

CUNA/League  
2016 Credit Union  
**Exam Survey Report**

February, 2017

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Prepared by:

Jon Haller, director of corporate & market research

Meg Jelak, supervisor of market research

Bandana Malla, research analyst

## INTRODUCTION

The 2016 CUNA/League Exam Survey was conducted by the Market Intelligence unit of the Credit Union National Association's (CUNA's) Policy division.

The purpose of the study is to:

- Measure credit union CEOs' overall satisfaction with their exam, several aspects of the exam team's performance, and the team's dealings with the credit union's volunteers.
- Determine CEOs' agreement with nearly 25 individual statements related specifically to the examination process.
- Identify the extent, if any, to which examiners raised issues concerning over 45 different examination areas relating to:
  - Safety and soundness,
  - Compliance with deposit-related regulations and statutes,
  - Compliance with credit-related regulations and statutes,
  - Fair lending compliance, and
  - Bank Secrecy Act (BSA) compliance.
- Make comparisons between examiners' 2016 performance evaluations and the evaluations recorded in prior Exam Survey studies. Generally speaking, differences in average rating scores of two-tenths (.2) of a point, or differences in percentages of over five (5) percentage points, are indicative of meaningful changes in attitudes, exam-related events and outcomes, etc.

The three parts of this report are:

**Survey methods, respondent profile, and map of NCUA regions.** This section provides a description of the data-collection methods employed for the study, as well as an attribute comparison of the credit unions that participated in the 2016 Exam Survey and those that comprise the actual population of U.S. credit unions. It also includes a map identifying which states comprise each of the five NCUA regions.

**Key findings.** This portion of the report highlights the most notable findings surfacing from the analysis of the results.

**Results.** This section contains the text and graphs that describe the survey findings in more detail.

## SURVEY METHODS, RESPONDENT PROFILE & NCUA REGION MAP

In January, 2017, a series of e-mails were sent to 5,346 credit union CEOs urging them to complete the CUNA Exam Survey for their most recent exam. CUNA's News Now was also employed to garner and promote participation in the survey. The questionnaire was virtually identical to the one used a year earlier.

By the end of the data-collection period, CUNA received 603 responses, for an 11% response rate. This is in-line with the 10% response rate from the previous year's study.

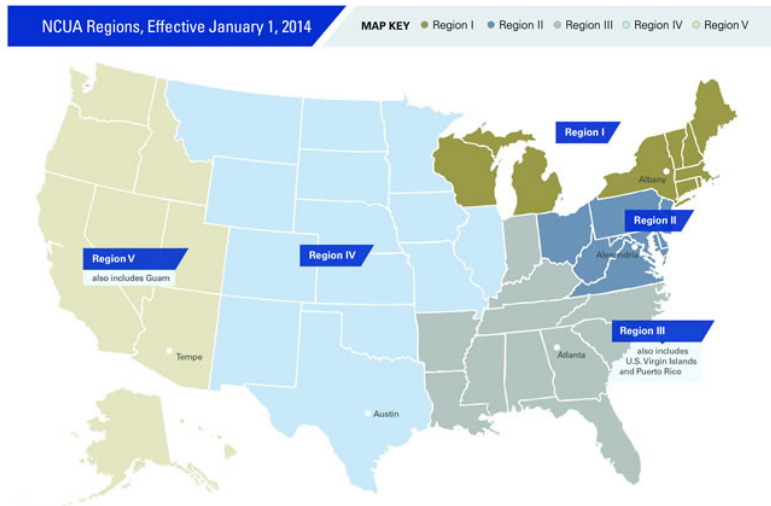
The table below compares the survey respondent profile to that of all U.S. credit unions. The distribution of responding credit unions is very similar to that of the population in terms of charter type and net worth ratio. However, responding credit unions were somewhat larger than all US credit unions – 22% of responding credit unions have more than \$250 million in assets compared to 15% of the population. Nevertheless, there was strong response across all asset sizes.

Because larger credit unions were more likely to participate, the percentage of responses coming from single common bond credit unions was lower than the population, and community charters were more heavily represented.

<b>RESPONDENT PROFILE</b>		
	<b>Survey Respondents</b>	<b>All U.S. Credit Unions</b>
<b>Number of Credit Unions</b>	603	5,879
<b>Charter</b>		
State	39%	39%
Federal	61%	61%
<b>Field of Membership</b>		
Single common bond	26%	34%
Multiple common bond	31%	31%
Community	43%	35%
<b>Asset Group</b>		
\$25 million or less	36%	46%
\$25 million to \$50 million	13%	14%
\$50 million to \$250 million	29%	25%
\$250 million to \$500 million	7%	6%
\$500 million to \$1 billion	6%	4%
\$1 billion or more	9%	5%
<b>Net Worth Ratio</b>		
Less than 6.00%	1%	1%
6.00% to 6.99%	2%	1%
7.00% to 9.99%	36%	32%
10.00% or greater	61%	66%

Finally, individual NCUA regions may, from time to time in this report, be referenced and identified as being more (or less) likely than others to engage in a particular examination activity, performing somewhat above (or below) the other regions for a specific performance aspect, etc. The following is a map identifying which states comprise each of the five NCUA regions.

## NCUA Regions



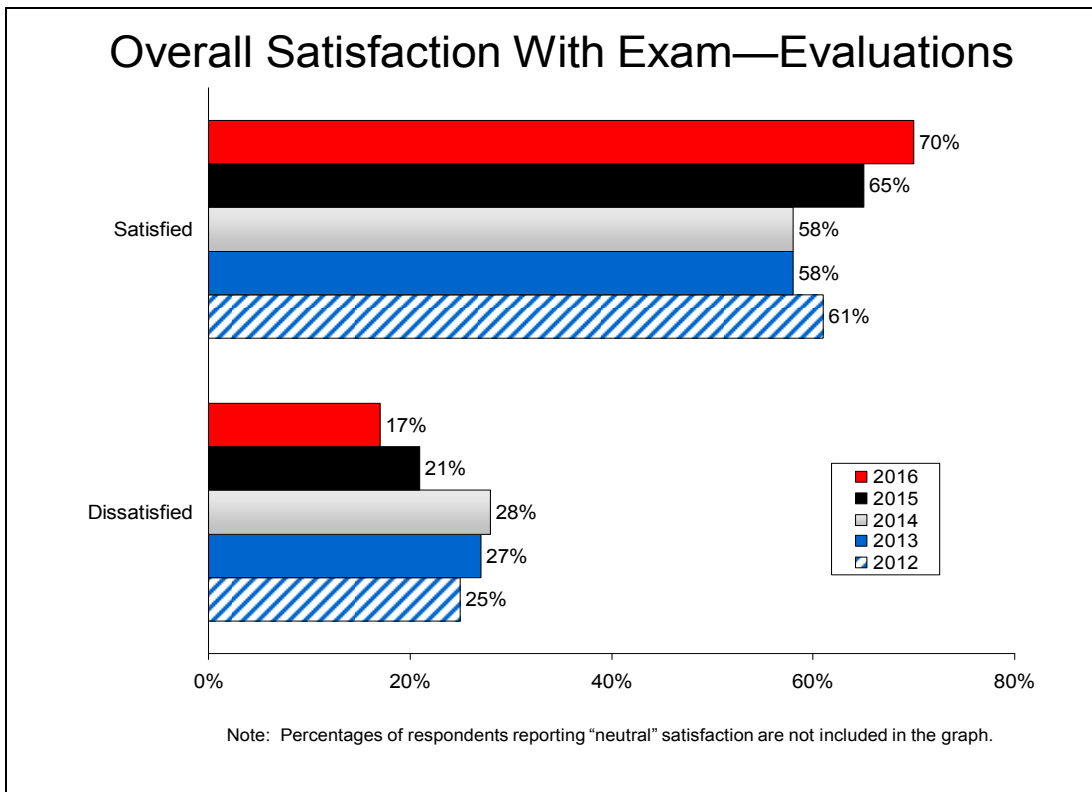
### States Comprising Each NCUA Region

1	2	3	4	5
CT	DE	AL	CO	AK
ME	MD	AR	IL	AZ
MA	NJ	FL	IA	CA
MI	OH	GA	KS	HI
NH	PA	IN	MN	ID
NY	VA	KY	MO	NV
RI	WV	LA	MT	OR
VT	DC	MS	NE	UT
WI		NC	NM	WA
		SC	ND	
		TN	OK	
			SD	
			TX	
			WY	

Source: NCUA

## KEY FINDINGS

- Credit unions' average overall satisfaction score for their 2016 exam process and results comes in at 3.8 on a 5-point scale, where 5.0 represents "very satisfied" and 1.0 represents "very dissatisfied." This year's 3.8 score is up somewhat from 2015's 3.6, and 2014 and 2013's 3.4. (A two-tenths [.2] of a point difference is considered meaningful.)
- Credit unions that are satisfied with their exam/results outnumber those that are dissatisfied by more than a 4-to-1 margin. However, the percentage of credit unions dissatisfied with their exam (17%) – despite being on a modest decline – continues to raise concerns. In our years of conducting satisfaction research, a credit union having 17% of its members being "dissatisfied" would be considered unusual and below-the-norm performance.



Specifically, in past studies CUNA has conducted – nationally, of both credit union members and of credit union CEOs – no more than 7%, and as few as 2%, of members and credit union CEOs are "dissatisfied" with their experiences with their credit union and CUNA, respectively.

- There are no meaningful 2016 differences in the overall satisfaction between credit unions with state-only exams, those with NCUA-only exams, and those that had joint exams.
- Credit unions have become somewhat more impressed with seven of the eight “exam team” and “dealings with volunteers” performance aspects we reviewed. Much of this can be accounted for by credit unions’ improved 2016-vs.-2015 opinions of exams that were conducted jointly by state- and NCUA examiners.
- Credit unions with state-only exams tend to provide slightly higher evaluations than do those with NCUA-only exams, when it comes to the various “exam team” and “dealings with volunteers” performance items we studied.
- Continued improvement in the U.S. economy has buoyed credit union operating results. As a partial result, the percentage of credit unions under some form of written agreement has been on the decline from previous years. In 2016, 25% are under at least one such agreement. This marks a drop from 32% in 2015 and 41% in 2014. In-line with historical trends, Documents of Resolution (DORs) account for the vast majority of the written agreements.
- Upon reviewing nearly 25 issues that could arise during the course of an examination, examiners are deemed to be performing best in the following five areas:
  - Examiner/exam team gave management the opportunity to comment/respond prior to sharing results with the board,
  - Examiner/exam team was knowledgeable about key safety and soundness issues, and regulatory requirements,
  - Examiner/exam team was knowledgeable about your credit union,
  - Examiners are not reluctant to take the time to meet and have a sit-down discussion of preliminary exam findings prior to the exit meeting, and
  - Examiner/exam team was flexible and open to discussion and exchange of perspectives with credit union staff.
- The exam areas among the aforementioned list that were identified by credit union CEOs as being most in need of attention and/or improvement include:
  - Heavier regulatory/exam requirements are putting increasing pressure on credit union resources,
  - Examiner/exam team applied “guidance” as if it were enforceable regulation,
  - Examiner/exam team applied “best business practices” as a regulatory standard,

- Examiners are “covering” themselves,
- Team examinations have complicated the process,
- Examiners, at times, make recommendations, then later provide contradictory guidance, and
- Items are appearing in DORs that used to be handled more routinely.

## RESULTS

### OVERALL SATISFACTION WITH EXAM

- Credit unions' average overall satisfaction score for their 2016 exam process and results comes in at 3.8 on a 5-point scale, where 5.0 represents “very satisfied” and 1.0 represents “very dissatisfied” (Figure 1). This year's 3.8 score is up somewhat from 2015's 3.6, and 2014 and 2013's 3.4. (A two-tenths [.2] of a point difference is considered a meaningful difference in opinions.)

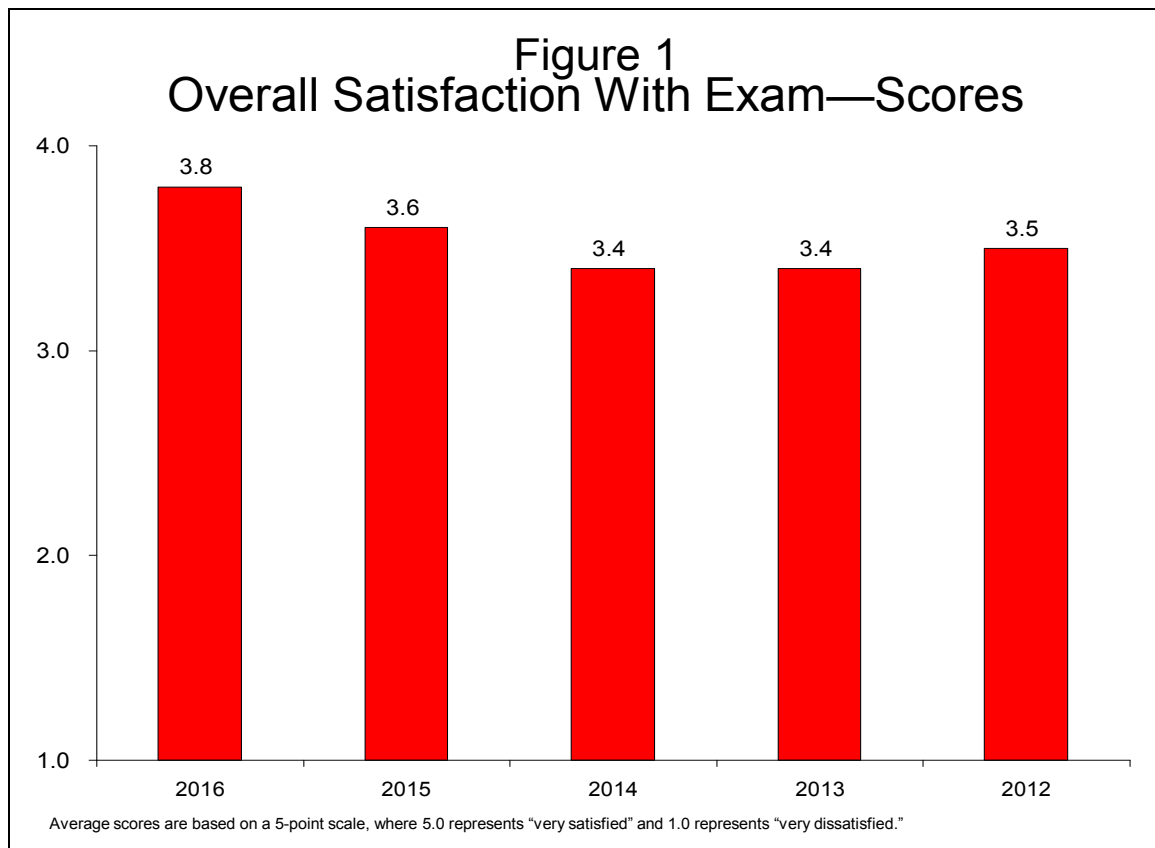


Figure 1



- Credit unions that are satisfied with their exam/results outnumber those that are dissatisfied by more than a 4-to-1 margin (Figure 2).

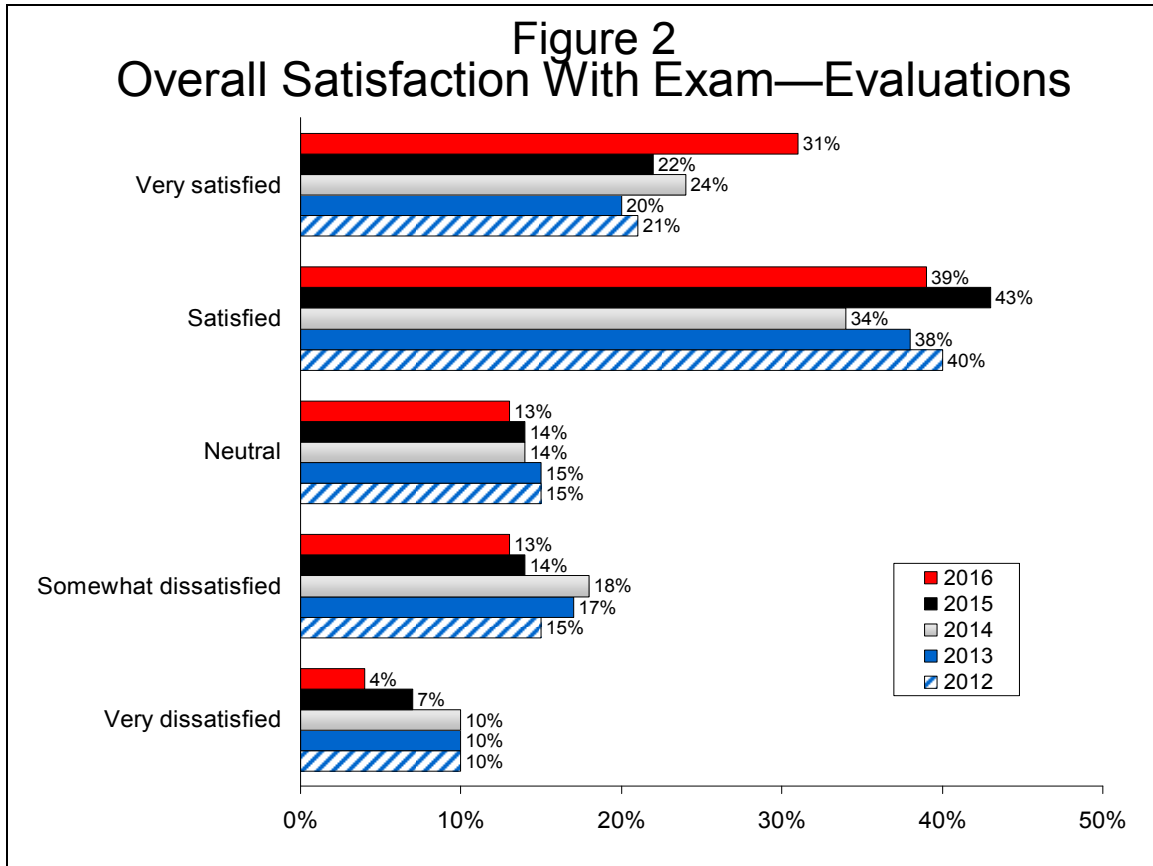


Figure 2

However, the 2016 percentage of credit unions dissatisfied with their exam/results (17%) – despite being on a modest decline – continues to raise concerns. In our years of conducting satisfaction research for credit unions, a credit union having 17% of its members being “dissatisfied” would be considered unusual and below-the-norm performance.

Specifically, in past studies CUNA has conducted – nationally, of both credit union members and of credit union CEOs – no more than 7%, and as few as 2%, of members and credit union CEOs are “dissatisfied” with their experiences with their credit union and CUNA, respectively.

- Credit unions in NCUA Regions 2 and 3 are somewhat less impressed with their exam/results, overall, than are those in the other regions.
- There are no meaningful 2016 differences in the overall satisfaction between credit unions with state-only exams, those with NCUA-only exams, and those that had joint exams.
- A comparison to detailed results from 2015 (not included) strongly suggests that the overall improvement in credit unions’ 2016-vs.-2015 satisfaction is driven by a modest extent by credit

unions' greater satisfaction with state-only exams, but primarily by improved satisfaction with the exams that were conducted jointly by state- and NCUA examiners.

- Continuing past studies' trends, and as might be anticipated, overall satisfaction is noticeably higher among credit unions that recorded improved CAMEL ratings (over 2015) and those that agree strongly with their current CAMEL rating, when compared to their respective counterparts.

## CAMEL RATINGS

- In-line with past results, the vast majority – three-fourths – of credit unions' CAMEL rating remained the same from the prior year. At the same time, however, we find that improved ratings were more prevalent than declining ones by about a 2-to-1 ratio (Figure 3) – the largest this gap has been through the years.

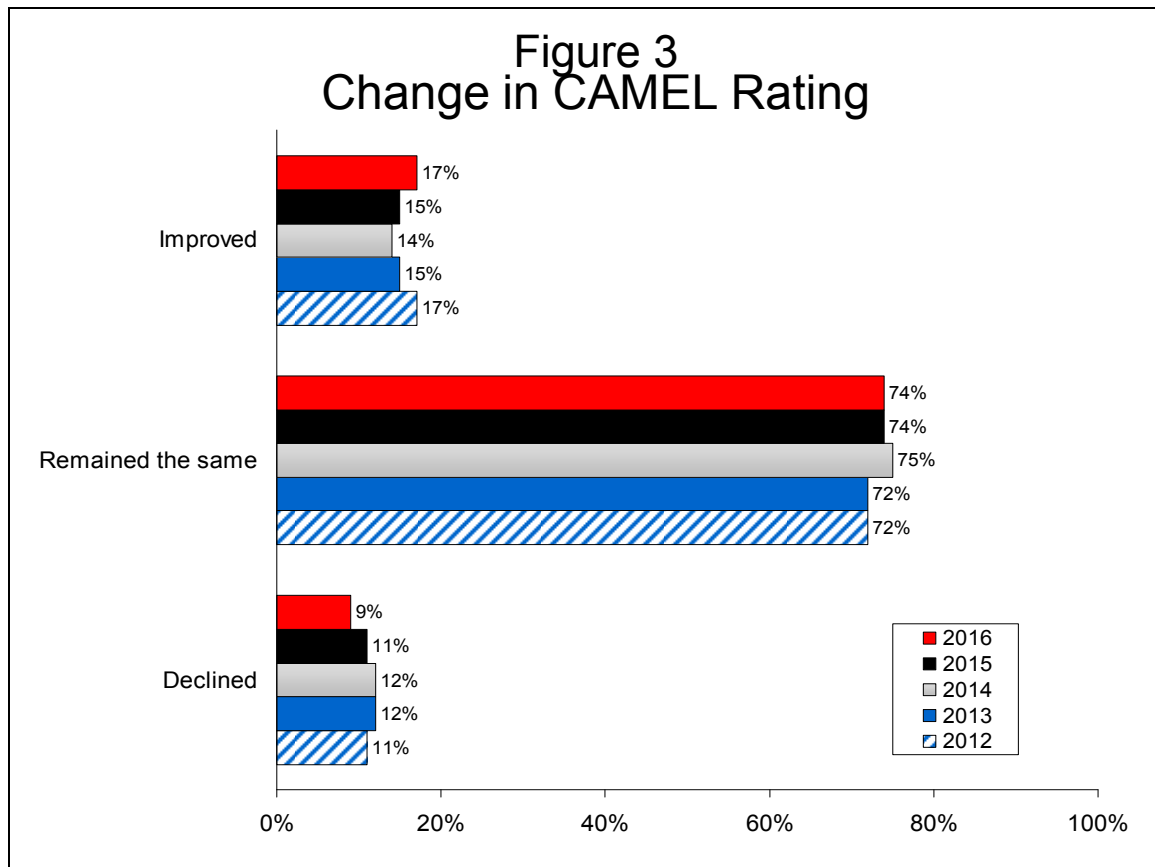


Figure 3

- CAMEL rating improvements are somewhat more likely to have been found among credit unions in NCUA Regions 4 and 5 than among those in the other regions.
- Credit unions are somewhat more apt to agree with their current CAMEL rating than they had been in the past. The average “agreement score” for 2016 stands at 4.1 on a 5-point scale, where 5.0 represents “agree strongly” and 1.0 represents “disagree strongly” (Figure 4). None of the other previous studies’ scores topped the 3.9 mark.

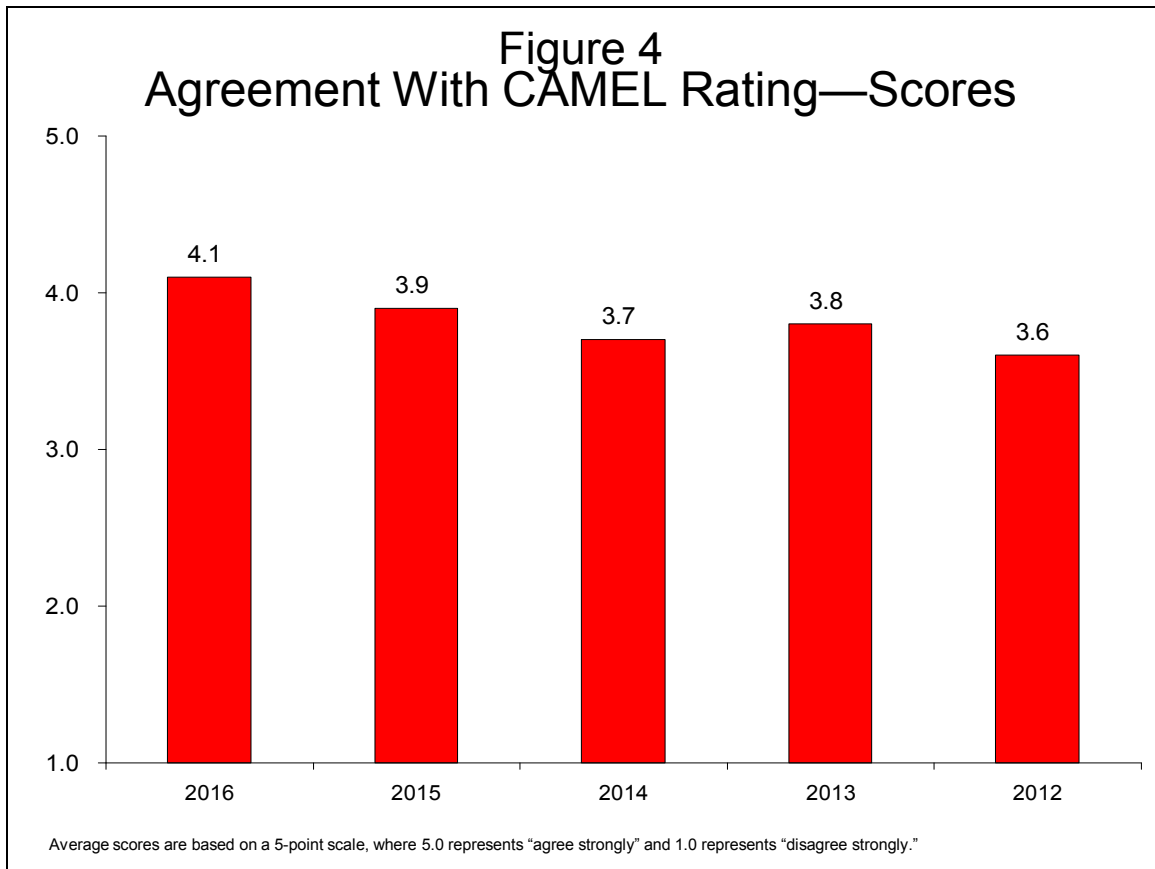


Figure 4

- In 2016, nearly 75% of credit unions agree with their rating (Figure 5), marking a modest but fairly consistent upward trend over past results, and coming in seven percentage points over 2015's level.

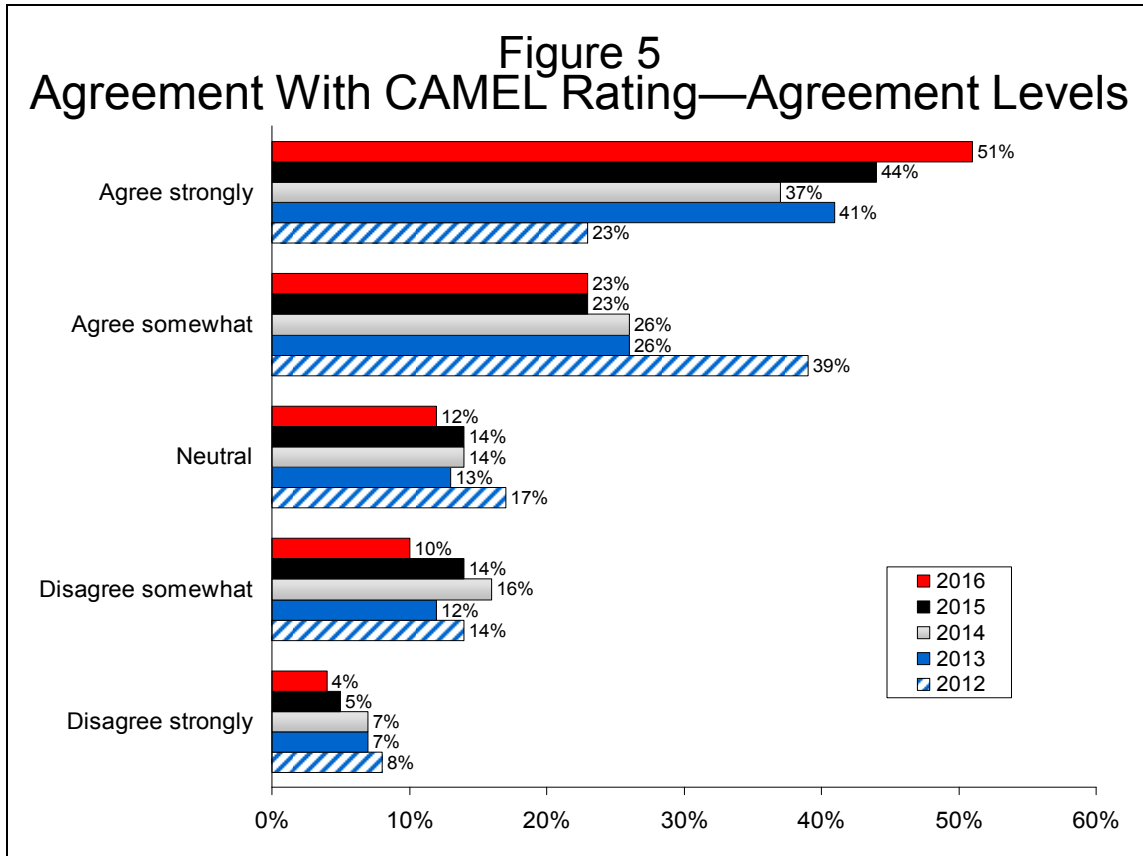


Figure 5

- Credit unions with assets of \$1 billion or more and those with assets of \$250 million to \$500 million display somewhat stronger agreement with their current CAMEL rating than do those in the other asset groups.
- No individual NCUA region stands out from the others as recording a noticeably lower or higher “agreement score” among the credit unions within their region.

## EVALUATIONS OF EXAM TEAM PERFORMANCE

- Of four exam team performance items reviewed for this study, credit unions are most impressed with their examiners' professionalism and helpfulness, giving these two factors evaluation scores of 4.2 and 4.1, respectively, on a 5-point scale where 5.0 represents “excellent” performance and 1.0 represents “poor” performance (Figure 6).

- Credit unions have become somewhat more impressed with examiners' helpfulness, fairness, and objectivity compared to prior years. Much of this can be accounted for by credit unions' improved opinions of exams that were conducted jointly by state- and NCUA examiners.

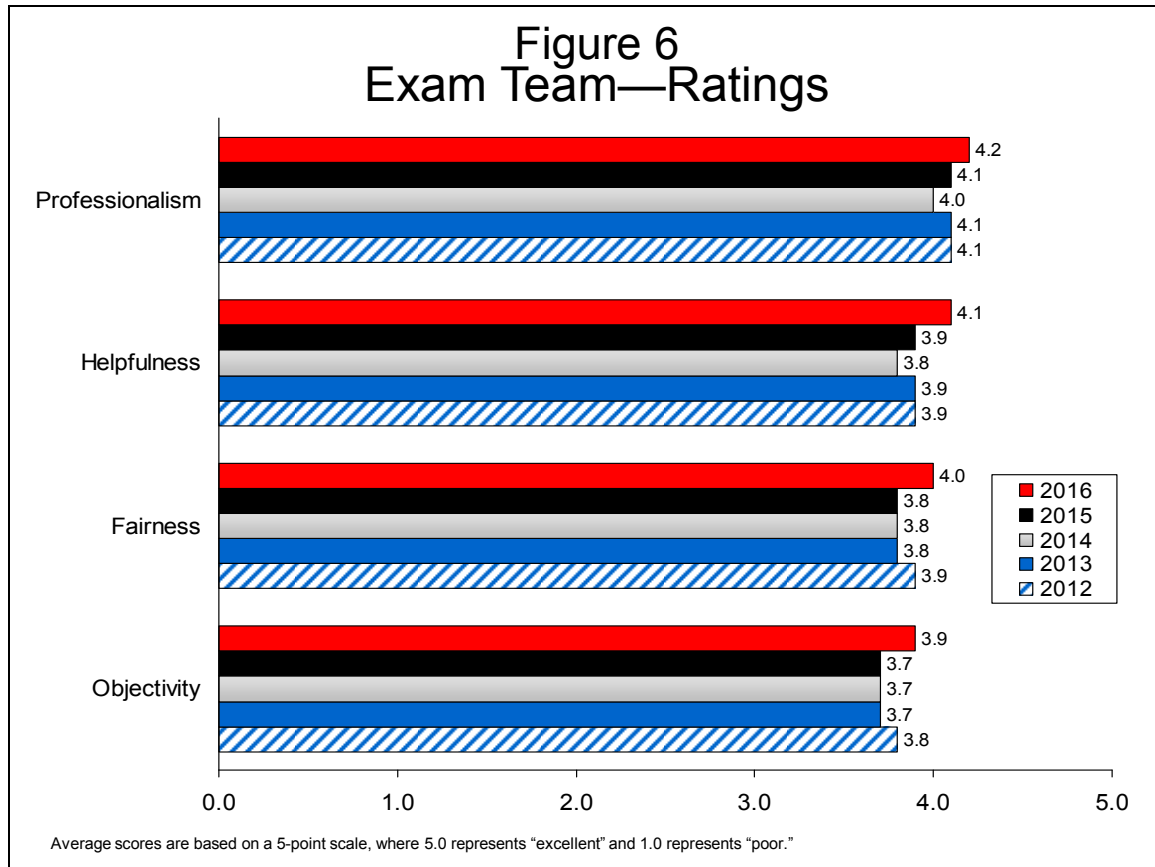


Figure 6

- Roughly 35% to 45% of credit unions evaluate their examiners' performance as "excellent" with respect to each of the four aspects studied, while no more than about 10% are in any way critical of (i.e., rate as either "poor" or "somewhat poor") of examiners' activities.
- Credit unions with \$50 million to \$250 million in assets and those with \$500 million to \$1 billion in assets are generally somewhat less impressed with their examiners' fairness and objectivity than are those in the other asset groups.
- Credit unions in NCUA Region 4 are somewhat more impressed with their examiners' helpfulness, fairness, and objectivity than are those in the other regions.
- Credit unions with state-only exams tend to provide slightly higher evaluations than do those that had NCUA-only exams.

- Credit unions were asked to evaluate their exam teams' performance during activities involving interaction with the credit unions' volunteers. Each of the four items earns a "performance score" of 4.0 to 4.2 on the aforementioned 5-point scale – led by examiners' efforts to have open and interactive dialogue with the volunteers during discussion of the final examiners' report (Figure 7).
- Comparisons to prior years' results indicate that credit unions have become somewhat more impressed with all four of the factors involving examiners' dealings with volunteers. Consistent with other findings in this "performance evaluation" section, much of the rising scores can be attributed to improved scores from those credit unions that had joint exams.

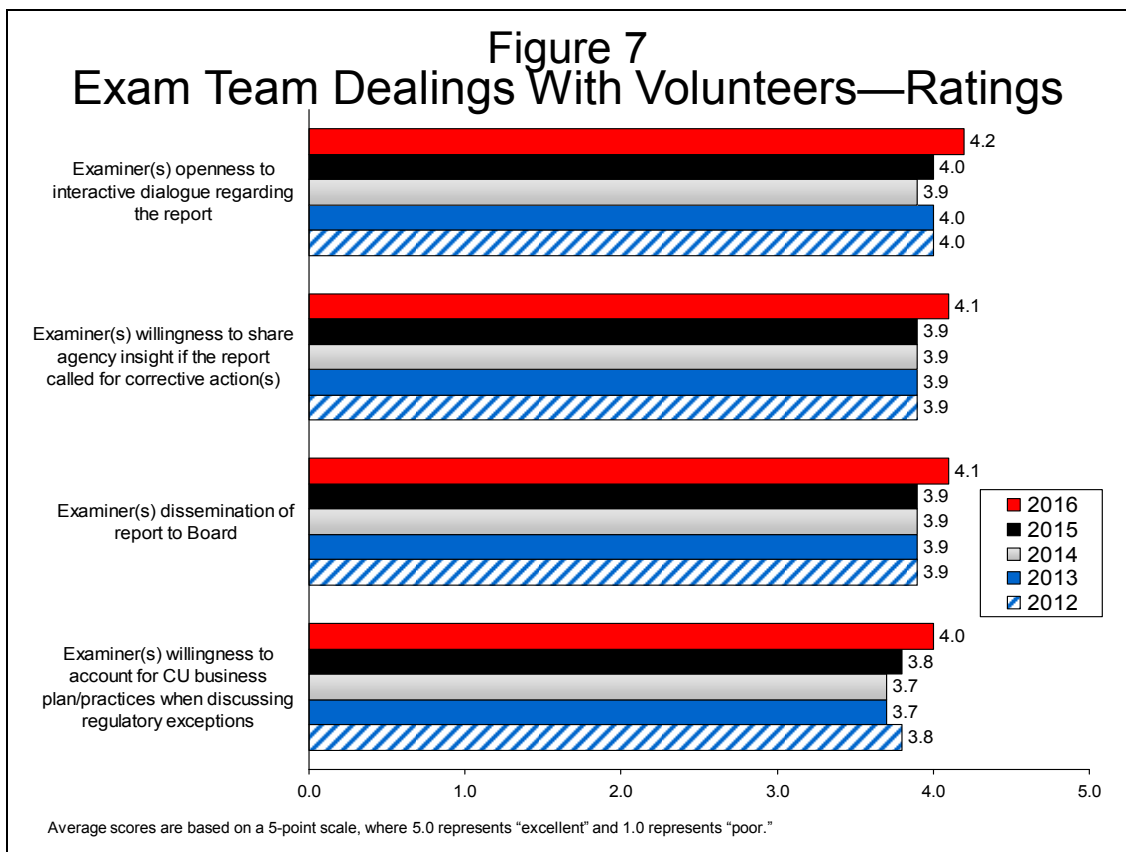


Figure 7

- Roughly 40% to 50% of credit unions evaluate their examiners' performance as "excellent" with respect to each of the four volunteer-related factors studied, while 10% or fewer are in any way critical of (i.e., rate as either "poor" or "somewhat poor").
- Credit unions with assets of \$500 million to \$1 billion are slightly less satisfied with their examiners' efforts to have open and interactive dialogue with volunteers when discussing their report, and their willingness to share agency insight if the report called for corrective actions to be taken.

- Credit unions with state-only exams tend to provide slightly higher evaluations than do those with NCUA-only exams.

## EXAM AND REPORT-DEVELOPMENT DURATIONS

- In 2016, exams took an average of 10.0 days from the date of examiners' first appearance to completion of the on-site exam, and an average of 14.5 additional days from the date of the completion of the exam to delivery of the final report (Figure 8). Both of these average durations are up about one day from prior years' levels.

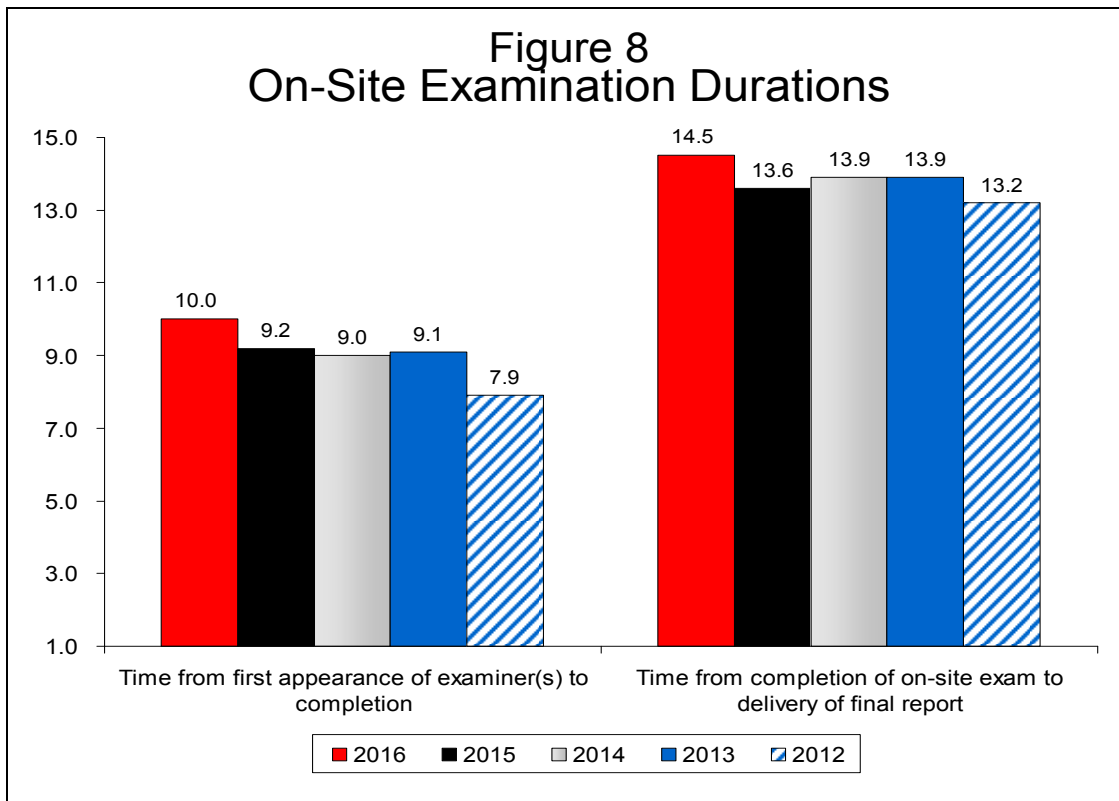


Figure 8

- The average time that elapsed between the date of examiners' first appearance to completion of the on-site exam increases as credit union asset size increases – from a low of 7.0 days in credit unions with assets of \$25 million or less, to a high of 14.9 among those with assets of \$500 million or more.
- The average on-site examination time for multiple common bond credit unions is higher than that for single common bond credit unions, while, in turn, the average found in community chartered credit unions is somewhat higher than that found in multiple common bond credit unions.

- The average on-site examination time for NCUA Region 5 credit unions is two or more days longer than those for credit unions in each of the other regions. This could potentially be a reflection of the fact that Region 5 has a noticeably greater prevalence of large credit unions than do the other regions, and that larger credit unions' exam durations are longer than their smaller counterparts' exams.
- The average differences in duration between the date of examiners' first appearance to completion of the on-site exam are generally more pronounced among credit unions in the different asset sizes, common bond groups, etc. than is the time it takes from the date of the completion of the exam to delivery of the final report.

## WRITTEN AGREEMENTS

- Continued improvement in the U.S. economy has buoyed credit union operating results. As a partial result, the percentage of credit unions under some form of written agreement has been on the decline from previous years. In 2016, 25% are under at least one such agreement (Figure 9). This marks a drop from 32% in 2015 and 41% in 2014.

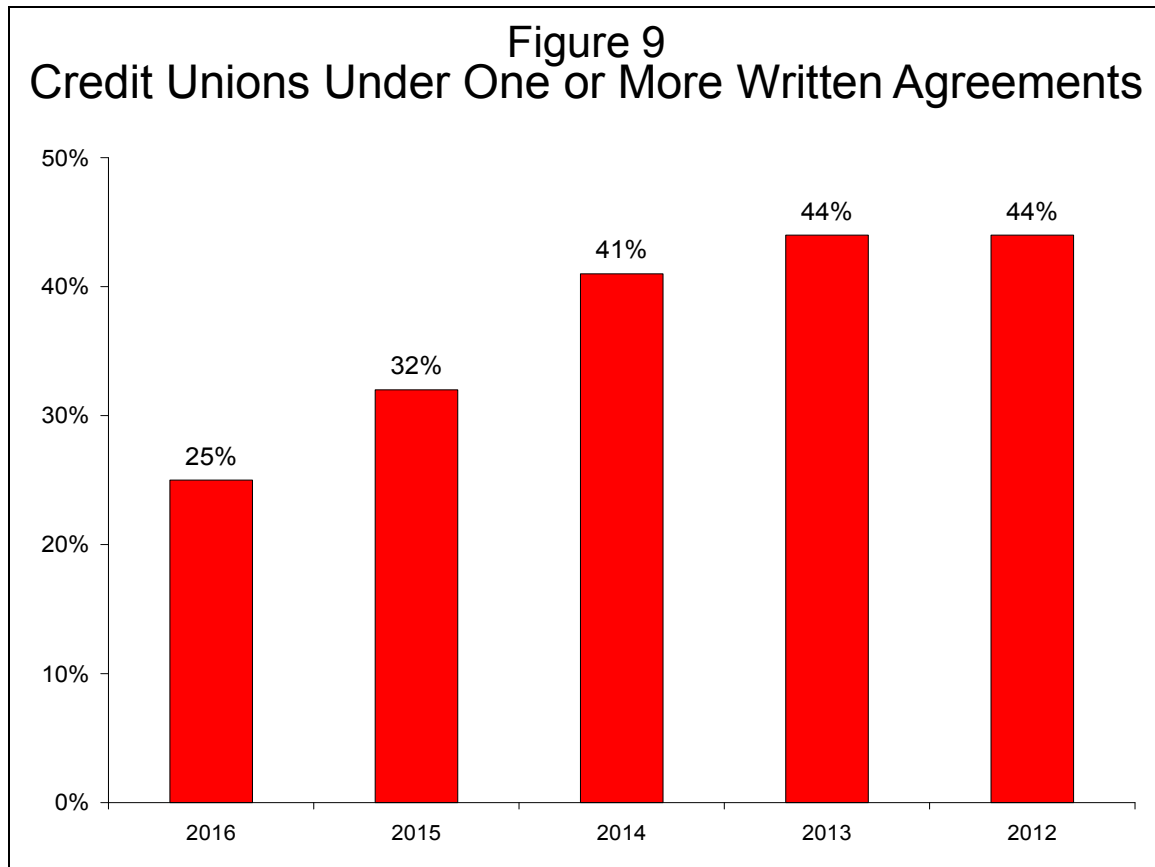


Figure 9



- Documents of Resolution (DORs) account for the bulk of the written agreements, with just over 20% of credit unions being under a DOR.
- DORs are somewhat more likely to emerge from joint exams than they are to emerge from state-only or NCUA-only exams.

## **EXAM-PROCESS ISSUES**

Credit union CEOs were presented with a list of nearly 25 individual statements related specifically to the examination process – ranging from fairness and responsiveness, to the appropriateness of report conclusions and recommendations, and to exam-scheduling issues and more. They were asked to indicate how strongly they agreed or disagreed with each statement. This exercise was conducted to help identify the process-related areas in which examiners are performing well, and those practices which may require further attention and/or some shoring-up.

The “agreement scores” discussed in this section are based on a 5-point scale, where 5.0 represents “agree strongly” and 1.0 represents “disagree strongly.”

- Of the various items covered, examiners are deemed to be performing best in the following five areas (Figure 10):
  - Examiner/exam team gave management the opportunity to comment/respond prior to sharing results with the board (“agreement score” of 4.4),
  - Examiner/exam team was knowledgeable about key safety and soundness issues, and regulatory requirements (4.3),
  - Examiner/exam team was knowledgeable about your credit union (4.2),
  - Examiners are not reluctant to take the time to meet and have a sit-down discussion of preliminary exam findings prior to the exit meeting (4.2), and
  - Examiner/exam team was flexible and open to discussion and exchange of perspectives with credit union staff (4.1).
- For each of these five items, roughly 50% to 60% of credit unions “agree strongly” that examiners display those traits, while no more than about 10% disagree to any extent.

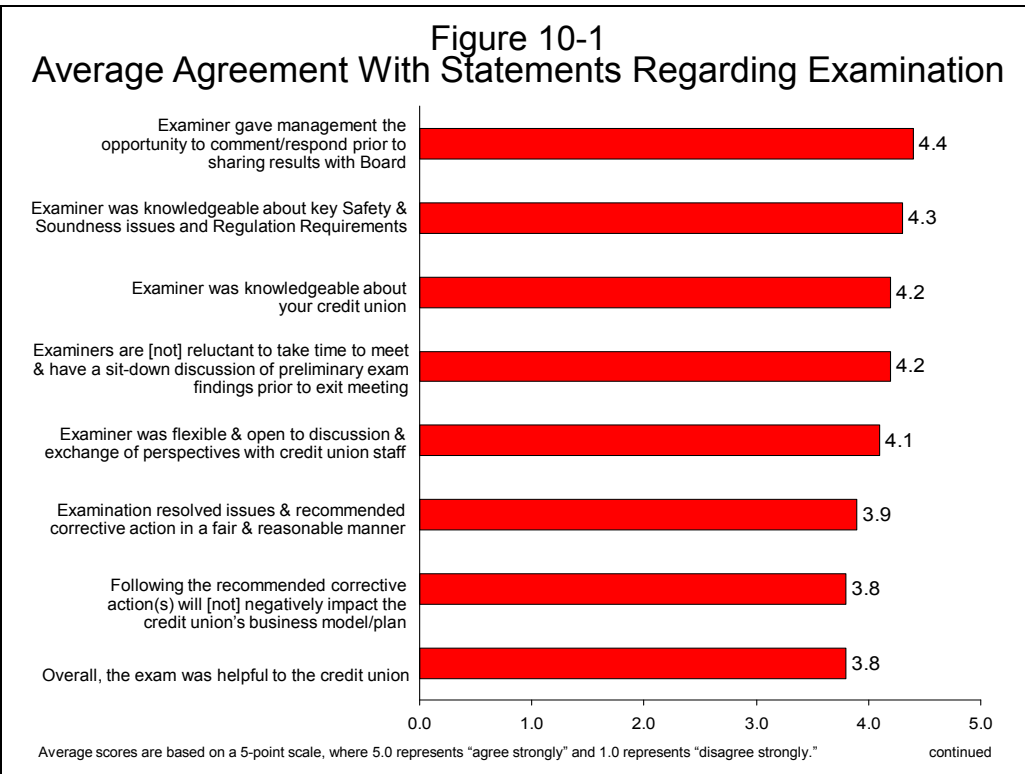


Figure 10-1

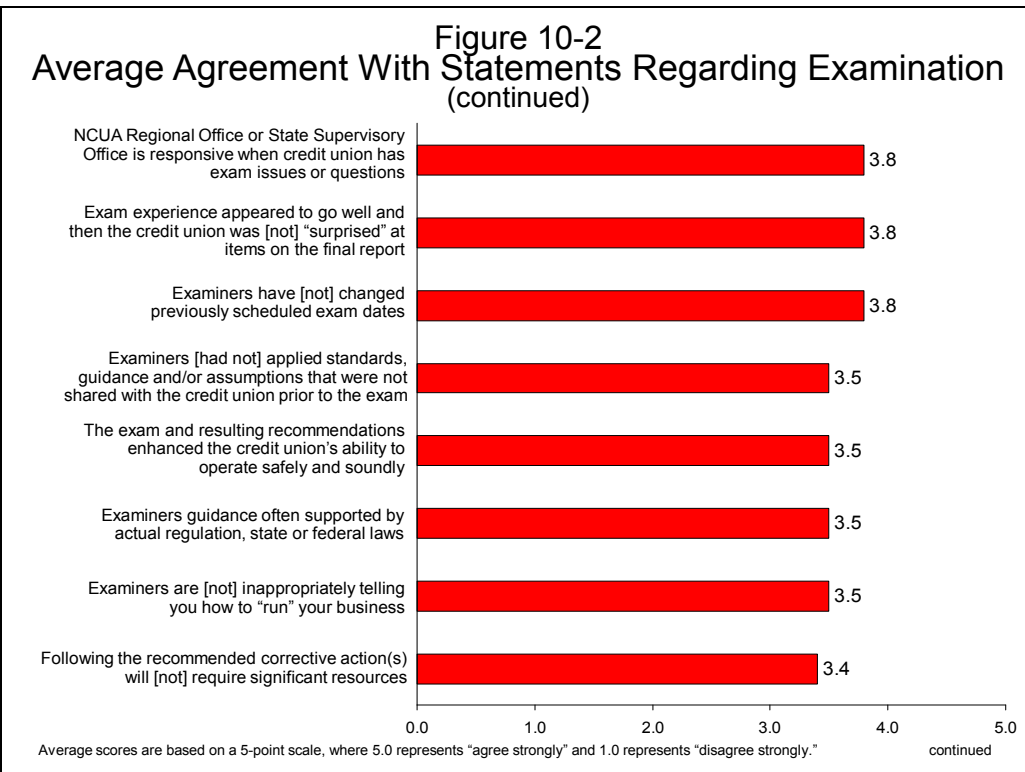


Figure 10-2

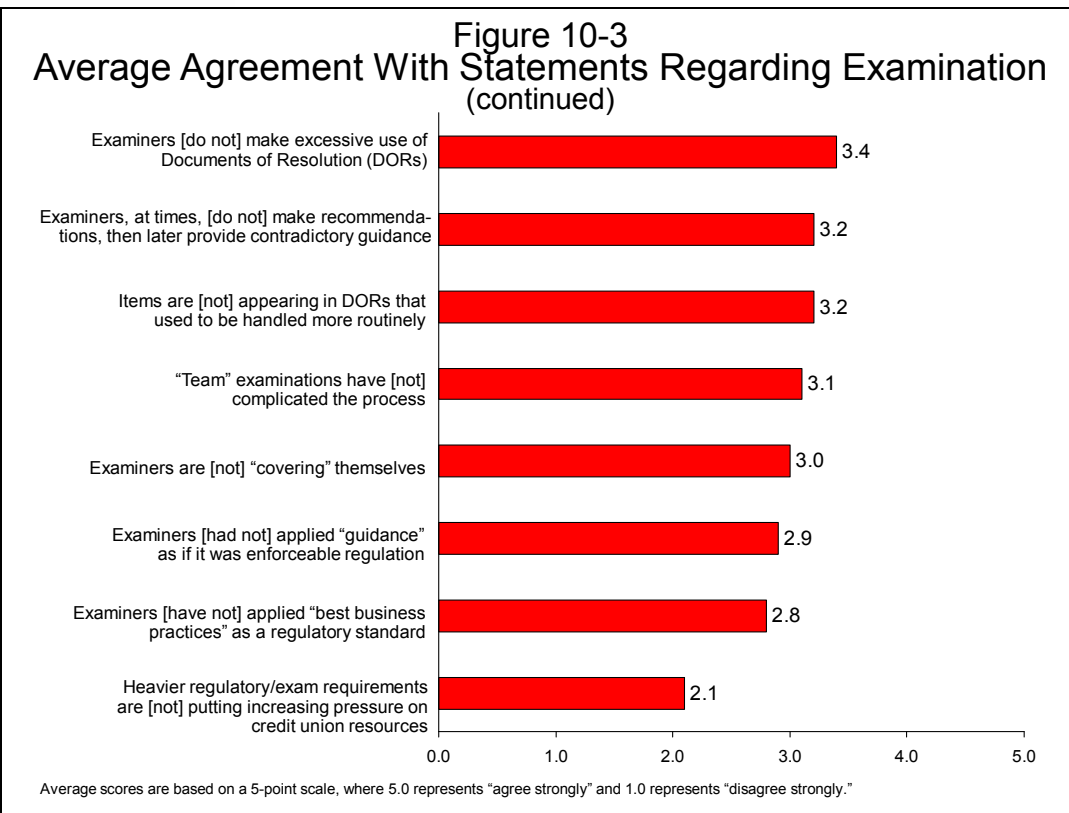


Figure 10-3

- The exam areas identified by credit union CEOs as being most in need of attention and/or improvement include (Figure 10):
  - Heavier regulatory/exam requirements are (not) putting increasing pressure on credit union resources ("agreement score" of 2.1),
  - Examiner/exam team (had not) applied "guidance" as if it were enforceable regulation (2.8),
  - Examiner/exam team (have not) applied "best business practices" as a regulatory standard (2.8),
  - Examiners are (not) "covering" themselves (3.0),
  - Team examinations have (not) complicated the process (3.1),
  - Examiners, at times, (do not) make recommendations, then later provide contradictory guidance (3.2), and
  - Items are (not) appearing in DORs that used to be handled more routinely (3.2).
- For the vast majority of these seven items, roughly 30% to 40% of credit unions either "disagree strongly" or "disagree somewhat" with the statement. Fully 70% believe that heavier regulatory/exam requirements are burdening their credit union's resources – clearly the "number one" concern among CEOs.

## ISSUES RAISED BY EXAMINERS

The questionnaire for this study contained over 45 different examination areas spanning across the five major categories listed below:

- Safety and soundness,
- Compliance with deposit-related regulations and statutes,
- Compliance with credit-related regulations and statutes,
- Fair lending compliance, and
- Bank Secrecy Act (BSA) compliance.

For each issue presented, CEOs were asked to identify whether that particular issue was raised by examiners in their last exam, and – if a problem was, indeed, noted – whether or not the examiner required action(s) by the credit union to address/resolve the issue.

### SAFETY AND SOUNDNESS – ISSUES RAISED

- Of 20 potential safety and soundness issues studied, problem areas relating to cybersecurity, allowance for loan and lease loss calculation/level, loan policy, and credit underwriting practices were the ones most apt to be noted by examiners. Roughly 25% to 30% of credit unions indicate their examiners raised issues in each of these types of areas (Figure 11).

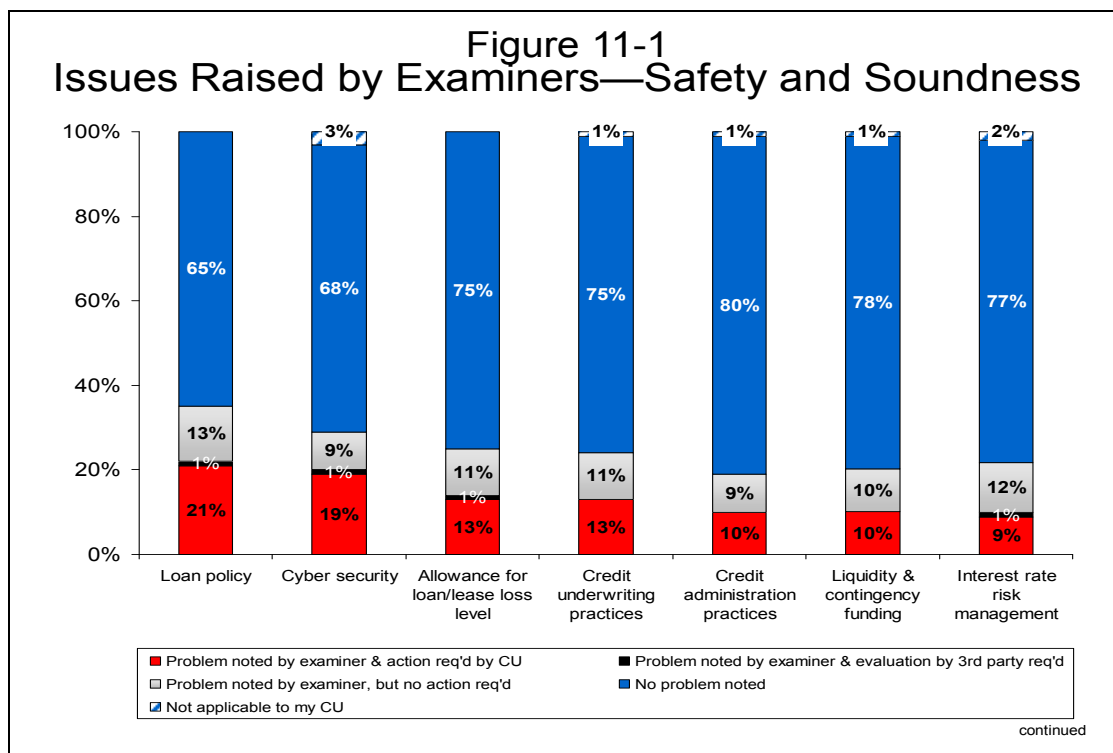


Figure 11-1

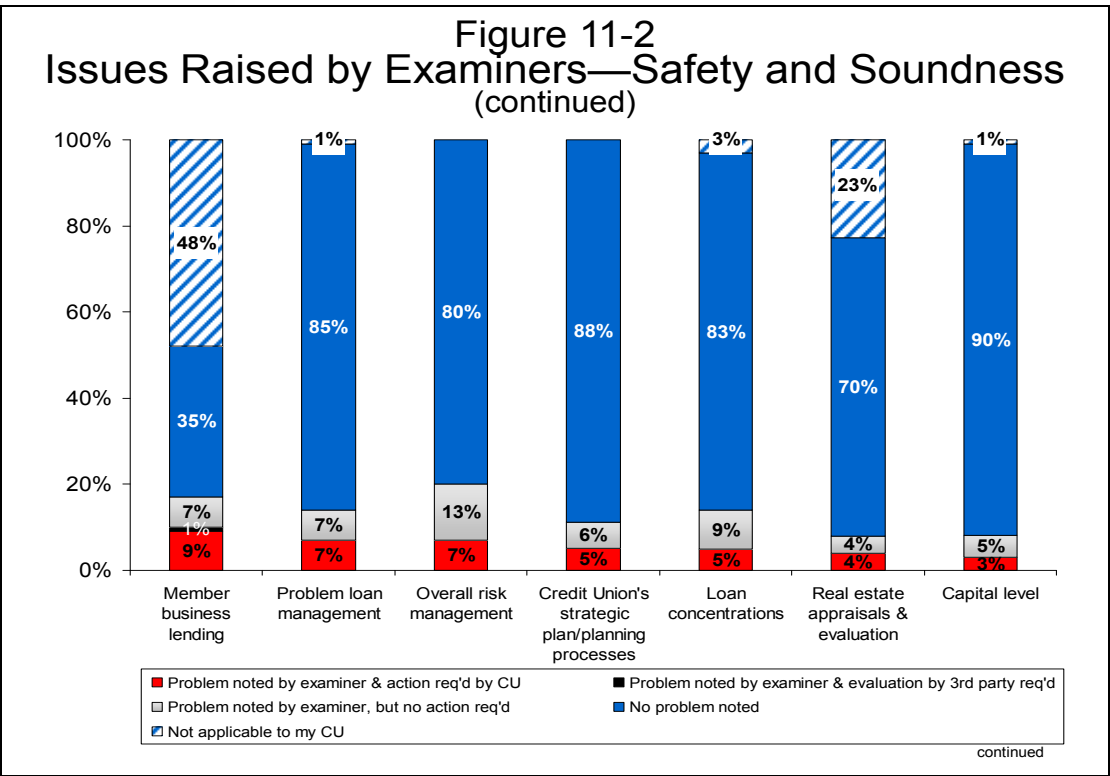


Figure 11-2

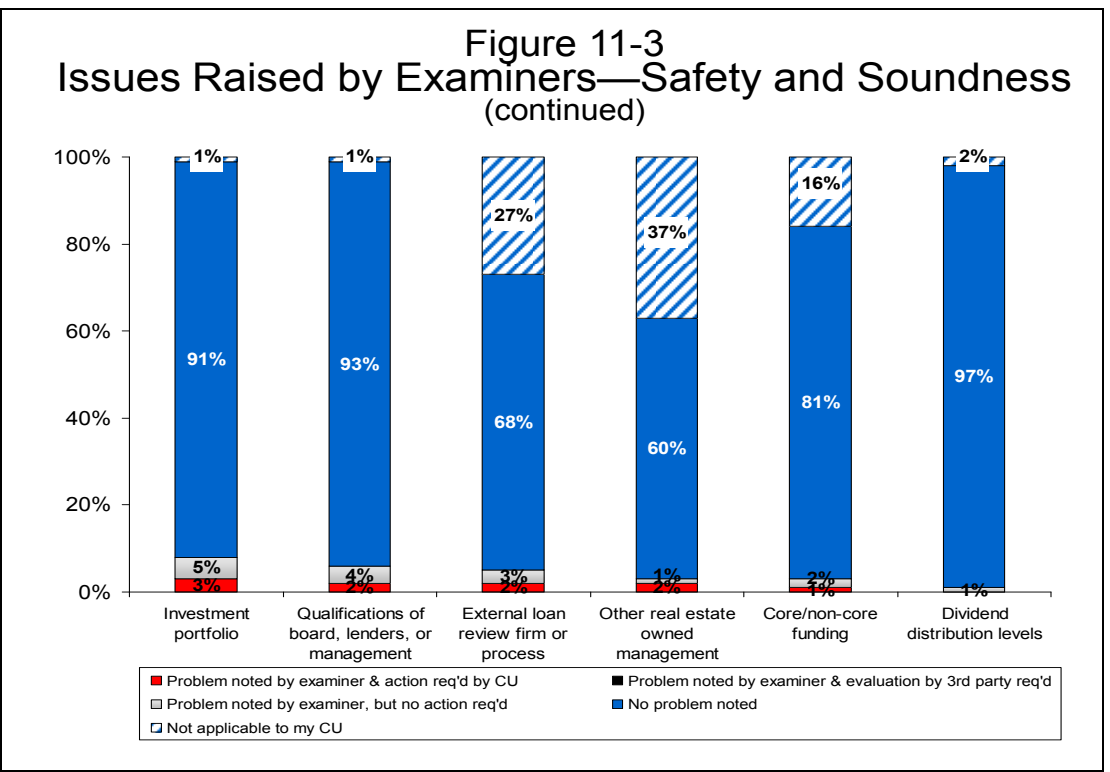


Figure 11-3

- Actions by the credit union were required in about two-thirds of instances in which cybersecurity and loan loss/lease allowance calculation issues arose, while they were required in roughly half of instances in which loan policy and credit underwriting problem areas were identified by the examiners.
- Findings suggest that credit unions in NCUA Region 5 are more likely than those in the other regions to have examiners raise issues regarding overall risk management, liquidity and contingency funding, loan policy, and cybersecurity. This may or may not be at least a partial function of the greater prevalence of larger credit unions in this region than in the others.

### DEPOSIT-RELATED REGULATIONS AND STATUTES – ISSUES RAISED

- No more than 2% of credit unions indicate their examiners identified problem areas in any of seven individual deposit-related regulations and statute items (Figure 12).

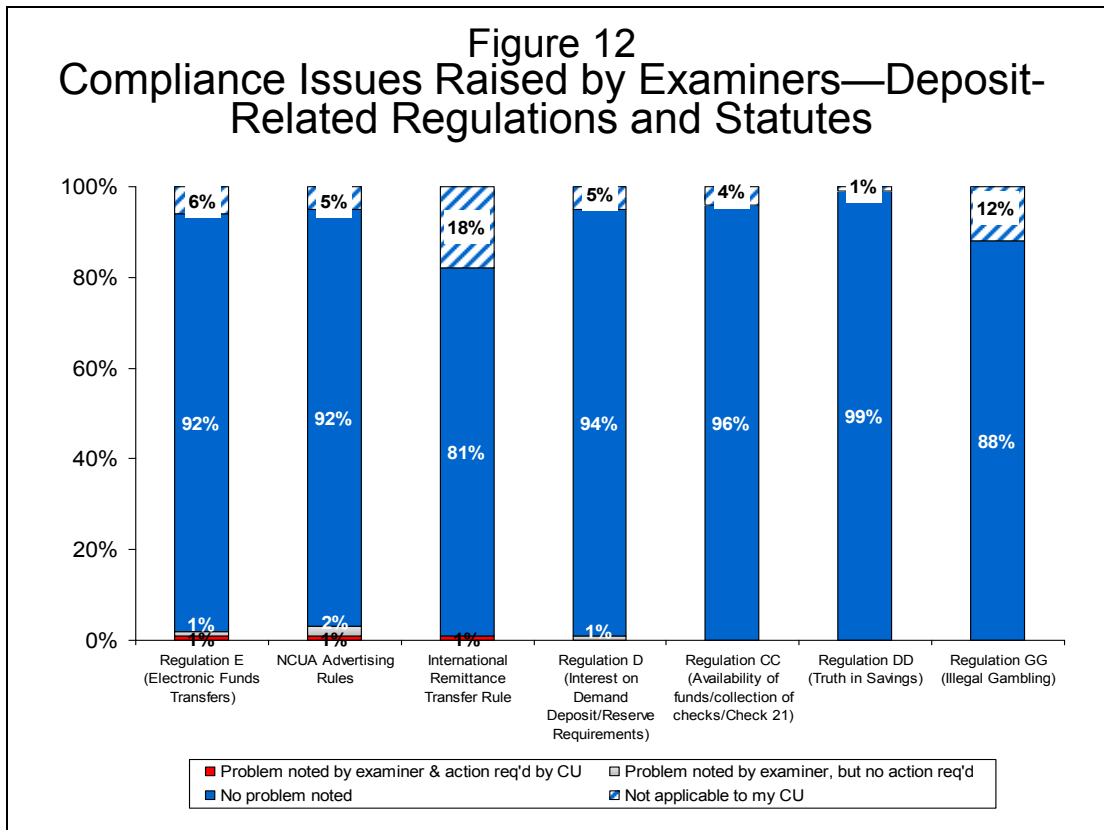


Figure 12

### CREDIT-RELATED REGULATIONS AND STATUTES – ISSUES RAISED

- No more than 5% of credit unions, and typically 2% or fewer, say that issues involving any of the 11 credit-related regulations and statutes studied were raised (Figure 13).

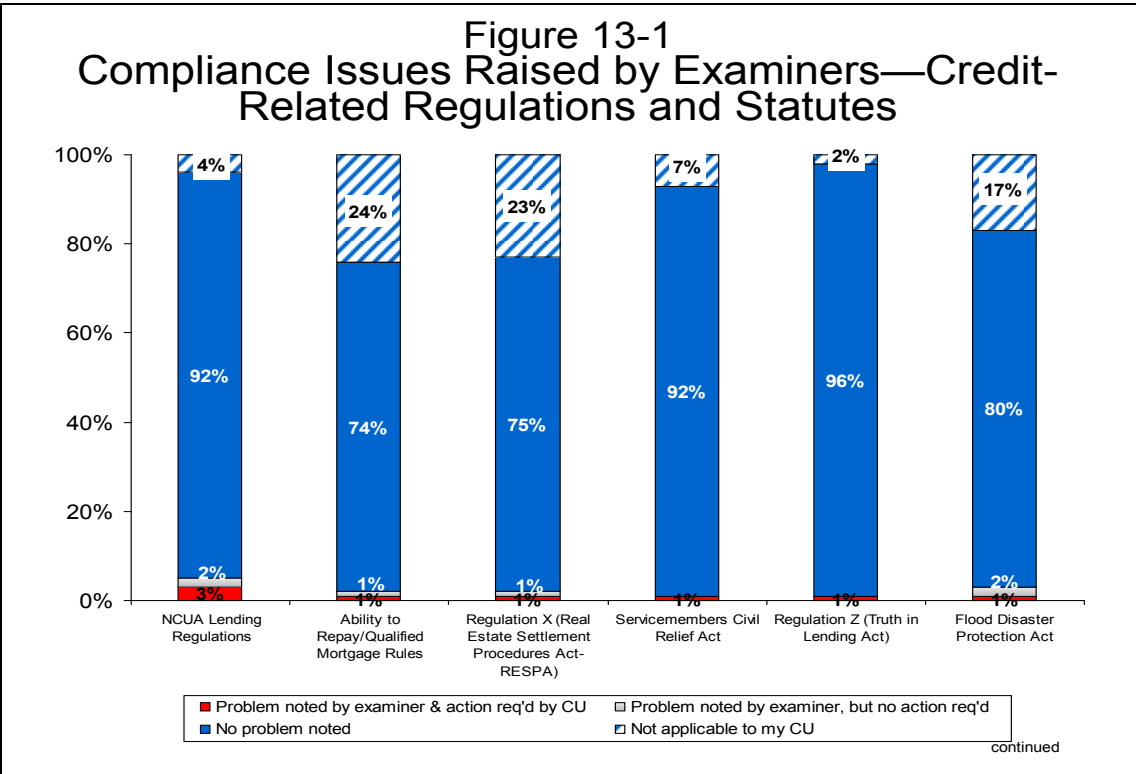


Figure 13-1

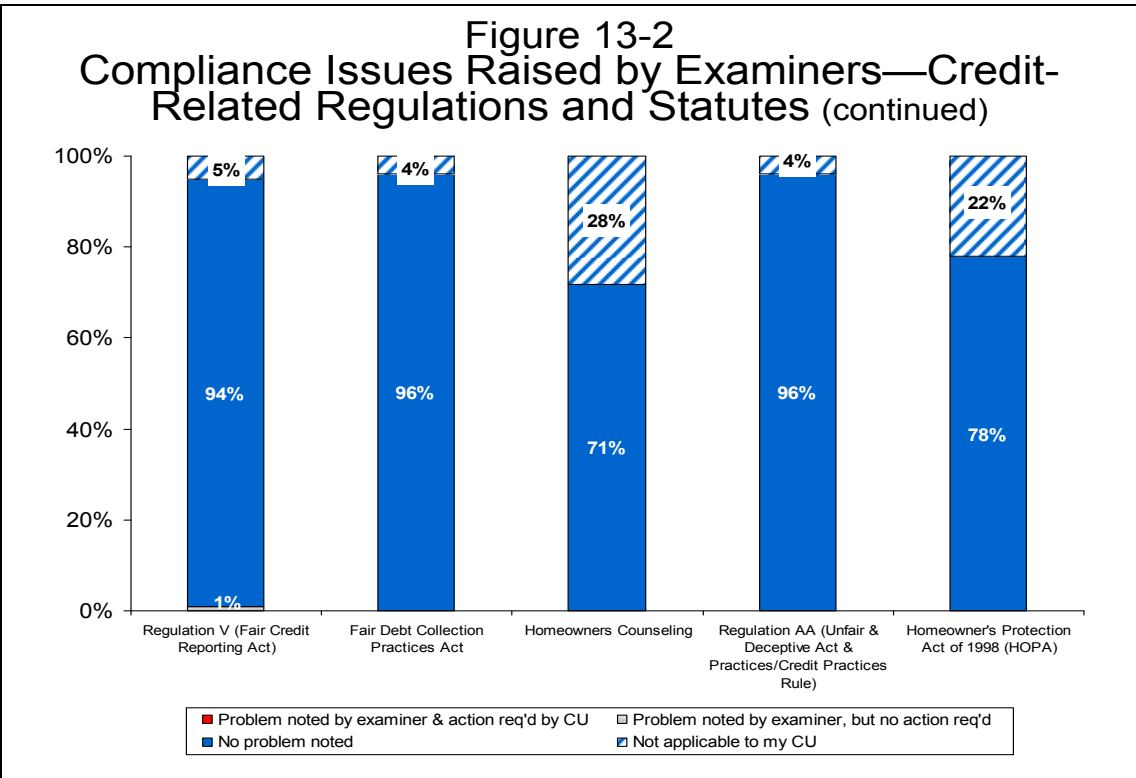


Figure 13-2

## FAIR LENDING COMPLIANCE – ISSUES RAISED

- Less than 1% of credit unions indicate their examiners identified problem areas in either of three different fair-lending compliance issues (Figure 14).

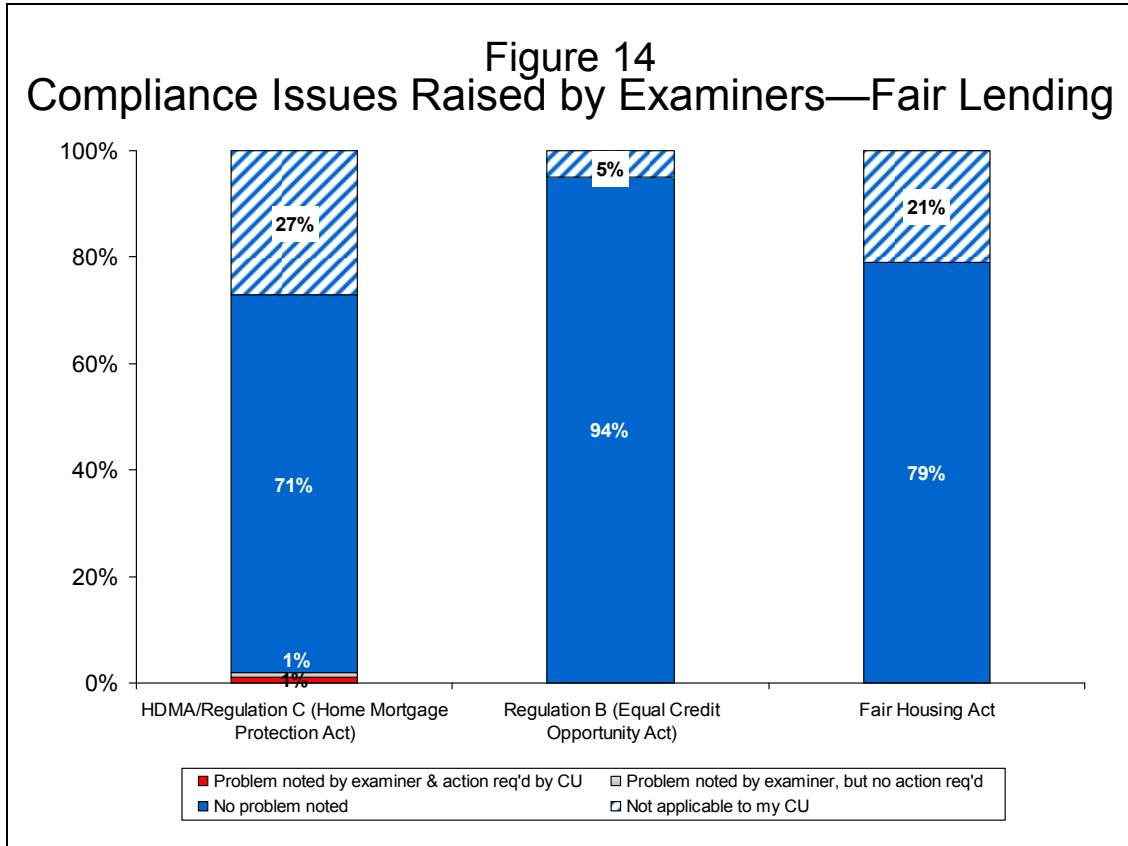


Figure 14

## BANK SECRECY ACT (BSA) COMPLIANCE – ISSUES RAISED

- Among five potential BSA-related compliance issues studied, three were brought up more so than were the other two, albeit, by only about 10% to 15% of examiners. Problems were most likely to be noted with respect to the credit union's BSA-related risk assessment, Suspicious Activity Report filings, and Currency Transaction Report filings (Figure 15).



- Actions by the credit union were required in just under half of the instances in which each of these problem areas surfaced.

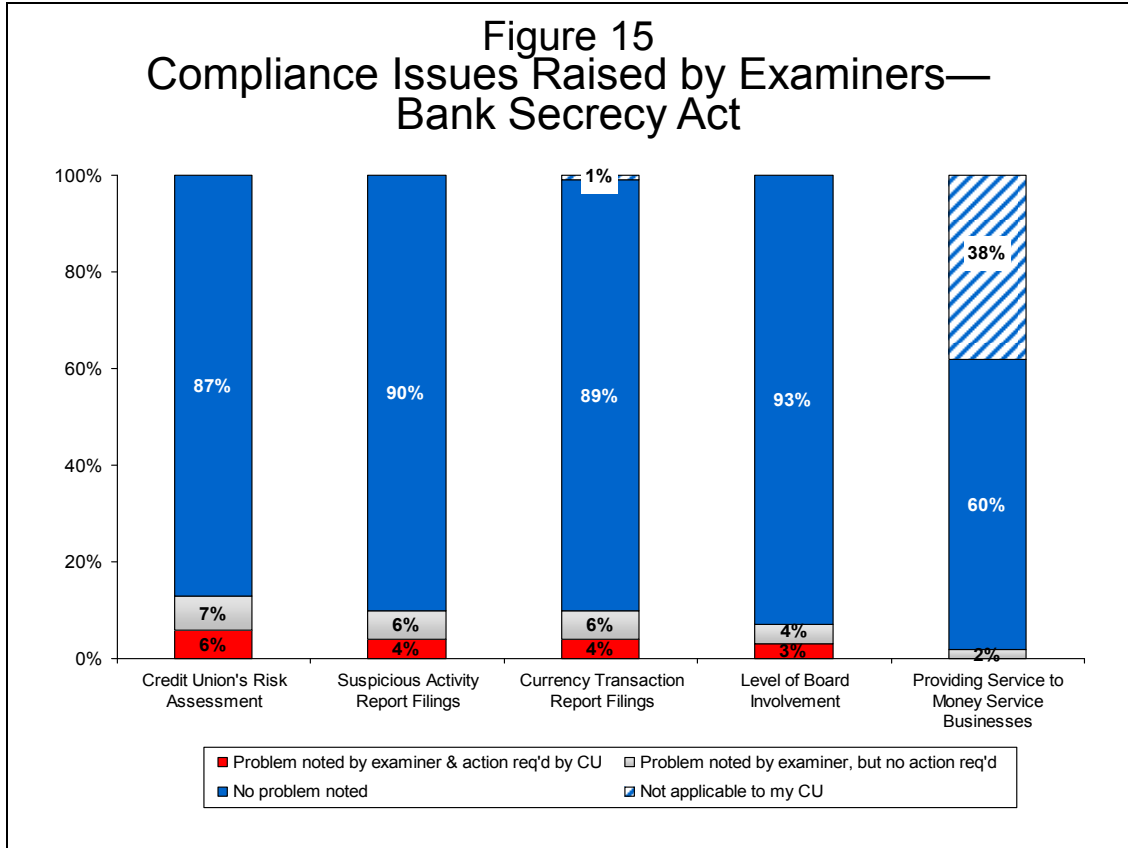


Figure 15

## CONTACTS

// Jon Haller, [jhaller@cuna.coop](mailto:jhaller@cuna.coop)

// Connie Dey-Marcos, [cdeymarcos@cuna.coop](mailto:cdeymarcos@cuna.coop)