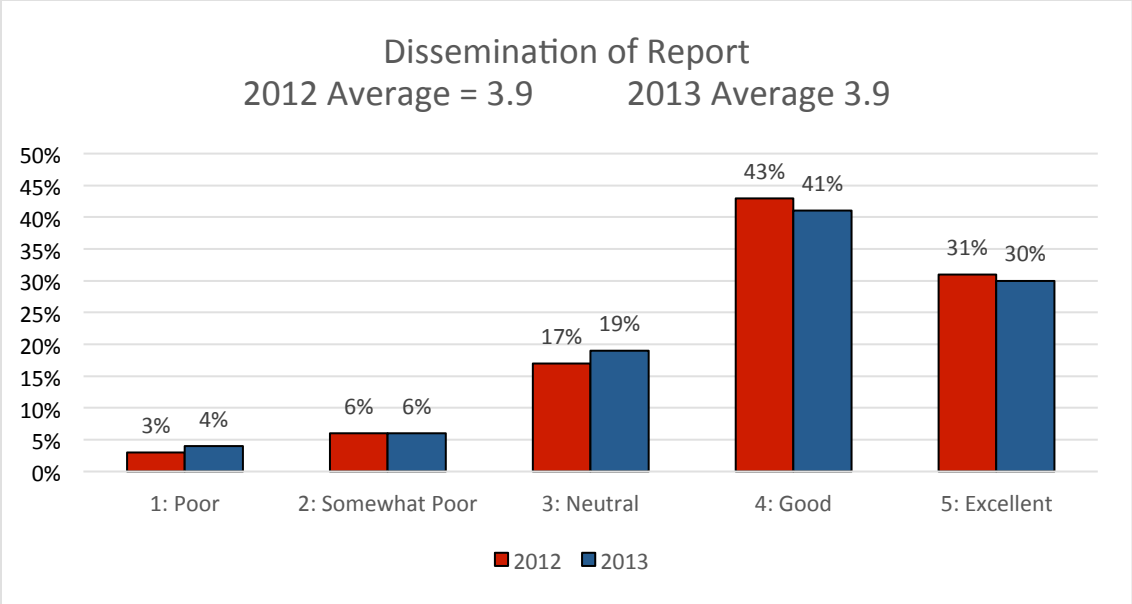




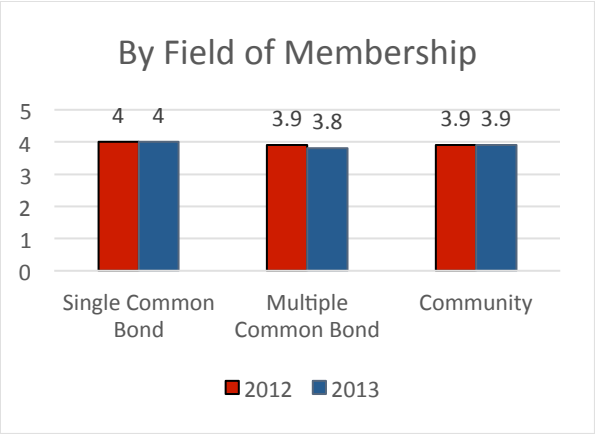
RATING EXAM TEAM'S DEALING WITH VOLUNTEERS

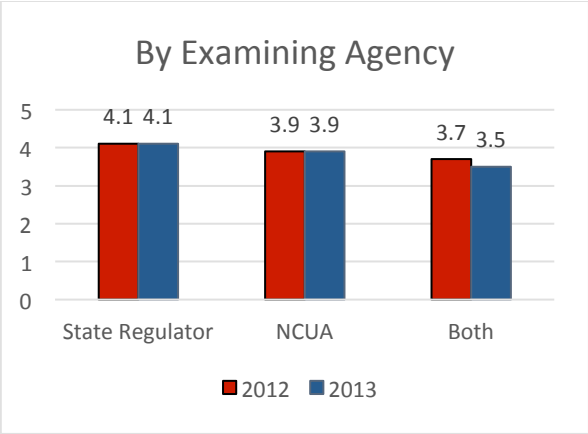


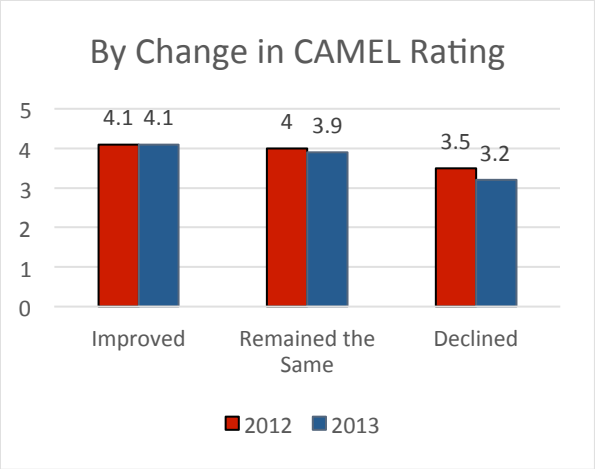
- The average rating for examiner(s) dissemination of the report to the Board/Supervisory Committee was unchanged from 2012 to 2013.

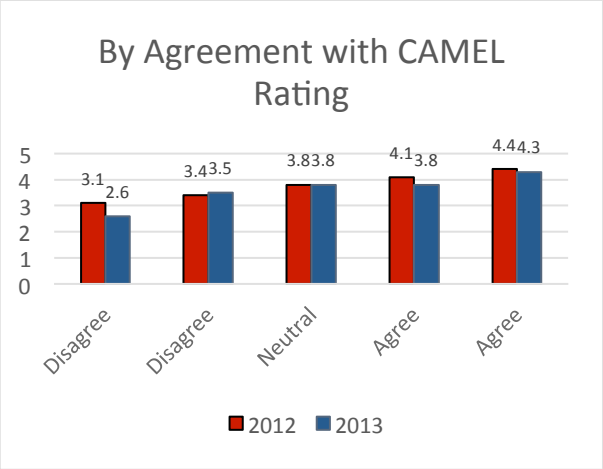
- CEOs at multiple common bond credit unions were slightly less likely than other CEOs to give high ratings for dissemination of the exam report to volunteers.
- Ratings on dissemination of the exam report were lower at credit unions with joint exams than at NCUA-only examined credit unions. Highest ratings by examining agency were for state-only exams.
- Credit unions whose CAMEL rating declined were more likely to give low ratings for dissemination of the report.
- The more credit unions agreed with their CAMEL rating, the more highly they rated the exam team for dissemination of the exam report.
- There was very little variance in credit union rating of exam team's dissemination of exam report by either asset size or capital ratio.

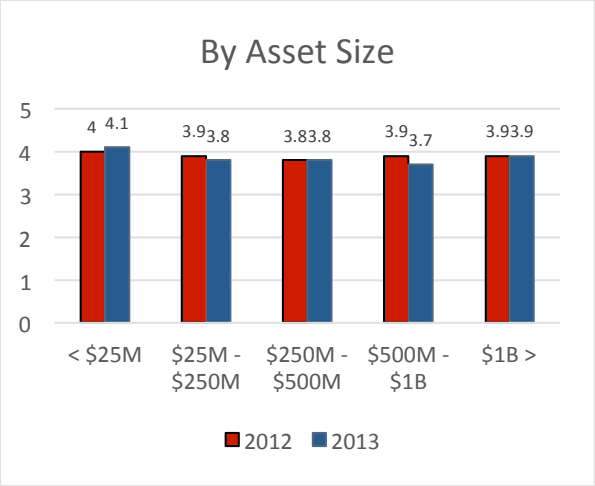
RATING EXAM TEAM'S DEALING WITH VOLUNTEERS
DISSEMINATION OF REPORT
2012 Average = 3.9 2013 Average = 3.9

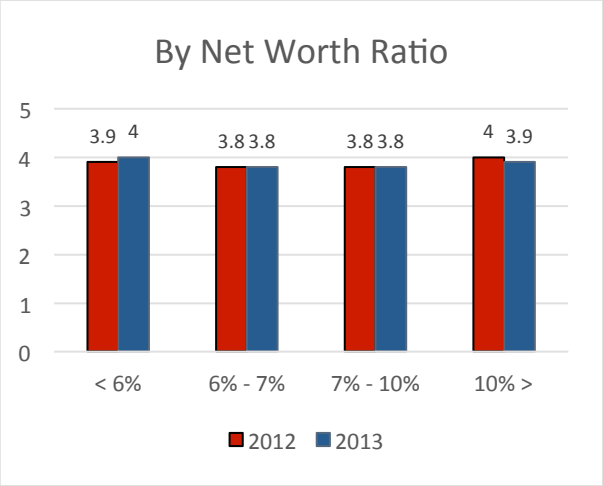




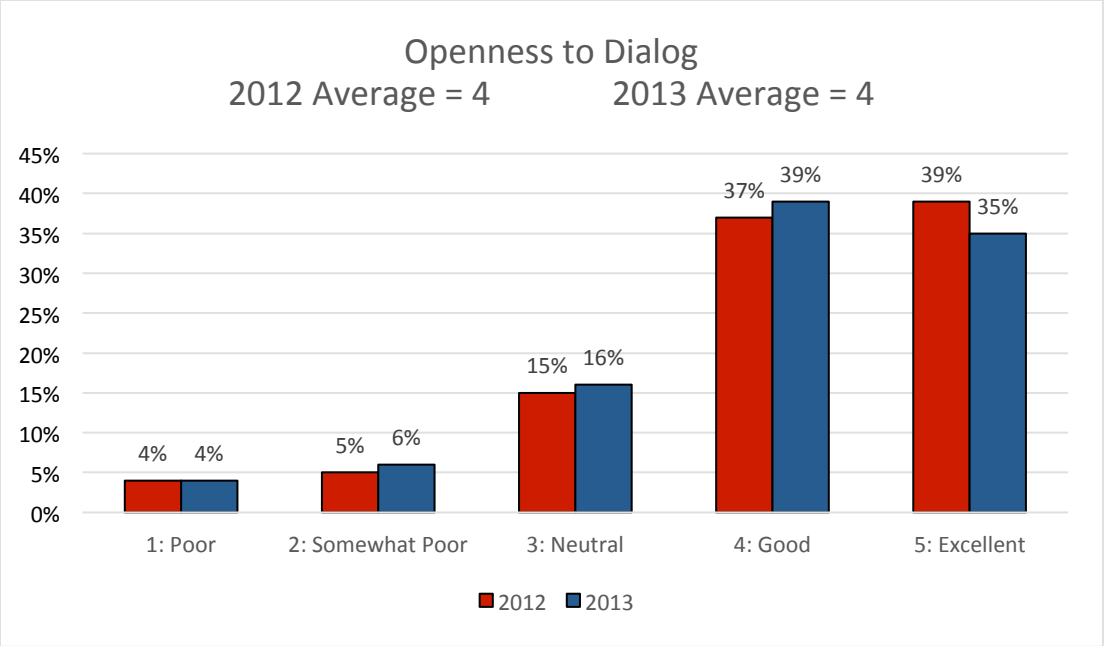








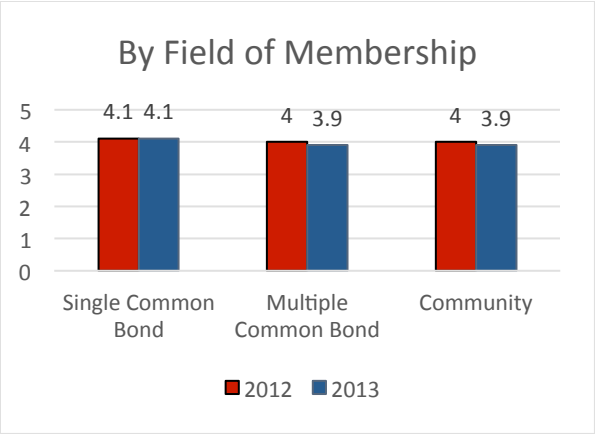
RATING EXAM TEAM'S DEALING WITH VOLUNTEERS

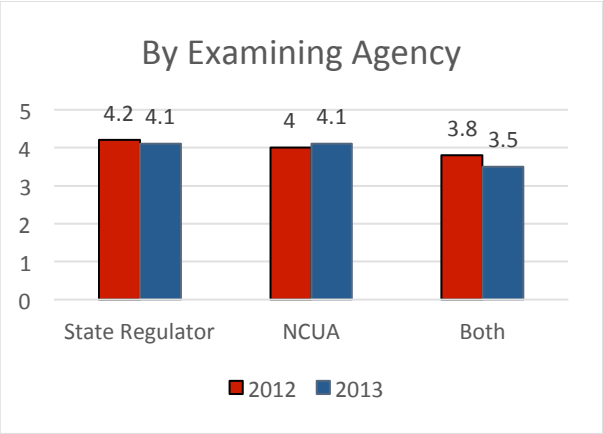


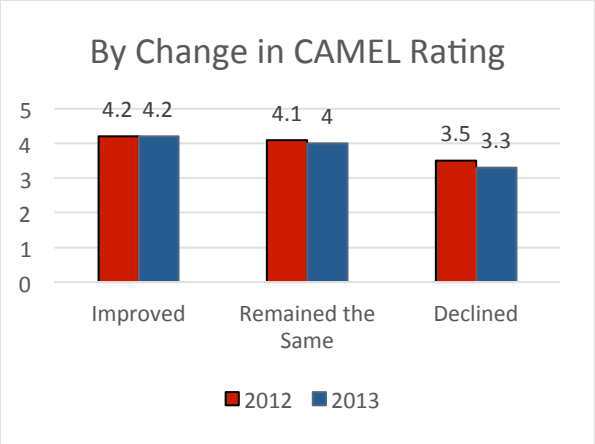
- The average rating for examiners openness to dialog in dealing with directors/volunteers was unchanged from 2012 to 2013. This item scored the highest rating of the four questions concerning exam team dealing with volunteers.

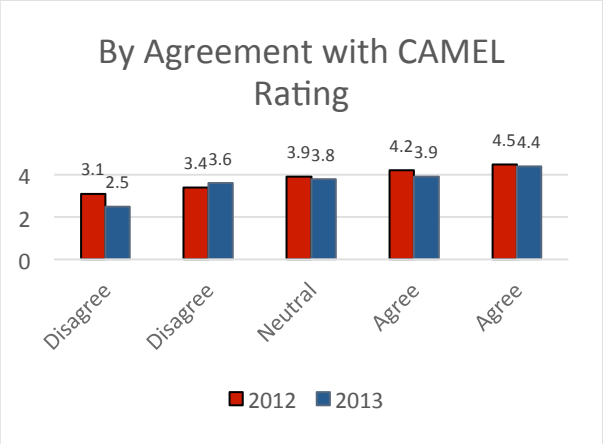
- Single common bond credit unions gave the highest ratings for openness to dialog.
- State-only and NCUA-only exams resulted in higher ratings for openness to dialog with volunteers than did joint exams.
- Credit unions whose CAMEL ratings declined were less likely to credit examiners with being open to dialog than were other credit unions.
- The more a credit union agreed with its CAMEL rating, the more likely was it to rate the exam team as open to dialog with volunteers.
- Credit unions with assets below $25 million gave higher ratings for openness to dialog than other credit unions.
- Credit unions with net worth ratios between 6% and 7% gave the lowest rankings for openness to dialog. Those with net worth ratios below 6% gave the highest.

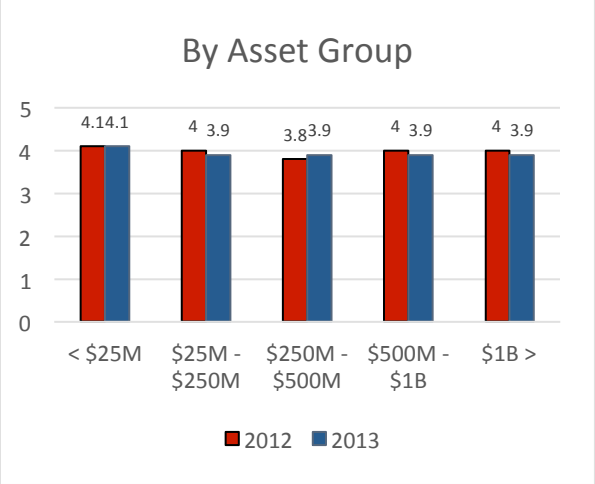
RATING EXAM TEAM'S DEALING WITH VOLUNTEERS
OPENNESS TO DIALOG
2012 Average = 4 2013 Average = 4

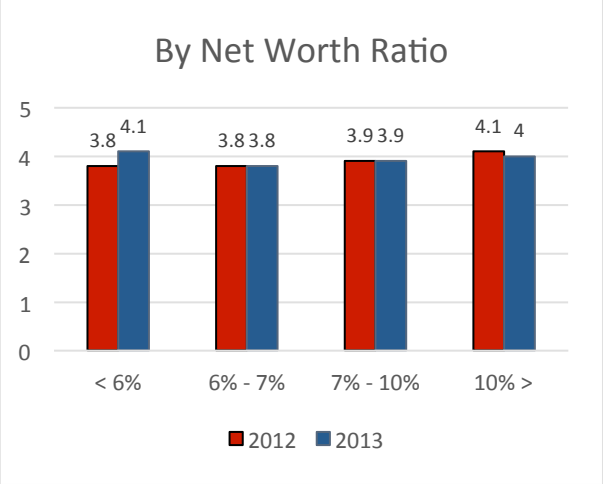




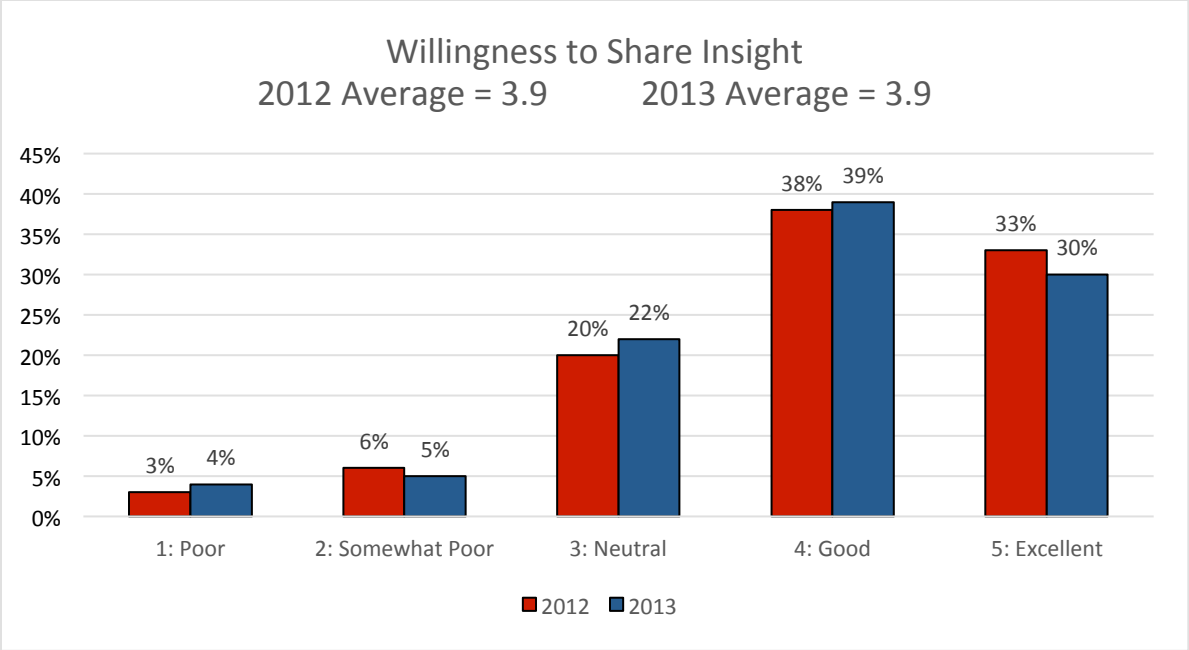








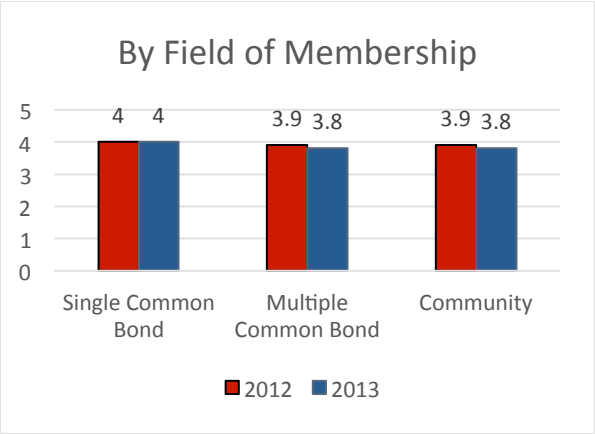
RATING EXAM TEAM'S DEALING WITH VOLUNTEERS

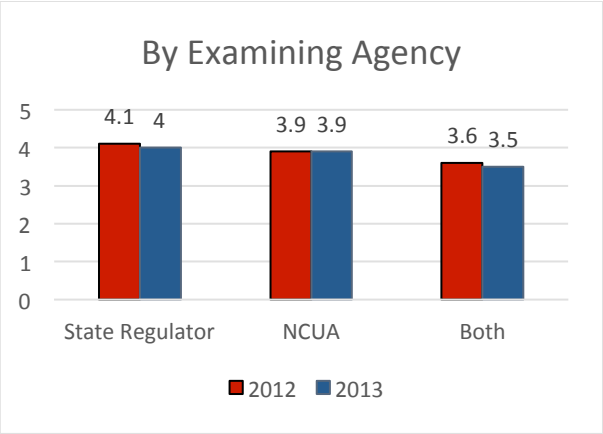


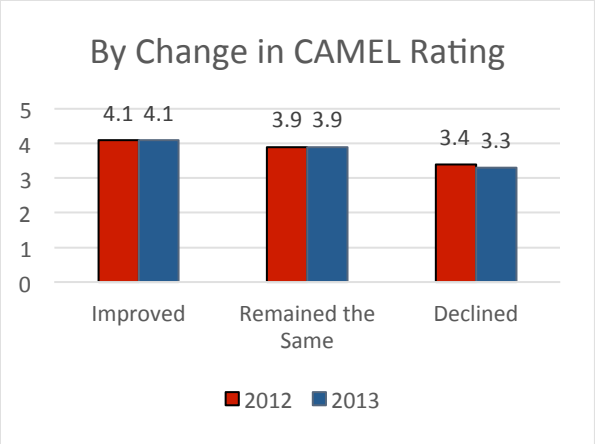
- The average rating for examiners' willingness to share insight in dealing with directors/volunteers was unchanged from 2012 to 2013.

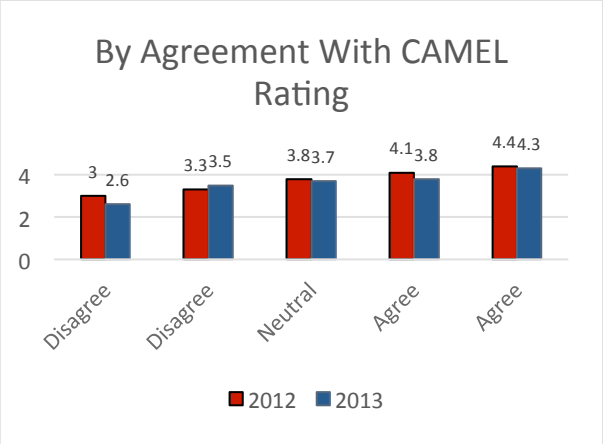
- Single common bond credit unions rated examiners more highly on willingness to share insight than either multiple common bond, or community credit unions.
- Examiners on state-only and NCUA-only examinations received similar ratings on willingness to share insight. Examiners on joint exams received lower ratings.
- Credit unions whose CAMEL ratings declined gave lower marks for willingness to share insight.
- The more a credit union agreed with its CAMEL rating, the more likely it was to rate examiners highly for willingness to share insight.
- Ratings for willingness to share insight fell as asset size increased, except for the largest credit unions.
- Ratings for willingness to share insight were slightly higher for credit unions with the lowest and highest net worth ratios.

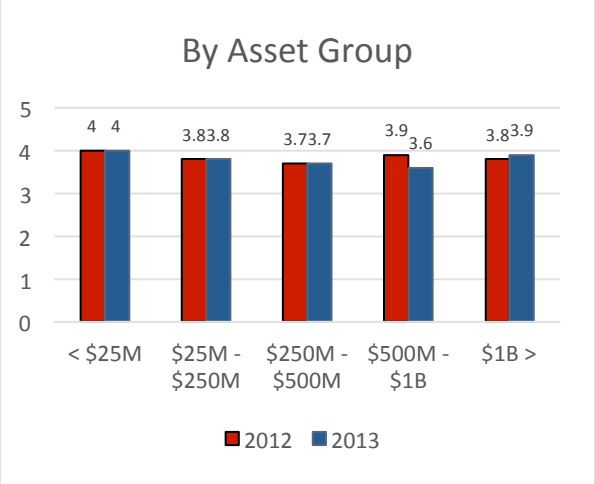
RATING EXAM TEAM'S DEALING WITH VOLUNTEERS
WILLINGNESS TO SHARE INSIGHT
2012 Average = 3.9 2013 Average = 3.9

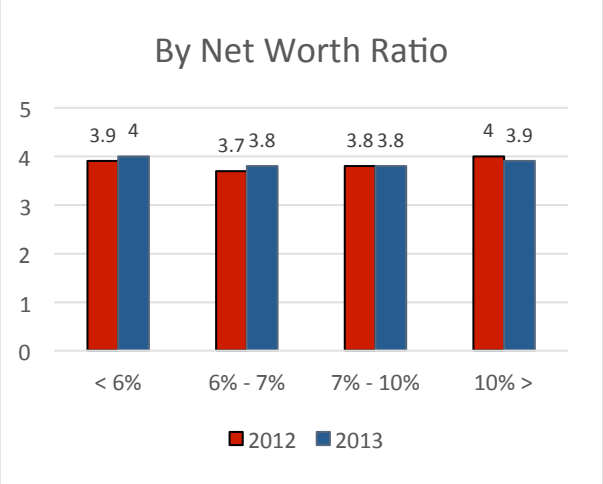




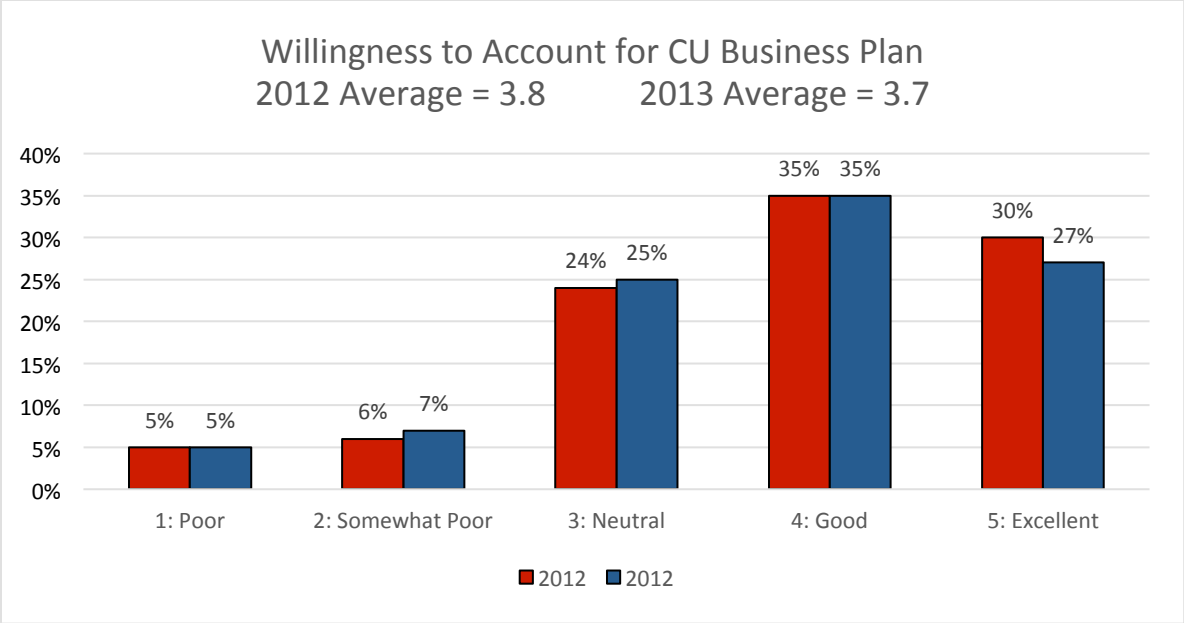








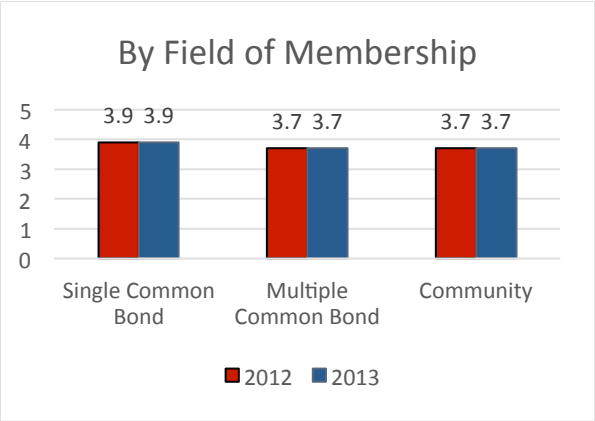
RATING EXAM TEAM'S DEALING WITH VOLUNTEERS

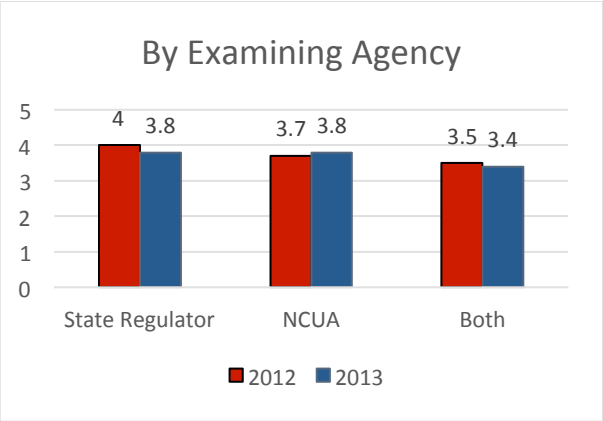


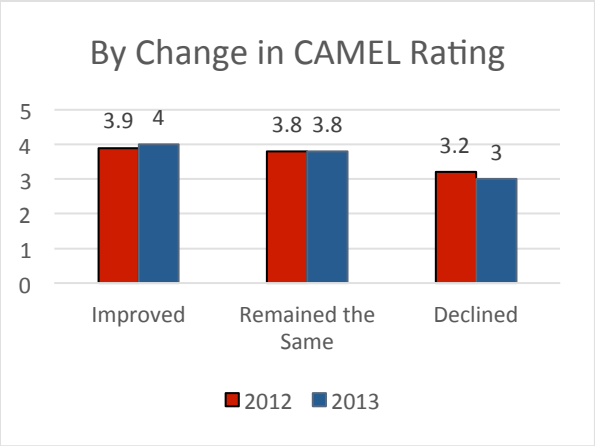
- The average rating for examiners' willingness to account for the credit union's business plan declined slightly, from 2012 to 2013. This item scored the lowest rating of the four questions concerning exam team dealing with volunteers.

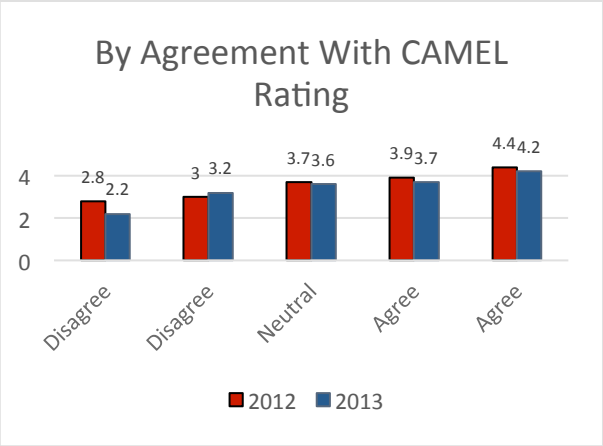
- Credit unions with single common bonds gave higher marks for willingness to account for the credit union's business plan than did other credit unions.
- Ratings for willingness to consider the credit union's business plan were equal for state-only and NCUA-only exams, but substantially lower for joint exams.
- Examiners who assigned reduced CAMEL ratings were judged to be less willing to account for the credit union's business plan.
- The more a credit union agreed with its CAMEL rating, the higher the rating it gave for examiner willingness to account for the credit union's business plan.
- Credit unions with assets below $25 million were more likely to give high marks for examiner willingness to account for the credit union's business plan than were other credit unions.
- Credit unions with the lowest and highest net worth ratios gave the highest ratings for examiner willingness to account for the credit union's business plan.

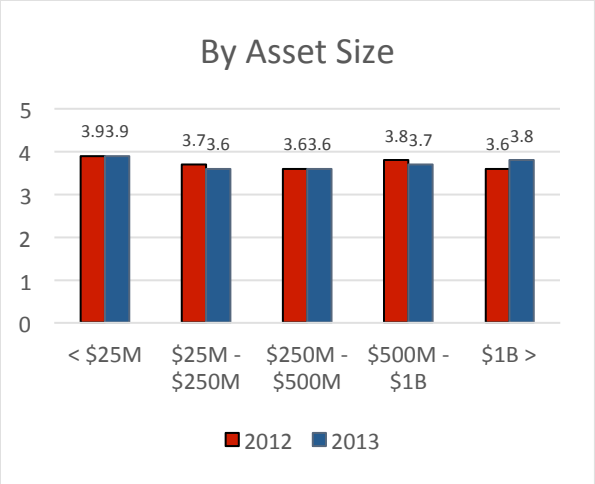
RATING EXAM TEAM'S DEALING WITH VOLUNTEERS
WILLINGNESS TO ACCOUNT FOR CU BUSINESS PLAN
2012 Average = 3.8 2013 Average = 3.7

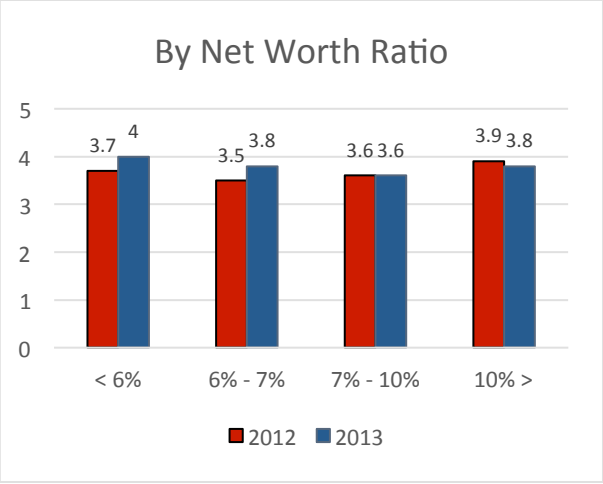




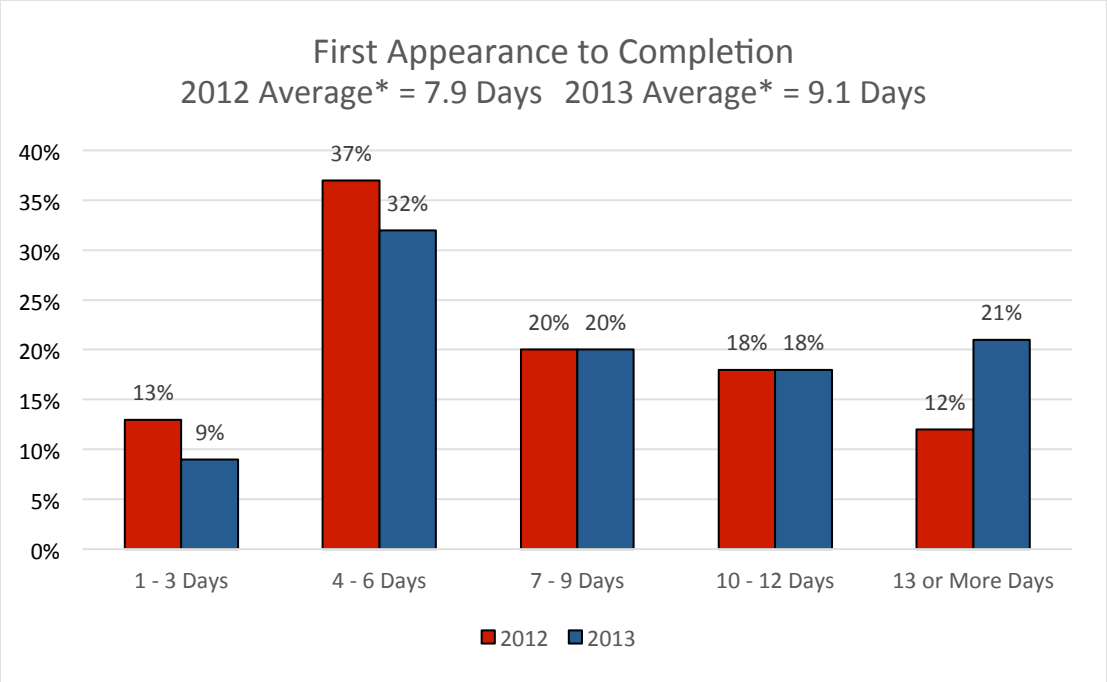








LENGTH OF EXAM

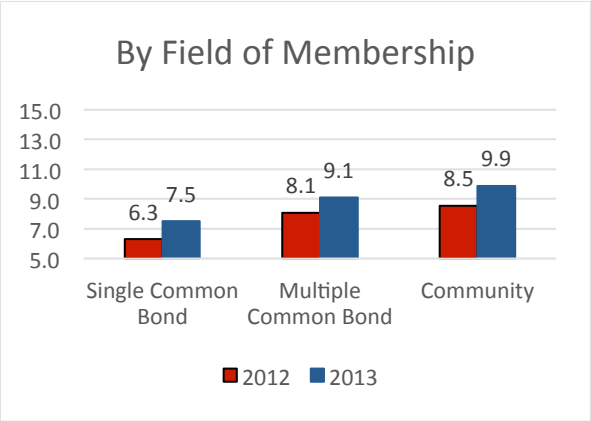


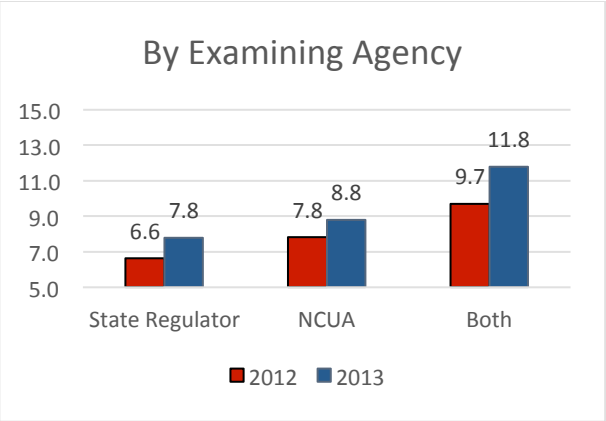
- The average number of days to complete an exam rose from 2012 to 2013. The proportion of exams requiring fewer than 6 days fell, while the proportion taking more than 12 days rose.

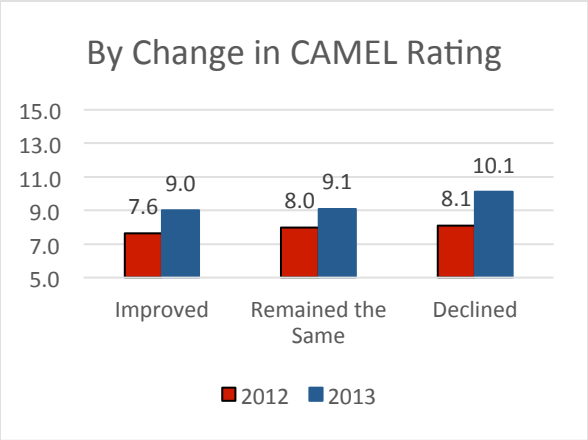
- Exams of community credit unions took longer than exams of multiple bond credit unions, which in turn took longer than exams of single common bond credit unions.
- Joint exams took considerably longer than NCUA-only exams which took longer than state-only exams.
- Exams at which the CAMEL rating declined took longer than those for which the CAMEL rating stayed the same or improved.
- Exams about which the credit union disagreed most with the CAMEL rating took longer than other exams.
- The larger the credit union, the longer the exam. (Note: since our assumption for the number of days for exams lasting more than 12 days is the same for all such exams, our estimate of the difference in the length of exams for the two largest asset categories likely understates the actual difference.)
- Exams of well-capitalized credit unions took longer than exams of those that were adequately or less than adequately capitalized.

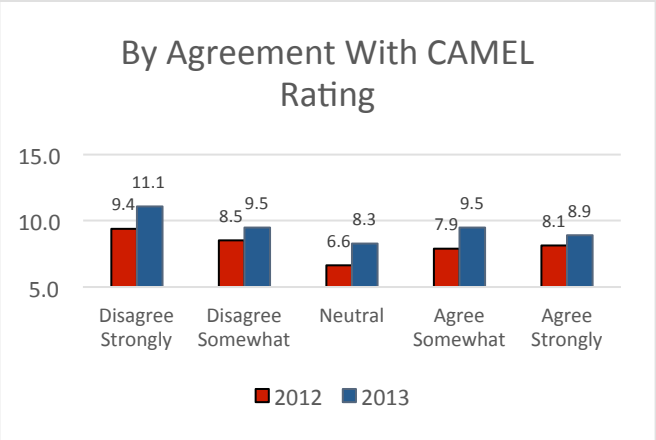
* In estimating the number of days to completion, exams of more than 13 days were assumed to take 18 days.

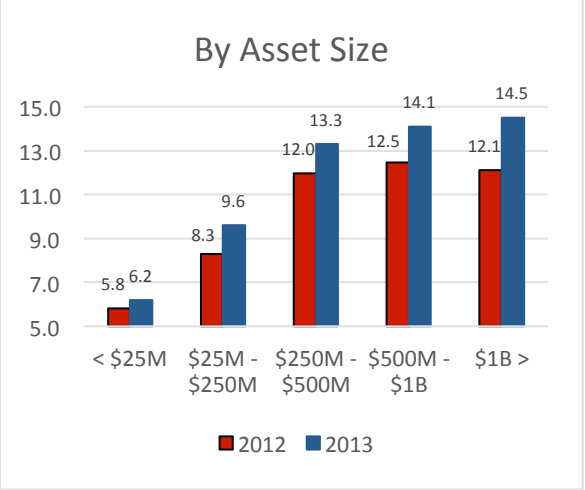
LENGTH OF EXAM
FIRST APPEARANCE TO COMPLETION
2012 Average = 7.9 Days 2013 Average = 9.1 Days

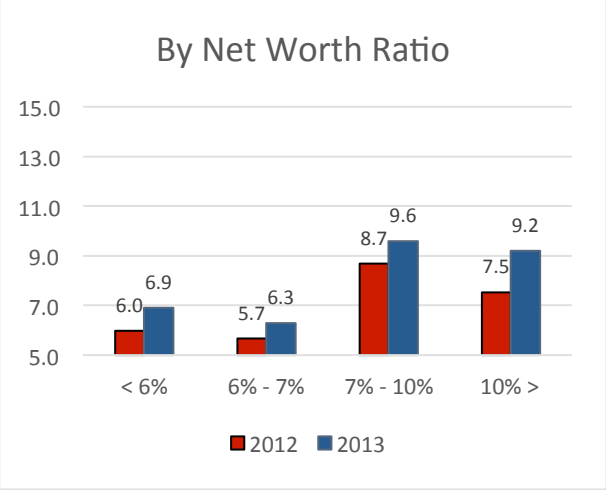




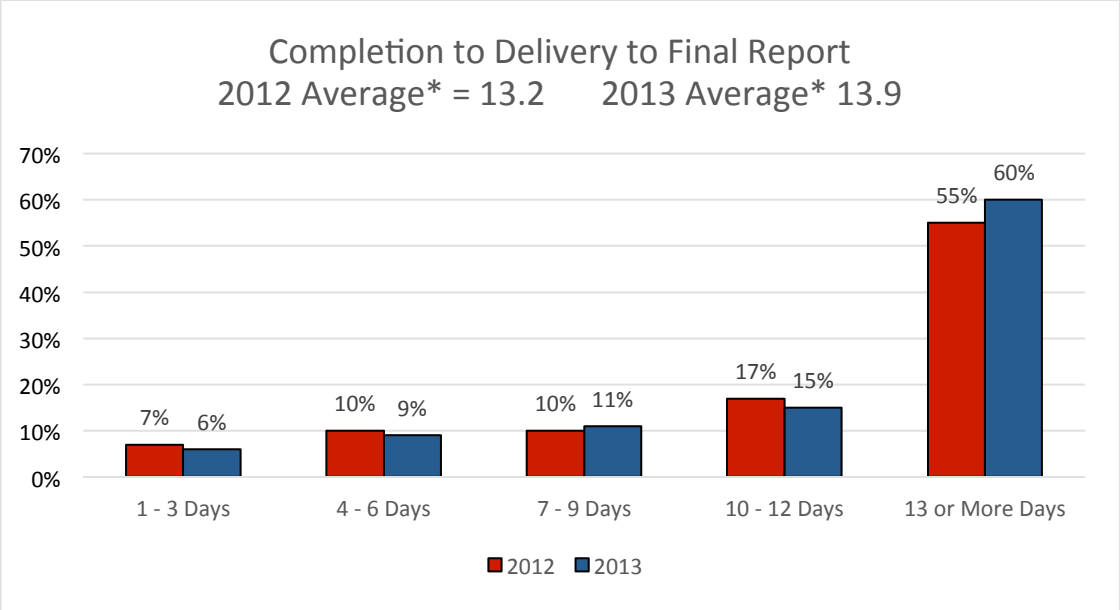








LENGTH OF EXAM

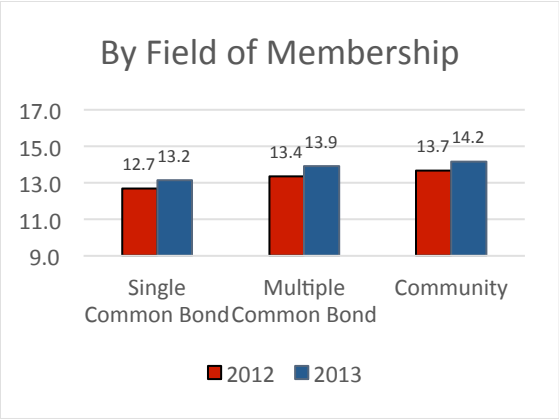


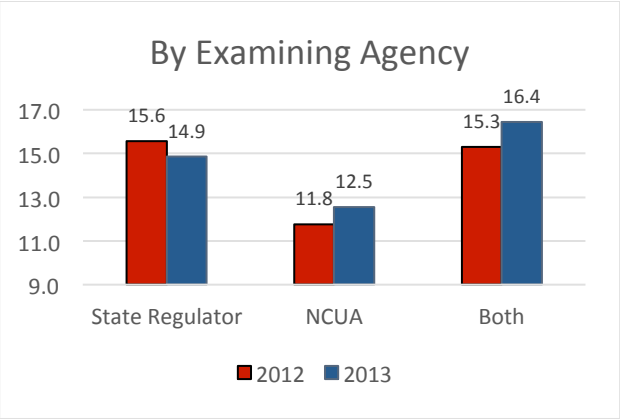
- The time from exam completion to delivery of the final report rose slightly from 2012 to 2013.

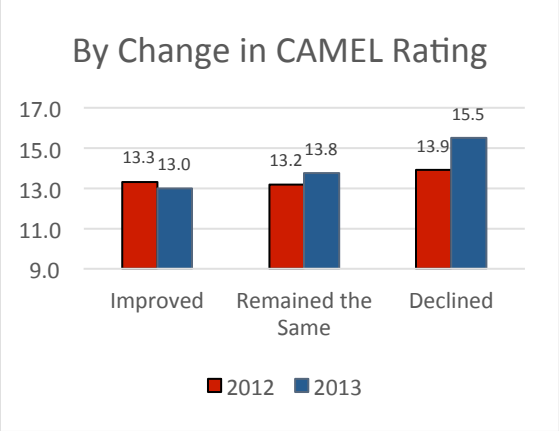
- The time to delivery of the final report was highest at community credit unions, and lowest at single common bond credit unions.
- The time to delivery of the final report was shortest at NCUA-only exams, and longest at joint exams.
- The time to delivery of the final report was longest at credit unions experiencing a decline in their CAMEL rating.
- The more a credit union disagreed with its CAMEL rating, the longer was the time to delivery of the final report.
- Larger credit unions had to wait longer for the delivery of the final report than smaller credit unions. This was much less the case in 2012.
- The higher the net worth ratio, the shorter the time to delivery of the final report.

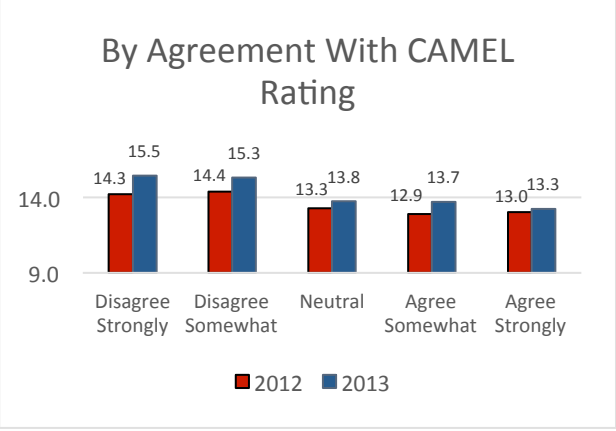
* In estimating the number of days to delivery, instances of more than 13 days were assumed to take 18 days.

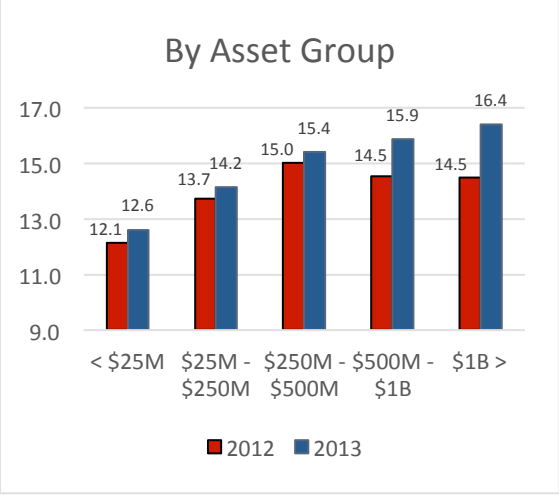
LENGTH OF EXAM
COMPLETION TO DELIVERY OF FINAL REPORT
2012 Average = 13.2 Days 2013 Average = 13.9 Days

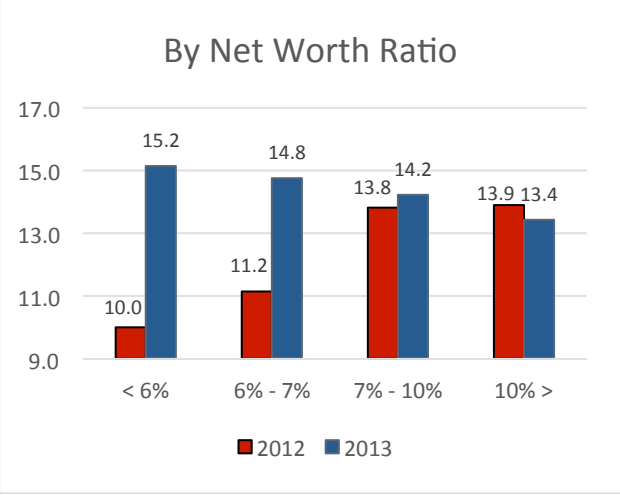


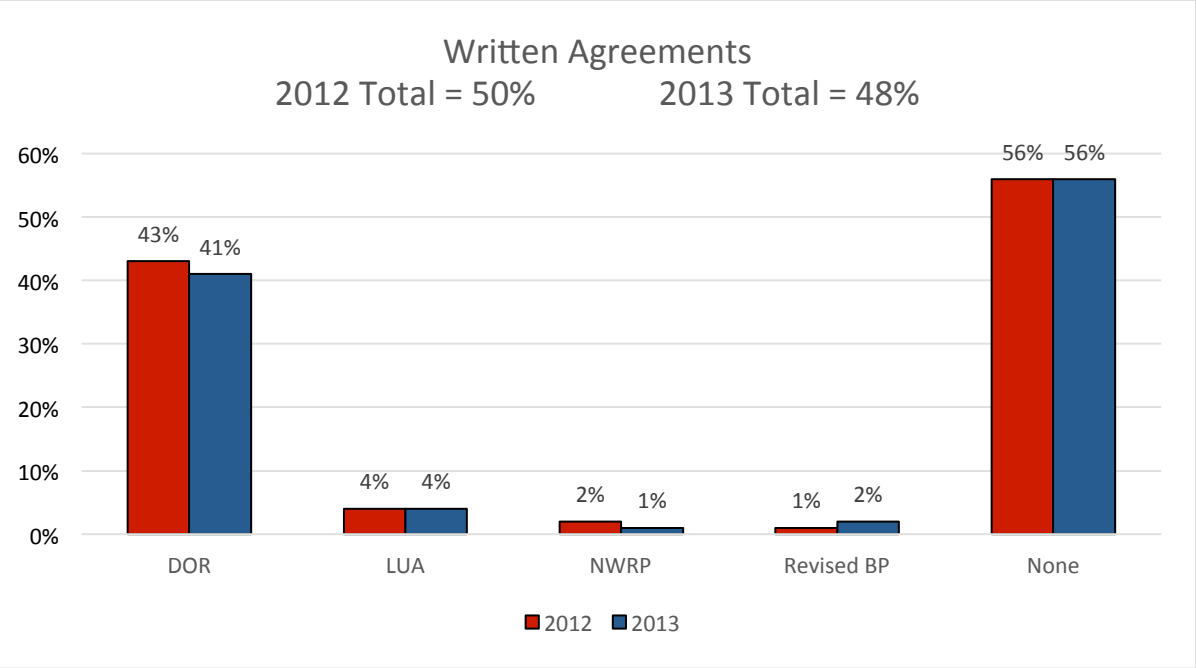










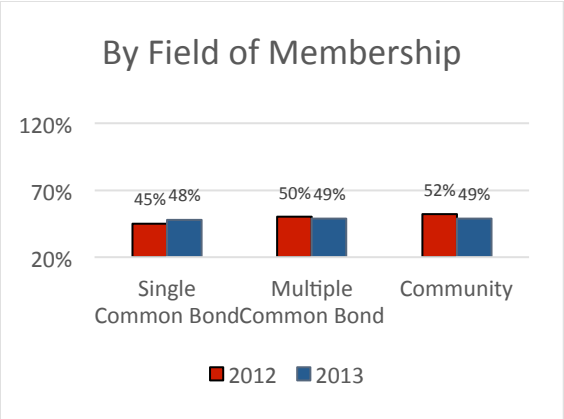


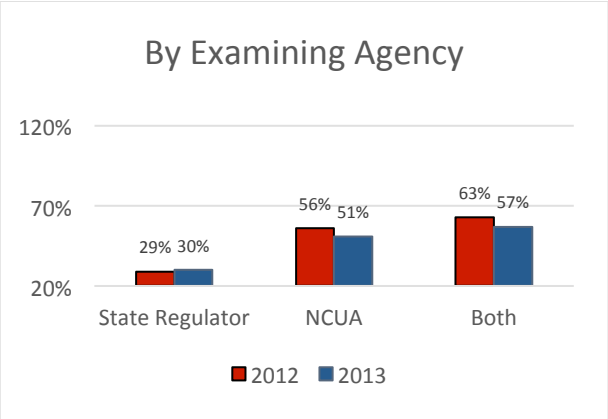
- The incidence of credit unions reporting one or more written agreement fell slightly from 2012 to 2013.*

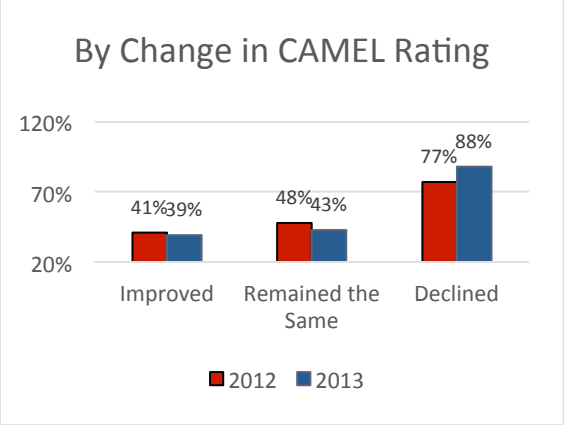
- The number of credit unions reporting Documents of Resolution (DORs) fell slightly. Letters of understanding and agreement (LUAs) were unchanged. Net worth restoration plans (NWRPs) ticked down and Revised Business Plans (BPs) ticked up.
- The percentage of credit unions reporting some form of written agreement did not vary with field of membership.
- Credit unions with state-only exams were much less likely to report being under one or more written agreements than were other credit unions. Credit unions with joint exams were slightly more likely to report being under a written agreement than those with NCUA-only exams.
- Credit unions whose CAMEL rating worsened were much more likely to report being under written agreements.
- In a strong relationship, the less satisfied a credit union was with its CAMEL rating, the more likely was it to be under one or more written agreements.
- Credit unions with less than $500 million in assets were substantially more likely to be under written agreements than larger credit unions.
- Credit unions that were less than well capitalized were much more likely to be under written agreements than were well-capitalized credit unions.
- The survey also asked if respondents were under any form of administrative order such as an order to cease and desist, an order of prohibition, or an order assessing civil money penalties, but over 99% of credit unions reported no such orders.

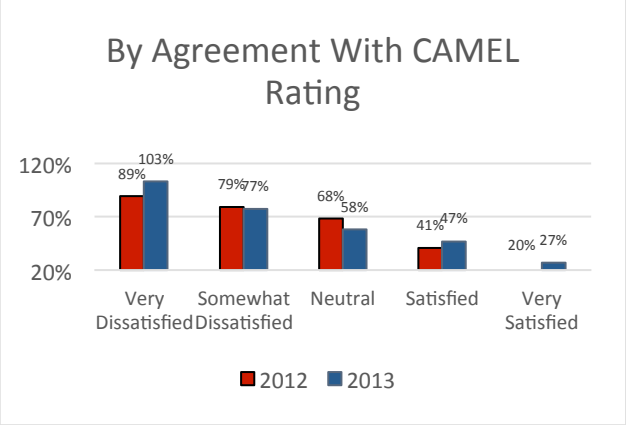
* Because credit unions could report more than one type of written report, the totals add to more than 100%. Note also that we ask only if one or more DORs was in effect, NOT the number of DORs.

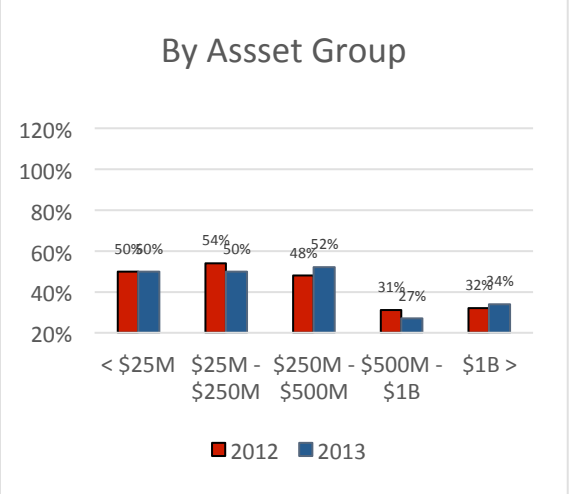
PERCENTAGE OF CREDIT UNIONS REPORTING
VARIOUS WRITTEN AGREEMENTS
TOTAL IN 2012 = 50% TOTAL IN 2013 = 48%

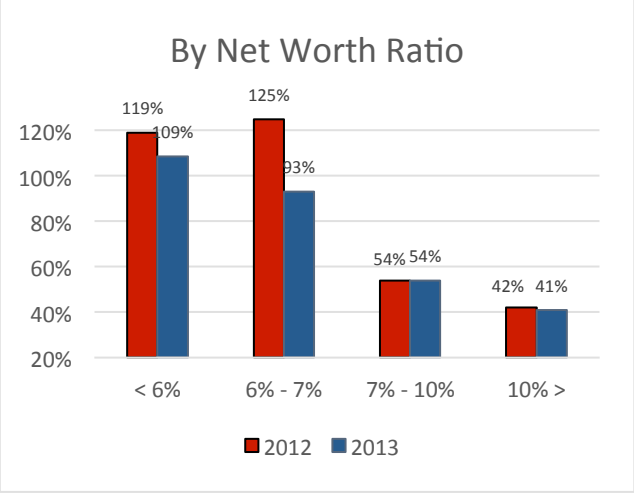












DETAILED EVALUATION OF EXAMINERS AND EXAM PROCESS

Credit union CEOs responded on an agree/disagree scale to a number of statements about examiners and the exam process. Responses to negative statements were reversed so that the items are listed on the facing page in order that respondents agreed with positive statements or disagreed with negative statements.

The five most positive items evaluated by credit unions, ranked by average level of agreement, were:

1. The exam team gave management the opportunity to comment or respond prior to sharing results with the board. (83% agreed somewhat or strongly)

2. The exam team was knowledgeable about key safety and soundness issues and regulatory requirements. (83%)

3. Examiners were willing to take the time to discuss preliminary exam findings prior to the exit meeting. (74%)

4. The exam team was knowledgeable about the credit union being examined. (75%)

5. The exam team was flexible and open to discussion with credit union staff. (72%)

The five most negative items, ranked by average level of agreement, were:

1. Heavier regulatory/exam requirements are putting increasing pressure on credit union resources. (80% agreed somewhat or strongly)

2. Examiners are "covering themselves." (53%)

3. Examiners applied "best practices" as a regulatory standard. (46%)

4. Items appear in DORs that used to be handled routinely. (46%)

5. Exam team applied "guidance" as if it were enforceable regulation. (47%)