d. hilton associates inc.

2014 Board Survey Report

Report Prepared by:

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Methodology

On January 29, 2014, D. Hilton Associates mailed the four page 2014 Board Survey to 2,972 chief executive officers and board chairpersons of credit unions nationwide with assets over $100 million. A re-mail and an email version of the survey were sent out on March 5, 2014. Upon the survey cut-off date of March 25, 2014, D. Hilton had a total of **477 responses, for an overall response rate of 16.0%.** A response from 477 individuals yields a confidence level of 95% (±4%). D. Hilton had a response rate of 24.6% among credit unions with assets of $100 million – $250 million, 37.7% among the $250 million - $500 million asset group, 39.8% for the $500 million - $1 billion group, and 34.7% among the $1 billion and over asset group.

Executive Summary

D. Hilton Associates conducts multiple annual research initiatives which provide the credit union industry with information about current trends in compensation, executive recruiting, and retirement planning. In 2014, D. Hilton distributed its first ever Board Survey to collect information about boards of directors in credit unions across the country. The ultimate goal of the Board Survey was to examine issues in today's heightened industry environment such as:

- What does today's credit union board look like?
- Do you have the diversity among board members to attack tomorrow's issues?
- Is your board's succession plan considered as important as your CEO's?
- How are boards tackling the demands of the market place and ensuring credit unions have the board leadership necessary to continue to grow?

D. Hilton wants to express special thanks to all the chief executive officers and board chairs who took the time to respond to our survey and provide us with their valuable input. We hope you find the following report helpful in leading your institution.

Board Composition

What do boards look like in 2014?

The majority of board members have a bachelor's degree (68.3%) and 22.7% have an advanced degree. When considering board size, 32.7% have seven members and 46.7% have nine. Larger credit unions are more likely to have larger boards. About 22% of credit unions with more than $1 billion in assets have boards with eleven or more members, compared to 10.7% for credit unions with $100 million - $250 million in assets. About 85% of boards say they have the right amount of members and 12.7% feel they have too many. For those with 13 or more board members, 66.7% feel they have too many members.

Asset Group

Number of Board Members	$100m-$250m	$250.1m-$500m	$500.1m-$1b	$1b+
5	8.3%	9.2%	5.5%	6.9%
7	40.8%	34.2%	26.4%	19.4%
9	40.2%	51.7%	47.3%	51.4%
11	7.7%	5.0%	16.5%	13.9%
13	2.4%	0.0%	3.3%	5.6%
15	0.6%	0.0%	1.1%	2.8%

Nine appears to be the magic number for many boards, with 83.7% saying they have the right amount of board members. Boards are still dominated by men, with **84.7% of credit unions reporting they have three or fewer female board members. Almost 7% of boards have no female board members.** The most common board composition consisted of seven men and two women and accounted for 13.9% of boards, followed by 12.6% of boards with five men and two women. Almost 12% of boards have six men and three women.

Credit unions strive to have a board that reflects their membership, but the gender disparities among today's boards suggest most have a long way to go to achieve equal representation since the average credit union membership is 57.8% female and 42.2% male. Only 16.4% of board chair positions are held by women.

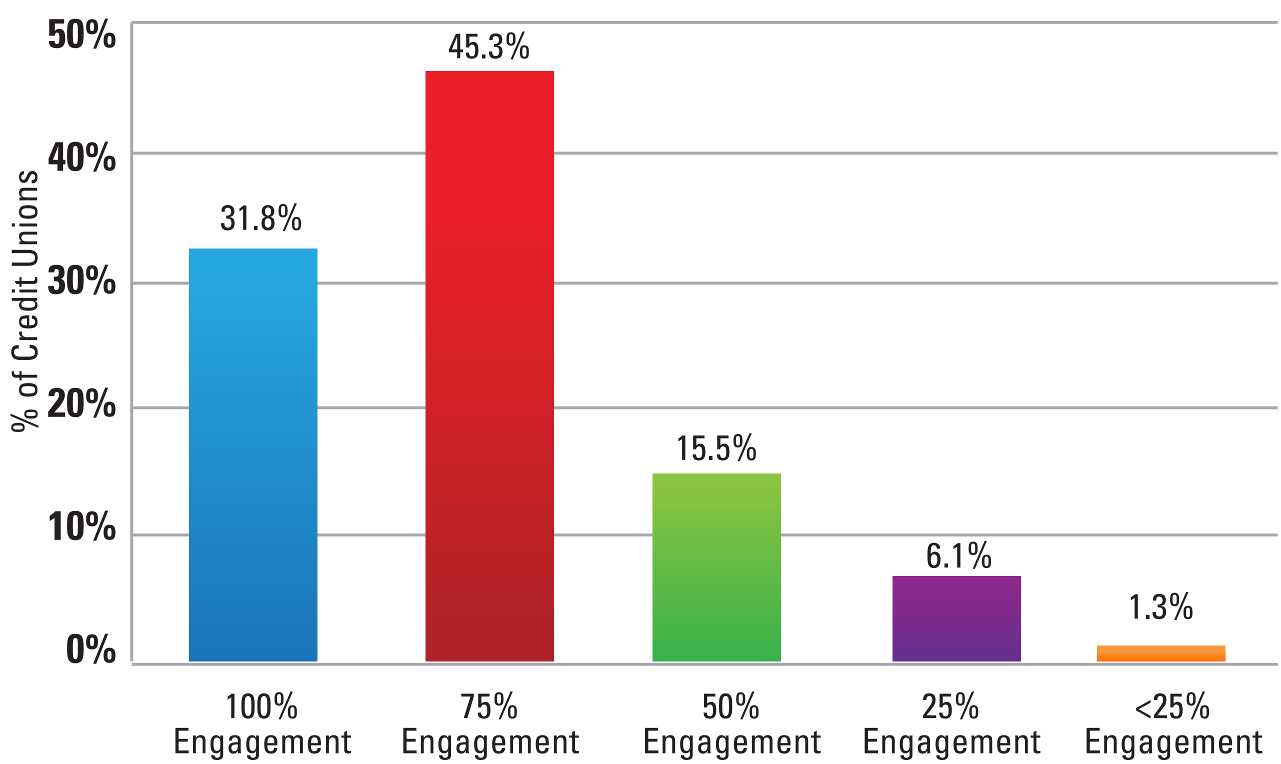
Management in credit unions also suffers from gender disparity. Only 22.1% of credit unions have female CEOs, and that number drops drastically as assets increase. **One in ten credit unions over $1 billion in assets have female CEOs.** Female representation in executive management varies across positions, and women are most likely to be found in human resources, marketing, and operations. Women hold 23.1% of executive level IT positions and 36.1% of CFO positions. Narrowing this gender gap is crucial if credit unions are going to face the issue of the growing leadership vacuum as executives retire. Organizations in all industries need to tap into the large talent pool of women executives if they hope to fill these vacancies.

Are boards engaged?

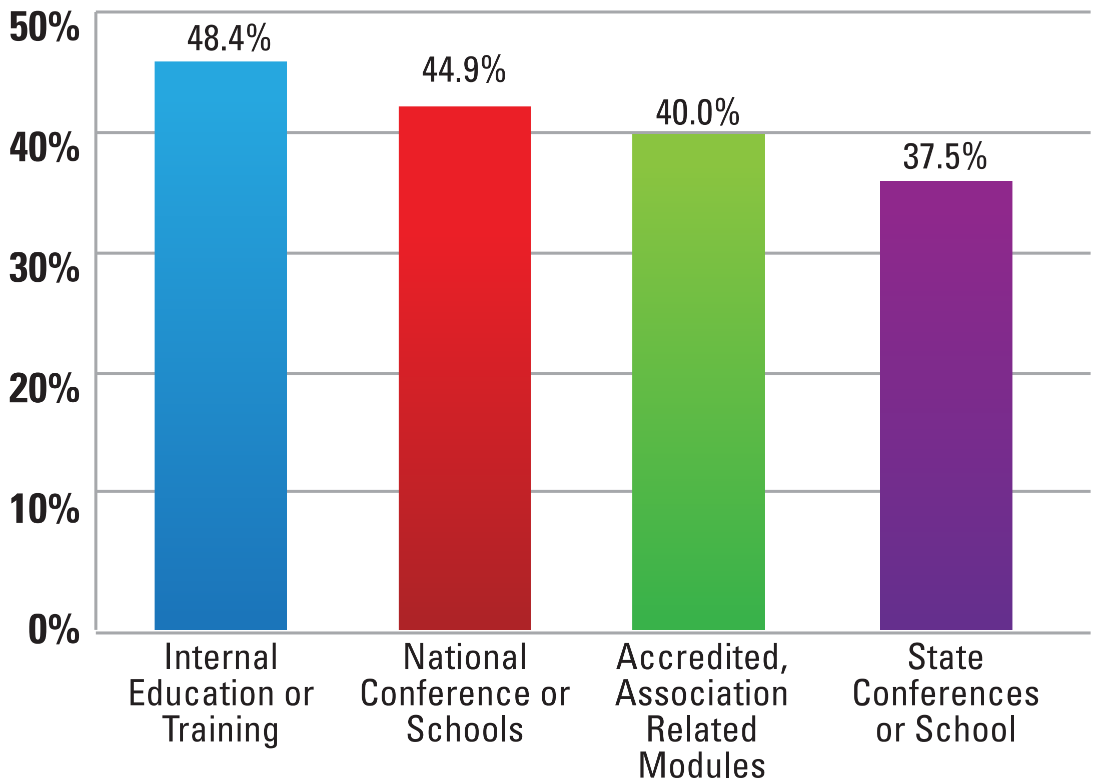
A remaining challenge all boards face is recruiting engaged board members. The commitments of a volunteer are many, especially the time required of board members. Keeping the board fresh and active with multiple perspectives, personalities, and experiences is difficult for most credit unions. **Almost 40% of credit unions report it is difficult or extremely difficult to recruit board members**. There are plenty of community and business leaders willing to serve on a board, but it is difficult to find time to recruit these potential board members.

Recruitment requires time, research, and commitment, which many board members cannot take on. While reported interest levels are strong, with 87.8% of credit union boards reporting an interest level of "somewhat high" or "extremely high," **22.9% of credit unions say 50% or less of their board is actively engaged.** Interest level and engagement increase with asset size: 28.2% of $100 million - $250 million credit unions report interest levels as "extremely high," compared to 56.0% of credit unions with over $1 billion in assets. Three in four credit unions have complete attendance at board meetings.

Level of Board Engagement



Board Education Policy Elements

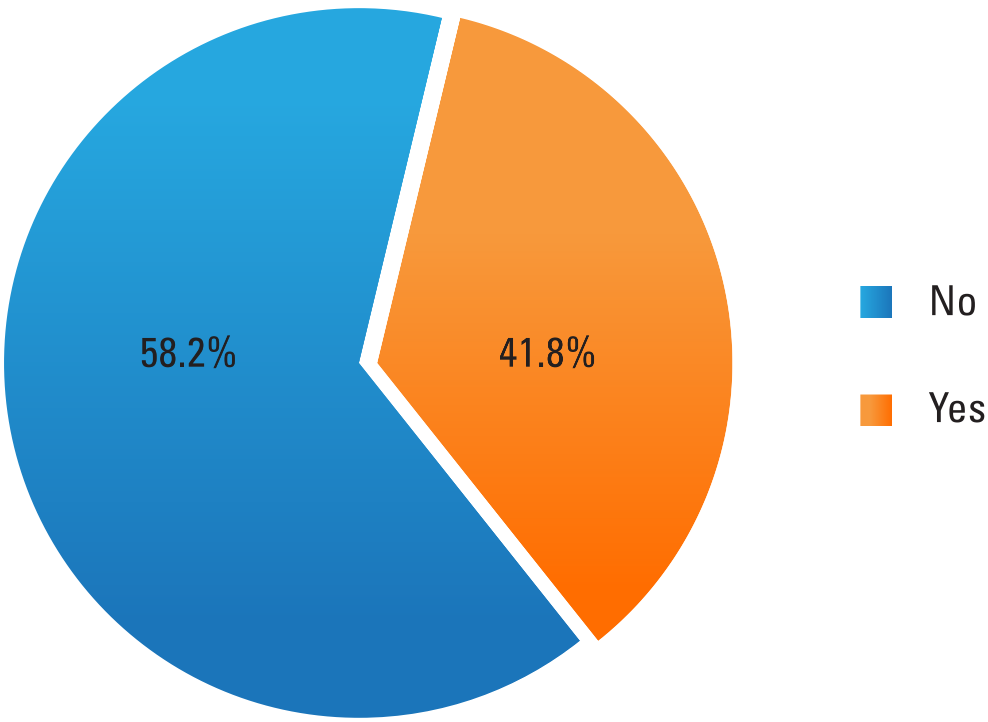


How are boards preparing for tomorrow?

Two-thirds of boards have an education policy or requirement in place made up of multiple resources. Internal education or training is most popular, used by 48.4% of credit unions, followed by national conferences or schools, which are utilized by 45% of credit unions. Overall, credit unions use multiple methods to provide board member education, including state conferences and association resources. Despite utilizing multiple resources,15.4% of boards say they do not feel continuing education efforts are worth the dollars spent. Almost 30% of credit unions say that board members can attend two conferences per year, while 35.6% can attend as many as necessary.

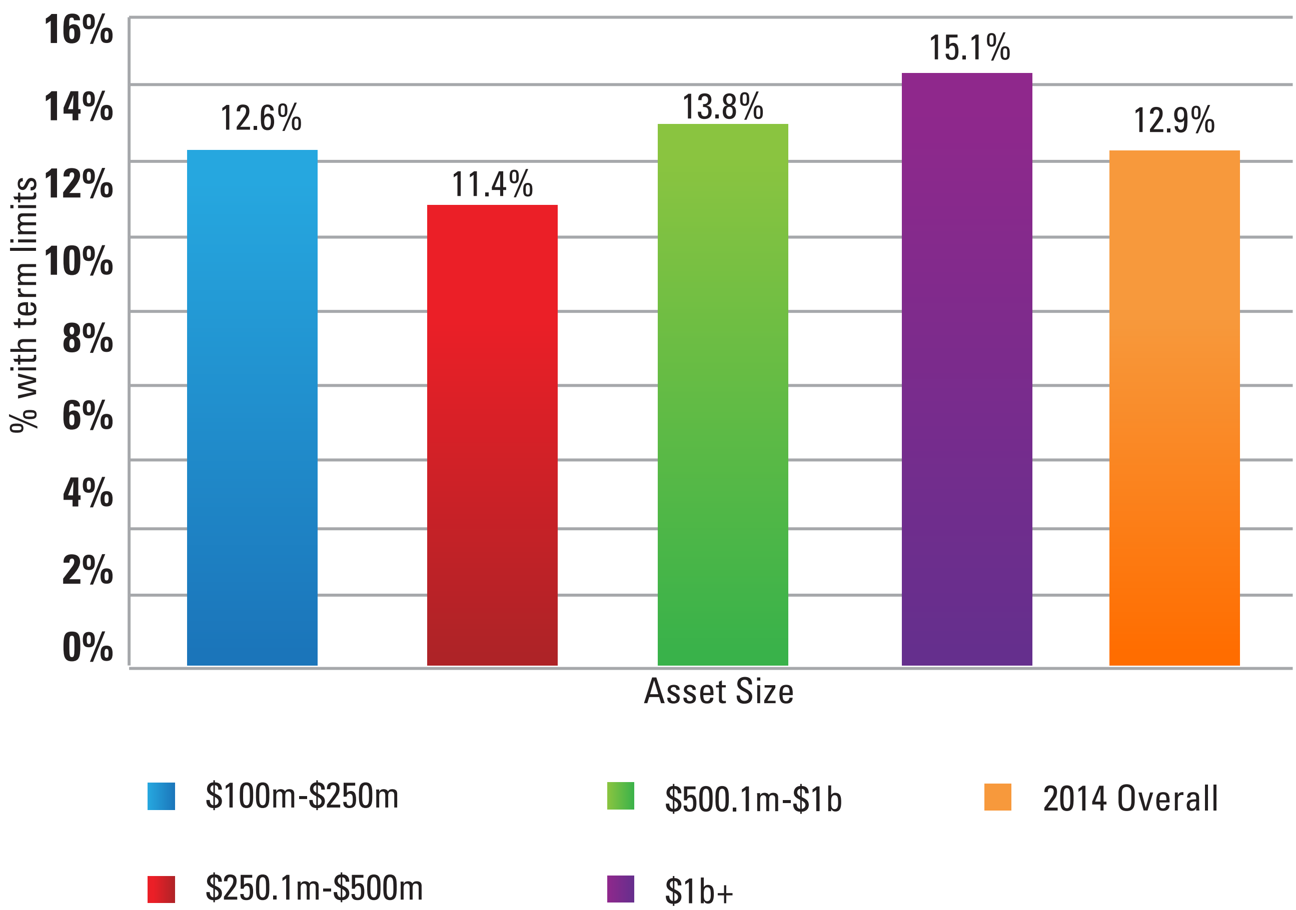
While CEO succession is understood as a significant part of continued success, much less attention is paid to board succession. **About 60% (58.2%) of credit unions do not have a board succession plan in place.** Only 38.6% of $100 million - $250 million credit unions have a plan, compared to 44.2% of $500 million - $1 billion credit unions and 45.8% of $1 billion plus credit unions. In addition, **20.4% of credit unions never review their board succession plan,** and about 15.4% feel it is ineffective. Despite these numbers, less than half of credit unions (46.6%) feel they need to develop or change their board succession plan, indicating most boards do not fully appreciate the value of a strong board succession plan.

Does the credit union have a board succession plan in place?



Only 12.9% of boards have term limits in place, but 33.8% feel they should have term limits. Slightly more than half of credit unions rotate officer positions, and 57.3% feel officer positions should be rotated.

Does the board have term limits?

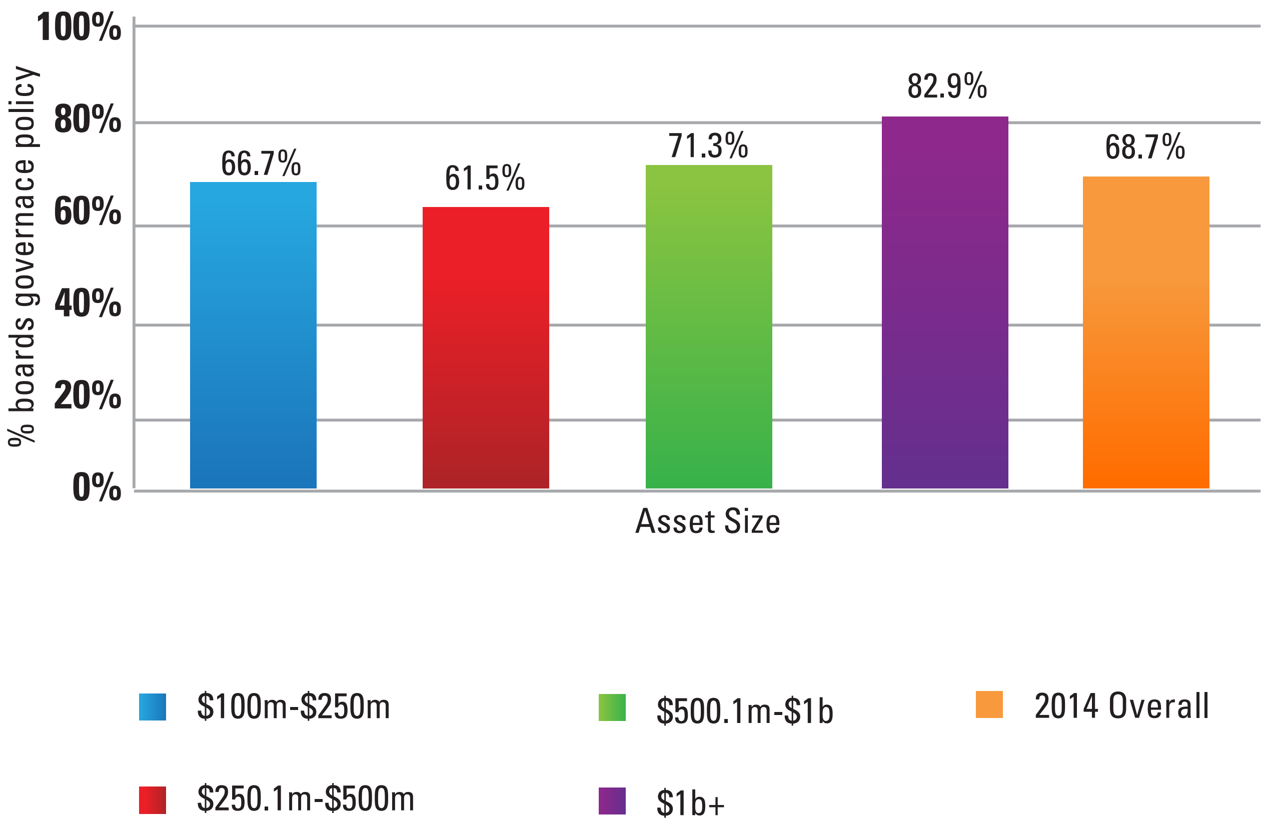


For 33.7% of credit unions, the average board member tenure is 11 to 15 years and 6 to 10 years for 28.2% of credit unions. **Three out of four credit unions have at least one board member over the age of 70**, and 54.9% of credit unions report the average age of board members is between 55 and 64. It is important to have many age groups represented on a board, but many credit unions struggle to find younger members. Younger members will ensure boards have continued leadership as other members age and wish to step down from the demand of serving, and boards need the variety of ideas created by a more diverse board.

How do boards approach governance?

One of the biggest challenges for boards today is finding the right balance between governing the credit union and not becoming too tactical and involved in everyday operations. With increased regulation and the need for oversight in all areas, many boards struggle to find that "sweet spot" between too much involvement and not enough. Almost 70% of credit unions have a board governance policy in place, while 82.9% of $1 billion credit unions utilize such a policy compared to 66.7% of credit unions with assets between $100 million and $250 million. As board members move on to other opportunities or retire from their roles, credit unions need to ensure that incoming members understand the multiple facets of this volunteer position. Only 26.6% of credit unions have associate/advisory positions.

Do you have a formal board governance policy?

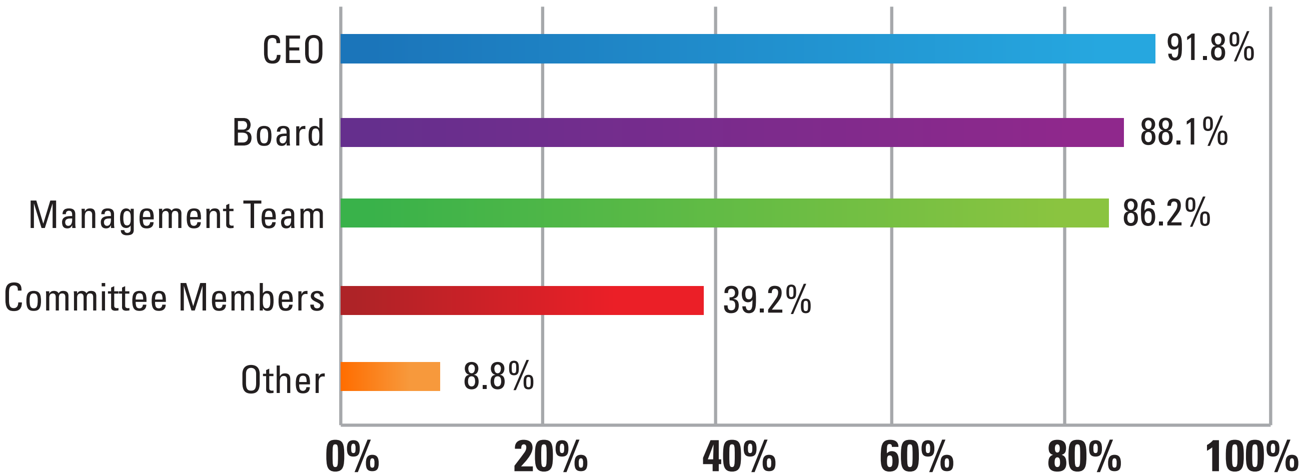


Board Compensation

Another hot topic in the industry is board compensation. Should board members receive monetary compensation for a role that is traditionally voluntary? Eighy-five percent of state chartered credit unions do not compensate any board members, but when examining by asset size, that figure drops to 71.8% for credit unions over a billion in assets. Larger credit unions are also more likely to provide compensation in the form of a stipend rather than a set amount per meeting.

While today most credit unions do not compensate their board members, many credit unions offer other benefits such as insurance and technology. About 10% of credit unions offer life insurance to their board members and 9.0% offer disability insurance. Almost 60% (58.5%) of credit unions provide board members with iPads, and 19.1% provide laptops.

Who takes part in the strategic planning session?



Strategic Planning

Strategic planning is an important part of success. Larger credit unions are more likely to conduct planning twice a year, and most credit unions hold planning sessions in the fall with 61.1% of sessions taking place in August, September, or October.

Almost 60% of credit unions have third party presentations at the session, while 63.6% use a third party facilitator. Interestingly, the use of a facilitator decreases as asset size increases: 69.2% of credit unions with assets between $100 million and $250 million use a facilitator, compared to 52.1% of credit unions with over $1 billion in assets. For those credit unions that do utilize a third party facilitator, 86.2% believe it is worth the investment, and 37.1% are extremely satisfied. While larger credit unions are less likely to use a third party to facilitate, credit unions over $1 billion are more like to have a third party presenter than other asset groups (64.5%). Effectiveness of planning sessions varied across asset groups. For credit unions under $500 million, 36.6% felt their sessions are extremely effective, compared to 56.8% for credit unions above $500 million.

Conclusion

We always strive to ensure our research is truly reflective of issues and trends in the industry, and we are always adapting and changing to meet the demands of credit unions in order to truly serve as an engagement partner. D. Hilton asked survey participants to provide feedback on other topics or questions they felt we should address in our next board survey. Some of the topics mentioned were communication between board and CEO, board self-evaluation processes, and how boards address underperforming directors, to name just a few. The strong response to our survey and interest in the findings demonstrates that credit unions want to know how board dynamics and composition affect credit unions today. For more information about credit union leadership, please contact **David Hilton, President of D. Hilton Associates at 800.367.0433 or email david@dhilton.com**.

About D. Hilton Associates

When former credit union CEO David M. Hilton, Ph.D. founded D. Hilton Associates in 1985, he had a special mission in mind: to help credit unions meet the challenges of the rapidly changing financial services marketplace. David assembled an in-house team of seasoned, top-notch financial services, human resource, organizational development, marketing, and research consultants. To date, D. Hilton Associates has provided credit union consulting services to more than 2,700 credit unions nationwide, with assets ranging from $50 million to more than $15 billion.

Our goal is to develop a long-term relationship with our clients and D. Hilton Associates offers a wide variety of credit union services, each with a fresh approach and a credit union insider's perspective. Acting as independent advisors, D. Hilton Associates professionals deliver unsurpassed service tailored to the client's specific needs. No other group or individual offers the depth of knowledge or breadth of services offered by D. Hilton Associates. Our major practice areas are Executive Recruiting, Compensation Planning, Retention & Retirement, and Strategic Services.

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