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Credit Union Boards of Directors for the New Millennium

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CREDIT UNION BOARDS OF DIRECTORS FOR THE NEW MILLENNIUM

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ABSTRACT

The economy of the United States has recorded phenomenal performances in every segment of the nation over the last decade. The longest expansion in economic history, dating from March of 1991, is continuing as we enter the 21st century.

The financial services industry has been in the forefront of dynamic change and expanding diversity of activities, institutions, and instruments during this period. The era of deregulation, which began in the 1980s, continued in the 1990s, culminating with the repeal of the Glass-Steagell Act in the year 2000.

This paper is an empirical analysis of the ways in which the credit union industry has both participated in the deregulation environment and also faced some of the strongest head winds to its historical growth performance, in the approximately two-year battle over fields of membership expansion. With the passage of HR 1151 in 1998, the industry has been able to resume its record of growth in assets, loan and investment offerings, and membership. Consolidation of financial institutions of all kinds continues. By the end of the year 2000, approximately 10,000 credit unions were operating in the U.S., compared with a peak of over 23,000 in the 1970s.

CREDIT UNION CHALLENGES AND OPPORTUNITIES

The credit union industry is faced with a number of challenges and opportunities at the dawn of a new century.[1]

- *Operating financially sound institutions and meeting new competitive challenges*. With the repeal of the Glass-Steagell Act, commercial banks may now expand their financial service offerings to an even greater extent. The concept of "one-stop shopping" has never been more attainable and these trends are likely to continue. Yet credit union offerings continue to be quite restrictive, primarily directed towards consumer loans, fixed income investments and transaction-oriented services (ATMs, internet loan offerings, etc.). To continue to serve members effectively credit unions must expand their service offerings and maintain quality lending standards.

- *Retaining and growing membership*. Competition for members and keeping current members satisfied will be critical challenges for the industry. Total membership has resumed its historical 2 to 3 percent growth rate in the last two years. However, competition for a credit union manifests itself not only in other financial institutions but also in other credit unions, through overlapping memberships.

- *Finding and keeping good employees*. As financial institutions become more complex and technology becomes more ingrained in operations, finding workers with these skills becomes critical to successful performance. And with the increased mobility of today's labor force it is important to keep these workers and their expertise within the credit union industry.

- *Identifying products and services that members consider most important*. As "member driven" financial institutions, credit unions have always operated to provide services desired by their members. Credit unions operate to meet member needs, not to enhance the performance of the credit union itself. Credit unions are only as good as the satisfaction of their members.

- *Incorporating the latest technological advances into credit union operations*. The financial services industry is in the forefront of incorporating technology into its operations. It is imperative that management, employees, and volunteers keep pace with a rapidly changing environment. Policy, operating plans, and effective execution will be key factors as credit unions enhance their competitiveness and member satisfaction.

- *Complying with evolving regulatory demands*. With the growth and development of expanded credit union service and financial products,

[1] Presentation by National Association of Federal Credit Unions (NAFCU) President Ken Robinson, to a conference of The American Institute of Public Accountants (AICPA), NAFCU Update, November 15, 1999, p. 3.

regulatory demands are likely to grow. Management must be able to operate within the confines of industry guidelines and also meet the changing needs and desires of members.

- *Finding, training, and maintaining a competent, well-functioning board of directors made up of volunteers*. With the increasing complexity of credit union operations and expansion of technologically driven products and services, the qualities and responsibilities of board members have increased in scale and scope. In addition, as credit union membership bases broaden with multi-sponsored institutions, the role of the board of directors has become increasingly critical to successful, competitive operations. The focus of this research effort encompasses the changing structure and role of the board, with implications for future effectiveness in the new millennium.

METHODOLOGY AND SAMPLE CHARACTERISTICS

In order to explore the effects of these forces on the credit union industry, in general, and boards of directors, in particular, a questionnaire was constructed and sent to 886 randomly selected credit union managers and/or CEOs.[2] Returned surveys numbered 315, of which 297 provided valid data (a response rate of 33.5 percent).

In order to supplement survey data, an extensive telephone solicitation effort was undertaken to explore new ideas as well as to expand and solidify survey responses. Another 255 credit unions were contacted, with 207 responses, resulting in additional, valuable data. Many of these conversations also resulted in anecdotal evidence that has been incorporated into this study. Therefore, the overall effective response rate approximates 57 percent.

During the decade of the 1990s, the credit union industry in the United States grew in membership as well as assets under management control. Data in Table 1 show trends in the size of credit unions responding to this survey.

[2] A similar survey was the basis of another paper, "The Changing Structure of Credit Union Boards in the 1980s: With Implications for the 1990s," which was published in 1992.

TABLE 1
CHANGING SIZE OF CREDIT UNION SAMPLE IN THE 1990S
(IN PERCENTS)

Asset Size	1990	1993	1996	1999
$0-19.9 m	33.4	28.1	24.3	19.6
$20-49.9 m	16.2	16.9	17.4	17.7
$50-199.9 m	27.8	29.6	31.1	33.0
$200 m +	22.6	25.4	27.2	29.7
Totals	100.0	100.0	100.0	100.0

Source: Survey Responses and Telephone Conversations

Early in the decade, approximately one-third of the survey group had assets under $20 million. This percentage declined steadily to just under 20 percent by the end of 1999. Credit unions with assets between $20 and 49.9 million grew slowly, from 16.2 percent to 17.7 percent. More rapid increases were observed in each of the larger asset categories, with the $50 to 199.9 million group expanding from 27.8 percent to 33.0 percent and the $200+ million group increasing from 22.6 percent to 29.7 percent.

Over the decade of the 1990s, the trend towards increased asset size extended through only four asset categories. In Table 2, Governmental (Federal, State, and Local), Higher Education, Other and Multiple Groups all registered higher response rates for larger asset sizes, while the remaining five categories (Residential, Associational, Manufacturing, Wholesale/Retail, and Educational (K-12)) had lower response rates by size.

TABLE 2
SAMPLE CHARACTERISTICS BY SPONSOR VS. ASSET SIZE – 1999
(IN PERCENTS)

	Asset Size in 1999				
Sponsor Types	Under $19.9 m	$20 – 49.9 m	$50 – 199.9 m	$200+m	Total
Residential	36	28	24	12	100.0
Associational	34	36	23	7	100.0
Manufacturing	32	20	27	21	100.0
Wholesale/Retail	28	24	21	27	100.0
Governmental (Federal, State, Local)	22	12	24	42	100.0
Higher Education	18	31	23	28	100.0
Education (K-12)	24	28	25	23	100.0
Other	14	26	31	29	100.0
Multiple Groups	16	19	22	43	100.0

Source: Survey Responses and Telephone Conversations

Competition and deregulation have affected all segments of the financial services industry in the 1990s. The effect on credit union activities has been to expand their product and service offerings to meet and satisfy their members. Data in Table 3 show trends that continue findings from the earlier study, namely that more categories of loans, investment instruments, and miscellaneous services are being offered to members each year. This finding coincides with the growing asset size of the average credit union and its ability to expand offerings in an efficient manner.

TABLE 3
GROWTH IN CREDIT UNION OFFERINGS IN THE 1990S
(IN PERCENTS)

Year	Number of Loan Categories		Number of Investment Instrument Offerings		Number of Miscellaneous Service Categories	
	1-5	6+	1-5	6+	1-5	6+
1990	24.2	75.8	46.6	53.4	38.1	61.9
1993	22.4	77.6	43.4	56.6	34.3	65.7
1996	20.9	79.1	41.7	58.3	30.2	69.8
1999	16.7	83.3	39.9	60.1	27.6	72.4

Source: Survey Response and Telephone Conversations

Over 80 percent of respondents concluded that the mix and diversity of board duties had increased either marginally or significantly, with 70 percent choosing the "significant" category. When results are analyzed by asset size, larger credit unions ($200m+) chose the "significant" category more often than smaller ones.

The analytical focus of this research effort is the credit union board of directors. It targets the ability of the board to contribute to the successful development of each credit union. Credit union directors are volunteers and, therefore, do not receive compensation for their services, unlike boards of competitor institutions (commercial banks, savings and loans, finance companies, etc.). Credit union volunteers run for election for their boards rather than being "appointed," as is customary in these institutions.

A challenge for credit unions will be to keep the supply of qualified applicants for board positions expanding at the same time that the demands on their personal time and expertise continue to expand. In a normal labor market, these trends would result in an increase in the market price, however, there is no monetary remuneration in this credit union market.

FINDINGS

This research effort has discovered a large amount of information concerning credit union boards of directors. Many of these finding continue a trend first identified in a previous study, while some information shows changes that were not foreseen in that paper. Together, the data cover two decades of credit union history and provide valuable information for the structure and composition of the boards in the years to come.[3]

Size of Credit Union Boards of Directors

The stability of board size was found once again in the 1990s. The modal value for the entire period was a board size of 9 directors. In 1990, that size was mentioned by 41.2 percent of respondents and rose slightly to 42.3 percent by 1999. A seven-member board was found 28.6 percent of the time in 1990, but decreased to only 26.5 percent in 1999. The remaining modal value, 11 directors, rose marginally, from 30.2 percent in 1990 to 31.2 percent in 1999.

TABLE 4
NUMBER OF DIRECTORS ON THE BOARD BY ASSET SIZE
(1990-1999)
[MODAL VALUE (M), MODAL PERCENT (%), AVERAGE SIZE (A)]

Asset Size (in millions)	1990			1993			1996			1999		
	M	%	A	M	%	A	M	%	A	M	%	A
$0-19.9	7	42	7.7	7	43	7.6	7	41	7.6	7	40	7.5
$20-49.9	9	53	8.9	9	54	9.1	9	49	9.1	9	56	9.2
$50-199.9	9	55	9.0	9	52	9.2	9	56	9.3	11	57	9.4
$200 +	9	56	9.2	9	58	9.6	11	61	9.9	11	60	10.2

Source: Survey Data and Telephone Conversations

When asset size is factored into the analysis, a definite trend toward larger boards is observed for larger credit unions. While the under $20 million credit union has continued to operate with a modal value of 7 directors, the middle range's ($20-49.9 million and $50-199.9 million) operate primarily with 9 board members. Interestingly, the over $200 million credit unions have seen an increase in board size. In the middle of the decade, the modal value rose from 9 to 11 directors and maintained that level through 1999. These data also support the growth in the average board size for this group, from 9.2 in 1990, to 10.2 in 1999.

These findings reflect the growing importance of larger sized and more complex credit unions in the U.S. These operations require not just more

[3] Raymond H. Lopez and Michael U. Schwartz, "The Changing Structure of Credit Union Boards of Directors in the 1980s: With Implications for the 1990s." Pace University Center for Applied Research, Working Paper No. 106, April 1992.

experienced and capable employees, but a commensurate increase in the number and capabilities of their boards.

The study also observed data on these board size groupings by type of sponsoring organizations (Table 5). Both Residential and Multiple Group categories had the largest average board size at 10.8 members. Manufacturing and Higher Education credit unions were next in size at an average of 9.2 directors. At the other end of the spectrum, Association credit unions had an average of only 7.7 directors.

The modal value for directors has risen for these broad categories of sponsors, while all other categories remained essentially unchanged. Wholesale/Retail and Education (K-12) rose from 7 to 9 directors, while the Multiple Group rose from 9 to 11.

TABLE 5
NUMBER OF DIRECTORS ON CREDIT UNION BOARDS BY SPONSOR TYPE
1990-1999
[MODAL VALUE (M), MODAL PERCENT (%), AVERAGE SIZE (A)]

Sponsor	1990			1993			1996			1999		
	M	%	A	M	%	A	M	%	A	M	%	A
Residential	9	41	10.6	9	44	10.8	9	45	10.7	9	47	10.8
Associational	7	45	7.3	7	50	7.4	7	55	7.6	7	50	7.7
Manufacturing	9	40	9.1	9	43	9.0	9	46	9.1	9	45	9.2
Wholesale/Retail	7	35	8.6	7	33	8.8	9	37	8.7	9	39	8.8
Government (Federal, State, Local)	9	40	8.7	9	38	8.8	9	41	8.9	9	44	9.1
Higher Education	9	61	9.1	9	58	9.0	9	63	9.1	9	62	9.2
Education (K-12)	7	60	7.6	7	67	7.8	7	71	8.1	9	72	8.2
Other	9	36	8.6	9	40	8.5	9	42	8.7	9	43	8.8
Multiple Groups	9	46	9.6	9	49	10.1	11	33	10.7	11	36	10.8

Source: Survey Data and Telephone Conversations

With the continuing expansion of credit union activities, services, and products occurring throughout the 1990s, it could be expected that boards would have to increase in size. In addition, the expansion of fields of membership through select employee groups (SEGs) has resulted in faster asset growth in the large ($200+ million) asset category. To adequately represent more diverse member groups, it would be expected that a larger sized board would be the result. The data for Multiple Groups over the 1990s support this hypothesis and it would not be surprising if a few of the other sponsor categories were to expand their average board membership in the next years.

Director Service in Years

The modal value for number of directors has changed slightly since the original study was conducted. Both the under 2 year category and the 10+ years category have increased from 2 to 3 members in the 1990s, while the two groups in between have remained unchanged at 2 directors (Table 6). As a percent of responding credit unions, the under 2 year category was 37.4 percent, while the over 10 year group was 32.3 percent. The latter response is up from 26.1 percent a decade ago.

TABLE 6
CREDIT UNION BOARD MEMBERS' YEARS OF SERVICE
(YEAR END 1999)

Years of Service	Modal Value of Respondents	Percentage of Modal Value
Under 2 years	3	37.4
2-4.9 years	2	25.6
5-9.9 years	2	26.7
10+ years	3	32.3

Source: Survey Data and Telephone Conversations

When asset size is cross-referenced with a modal service value, it was found that larger credit unions ($200+ million) had a higher percentage of their directors in both the under 2 year and over 10 year categories. These larger institutions have been the most successful at bringing new talent and "new blood" onto their boards. Perhaps it is the enhanced diversity of members in the multiple group categories that supports these trends.

Educational Background of the Board

At the end of 1999, the educational composition of the average credit union board may be observed from data in Table 7. More than 51 percent of directors have a college degree, up from 47 percent in 1989. Both the master's and doctoral categories are also up (from 22.0 and 6.6 percent respectively) in the 1990s.

TABLE 7
EDUCATIONAL PROFILE OF CREDIT UNION BOARD MEMBERS
(YEAR END 1999)

Highest Education Level Achieved	Valid Percent	Cumulative Percent
High School	17.4	17.4
College Degree	51.2	68.6
Master's Degree	23.6	92.2
Doctoral Degree	7.8	100.0

Source: Survey Data and Telephone Conversations

Business Disciplines Represented on the Board by Educational Training and/or Professional Experience

In order to provide effective guidance and direction to the operations of a successful credit union it is important, though not absolutely essential, for directors to have an understanding of certain business disciplines. Experience, as well as sound and logical judgment, can make a significant contribution to the operating efficiency of the credit union. Academic training and/or professional experience are valuable attributes of any board member.

Data in Table 8 present, quite clearly, the recent backgrounds of credit union boards as of year end 1999. Accounting, Finance, and Personnel/Human Resources are clearly the categories found most often. These were the same three categories represented most often in the previous study. What is most interesting is the increase in the representation percentages for Law (up 5.0 points) and Information Systems (up 9.9 points). While every category has experienced an increase over the last decade, these were the largest in absolute terms.

TABLE 8
BUSINESS KNOWLEDGE ON CREDIT UNION BOARDS OF DIRECTORS
(YEAR END 1999)

Expertise/Business Disciplines	Percent of Boards with Academic Credentials	Percent of Boards with Professional Experience and Expertise
Accounting, CPA	55.6	48.6
Accounting, CMA	14.7	12.3
Economics	36.1	34.7
Finance	46.2	48.6
Law	24.7	35.8
Investments	33.7	31.6
Personnel/Human Resources	51.4	52.2
Marketing	33.7	32.6
Computer Science	26.6	27.1
Information Systems	24.8	28.5
AVERAGE	34.75	35.0

Source: Survey Data and Telephone Conversations

As the focus of credit union operations shifts in response to changing member needs, it is important for management and the board to be able to make the necessary adjustments. With transaction-oriented services growing in importance (ATMs, audio response, credit cards, debit cards, Internet activities, etc.), knowledge and understanding of computer systems and information technology grow in importance. Expanding membership is always on the agenda, whether it is within the current field of membership or expansion through SEGs. Therefore, marketing expertise is also quite useful on the board. Finally, on the savings side of operations, meeting member needs for competitive rates of return requires the efficient management of both the loan and investment portfolios.

Utilization of Outside Expertise

Credit union operations have expanded in their scale and scope throughout the 1990s. For smaller and mid-sized operations, the need for outside expertise has grown. It is generally a prudent managerial decision to get professional assistance when moving quickly into newer areas of activity. Once a comfort and knowledge level has been reached, these activities may then be brought back "in house." Smaller credit unions (under $20 million in assets) are less likely to expand into new areas while the larger ($200 million in assets) groups have the managerial, employee, and financial resources to handle new operations "in house" from start to finish.

Federally chartered--federally insured credit unions are still likely to obtain expertise outside their organizational structure. They represent 71 percent of credit unions stating they would "sometimes" go outside. The state chartered--

federally insured group represented 63 percent of credit unions stating they would go outside "most of the time" if expertise were needed.[4]

The state chartered--privately insured credit unions are still the least likely to seek outside expertise. They represented 36 percent of respondents saying they would "never" go outside for advice and/or assistance. It may be concluded that these credit unions would rather not offer certain products or services that required a level of expertise beyond their internal capabilities. Either they do not offer the services to members or wait until the "in house" capabilities are finally operational. In a rapidly changing competitive environment for financial services, flexibility and decisive actions are critical to any organization. The above policies may not provide members with the products and services they desire in a timely fashion.

What types of services are those most likely to be obtained from experts outside the organization? Not surprisingly, at the top of the list were legal services, with only the largest organizations being able to employ a legal staff. Information technology and computer capabilities were those identified next, followed by financial advice concerning management of the investment portfolio.

When asset size is considered, the largest credit unions are most likely to utilize outside services "sometimes" or "most of the time." Interestingly, those companies included in the under $20 million group are most likely to "never" go outside for expertise and/or assistance.[5]

The larger sized credit unions are most likely to pay for outside services. This is primarily because they quickly evaluate a need and determine if it is best met by management or outsiders. They also have the greatest ability to pay for what they perceive to be critical resources necessary to meet member needs. All other asset categories show a greater reluctance to both use and pay for outside expertise.[6]

Over the next five years, a majority of the members of each credit union with asset categories under $200 million believe there will be a need for utilizing outside expertise. This is a healthy reflection of evaluating both marketplace demands of members and internal resource capabilities of their institutions. Only the largest credit union respondents believe they will not need to avail themselves of outside expertise, but their margin of response is almost (52 to 48 percent), equal to respondents who register a positive response to this inquiry.[7]

The final cross-reference made concerns sponsor types. Residential credit unions are most likely to seek outside expertise in the next five years; 92 versus

[4] In a previous study ten years ago these comparable percentages were 74 and 67 respectively.
[5] See Appendix 1
[6] See Appendix 2
[7] See Appendix 3

94 percent from 10 years ago. Most other sponsor categories have acknowledged that an increase in outside expertise will be utilized. On an absolute basis, only the Multiple Group category registered a response rate of under 50 percent.[8]

Board Representation by Non-Members

Assuring that there is measurable value to business discipline exposure on the board, it was hypothesized that it could prove difficult to attract such expertise, primarily because of the volunteer status of the board. Therefore, it was time to explore the willingness of credit union CEOs and current board members to open the board to non-members, especially if their expertise was deemed necessary or vital to the successful operation of that credit union.

The majority of respondents (67 percent) answered "no" to such a proposal. This was down significantly from the 79 percent response of the initial survey. For those who would entertain this possibility, most felt some restrictions should be enacted and/or guidelines should be followed. A limited term of approximately one year was suggested by some respondents, with an appointment by the current board as the method of entry. In contrast, NCUA guidelines for current directors require a vote by the membership.

From a sponsor perspective, the educational categories (Higher Education and K-12) were most likely to agree to this non-member proposal. In contrast, the manufacturing and wholesale/retail groups were strongly against it. Finally, in terms of asset size, the mid-sized categories ($20-49.9 million and $50-199.9 million) were most in favor of such a situation, but only by a small marginal response over the larger and smaller groups.

With such a controversial proposal, the survey inquired about allowing committees on the board, as a somewhat more reasonable, and less threatening proposal. Since these committee positions are appointed by the board, it was expected that this proposal would be more acceptable.

Once again, a majority of the responses were "no." However, it was a slim majority of only 52 percent, down significantly from the 73 percent response rate 10 years ago. The two asset categories under $50 million were most likely to allow and use non-members on their board committees while the larger groups, with a 76 percent negative response rate, continued to disagree. The smaller credit unions recognized the needs of their organizations for external expertise, and were willing to harness it so that their members could reap the benefits, and the organization could enhance its competitiveness in the financial services marketplace.

[8] See Appendix 4

From conversations with a number of respondents, as well as written comments, it seems quite clear that those credit unions which have availed themselves of outside expertise, in any format, are much more likely to do so again. The initial fear on the part of credit union managers, that "outsiders" do not understand their unique characteristics and philosophy, is not warranted by the overwhelming response of those who have done so. This experience will hopefully be shared with their credit union brethren over the years and result in more efficiently and effectively run organizations.

Characteristics of Board Meetings in the 1990s

During the last decade, the average number of board meetings has risen for each of three broad categories of credit unions, continuing a pattern that was observed throughout the 1980s. For federally chartered--federally insured credit unions, the average number of board meetings increased from 13.9 in 1990 to 14.4 in 1999. The modal value, remaining at 12 for both 1990 and 1993, reached 13 in 1996 and 1999.

A similar pattern was observed for state chartered--federally insured credit unions where an average of 12.9 meetings took place in 1990, rising to 13.6 meetings in 1999. The modal value also rose to 13 in 1996, and remained at that level in 1999.

The final group, state chartered--privately insured credit unions, while a much smaller segment in terms of numbers, also saw their average number of meetings rise, from 12 in 1990 to 12.5 in 1999. It seems quite clear that the growing complexity of operations, combined with the growing competitiveness of the financial services marketplace, have resulted in more meetings being required to complete the essential work that must be accomplished by credit union boards of directors.

TABLE 9
NUMBER OF BOARD MEETINGS BY CREDIT UNION CHARTER AND INSURANCE TYPES
(1990-1999)
[MODAL VALUE (M), PERCENT OF TOTAL (%), AVERAGE NUMBER OF MEETINGS (A)]

Charter and Insurance Type	1990			1993			1996			1999		
	M	%	A	M	%	A	M	%	A	M	%	A
Federal Charter-Federal Insurance	12	64	13.9	12	59	13.9	13	58	14.2	13	57	14.4
State Charter-Federal Insurance	12	73	12.9	12	68	13.1	13	63	13.2	13	64	13.6
State Charter-Private Insurance	12	71	12	12	69	12.2	12	67	12.4	12	69	12.5

Source: Survey Data and Telephone Conversations

Data in Table 10 both support and reinforce these observations. At federally chartered--federally insured credit unions, the average board meeting has grown from 2.1 hours in 1990 to 2.8 hours in 1999. Since 1996, the modal value has increased to 2-3 hours from the 1-2 hour category in place since 1980 (earlier study data).

There has also been an increase in average meeting length for state chartered--federally insured credit unions during the 1990s, from 2 hours in 1990 to 2.4 hours in 1999. The modal value for the group also increased in 1999 to 2-3 hours from 1-2 hours recorded since 1980.

For the final category (state chartered--privately insured credit unions), average board meetings have also grown, but at a more modest rate, from 1.8 hours in 1990 to 2.2 hours in 1999. Their modal value has also increased to 2-3 hours in 1999, the first increase in almost two decades.

These across-the-board increases in average meeting length reflect the growing complexity of credit union operations and the increased efforts of boards of directors to accomplish their tasks in an effective manner. These trends will have an effect on the supply of potential credit union directors in the next decade.

TABLE 10
AVERAGE LENGTH OF BOARD MEETINGS BY CREDIT UNION CHARTER AND INSURANCE TYPE
(1990-1999)
[MODAL VALUE (HOURS), PERCENT OF TOTAL (%), AVERAGE LENGTH (A)]

Charter and Insurance Type	1990			1993			1996			1999		
	Hours	%	A	Hours	%	A	Hours	%	A	Hours	%	A
Federal Charter-Federal Insurance	1-2	46	2.1	1-2	44	2.3	2-3	36	2.6	2-3	38	2.8
State Charter-Federal Insurance	1-2	41	2.0	1-2	41	2.1	1-2	47	2.3	2-3	33	2.4
State Charter-Private Insurance	1-2	52	1.8	1-2	56	1.9	1-2	66	2.1	2-3	28	2.2

Source: Survey Data and Telephone Conversations

When asset size is taken into consideration, a general pattern of rising numbers of meetings is also observed over the 1990s. For the under $20 million asset category, the average number of meetings increased from 12.7 in 1990 to 13.1 in 1999. Similar growth took place in each of the other asset categories (Table 11), with the largest absolute increase observed in the $50-199.9 million group, growing from 13.2 meetings in 1990 to 14.4 in 1999.

Regardless of asset size, the burden on directors of more meetings, lasting longer has been, and is expected to be, a fact of life for the industry.

TABLE 11
NUMBER OF BOARD MEETINGS BY CREDIT UNION ASSET SIZE
(1990-1999)
[MODAL VALUE (M), PERCENT OF TOTAL (%), AVERAGE NUMBER OF MEETINGS (A)]

Asset Size (in millions)	1990			1993			1996			1999		
	M	%	A	M	%	A	M	%	A	M	%	A
$0-19.9	12	76	12.7	12	78	12.9	12	83	12.8	12	85	13.1
$20-49.9	12	55	13.4	12	63	13.7	13	54	13.9	13	66	14.2
$50-199.9	12	82	13.2	13	53	13.5	13	61	13.8	13	69	14.4
$200+	12	78	13.1	12	82	13.6	13	58	13.9	13	64	14.1

Source: Survey Data and Telephone Conversations

Data in Table 12 also show trends toward longer average board meetings for each asset size group. More and more meetings consistently exceed two hours and, in the case of credit unions above $50 million in assets, the average exceeds 3 hours. Coupled with data showing a growing number of meetings, the overall time spent on board meetings has grown significantly over the last decade. The

growing complexity of credit union operations and competition in the marketplace simply requires more time on the part of directors.

TABLE 12
AVERAGE LENGTH OF BOARD MEETINGS BY CREDIT UNION ASSET SIZE
(1990-1999)
[MODAL VALUE (HRS), PERCENT OF TOTAL (%), AVERAGE LENGTH (A)]

Asset Size (in millions)	1990			1993			1996			1999		
	Hrs	%	A	Hrs	%	A	Hrs	%	A	Hrs	%	A
$0-19.9	1-2	42	1.7	1-2	46	1.8	1-2	51	2.0	1-2	52	2.1
$20-49.9	1-2	61	2.1	1-2	66	2.3	2-3	49	2.4	2-3	57	2.6
$50-199.9	1-2	66	2.3	2-3	49	2.8	2-3	56	3.1	2-3	68	3.4
$200+	1-2	74	1.8	1-2	72	2.2	2-3	59	2.7	2-3	67	3.1

Source: Survey Data and Telephone Conversations

A final set of cross-references explored board meeting characteristics by type of primary sponsor (Table 13). Residential credit unions again had the lowest average number of board meetings, 12.9 in 1999, which is higher than the modal value of respondents at 12. A number of groups now have modal values of 13 meetings per year (government, higher education, other, and multiple groups). With respect to the average number of meetings in 1999, it was above 14 for wholesale/retail, government, higher education, education (K-12), and multiple groups.

TABLE 13
NUMBER OF BOARD MEETINGS BY CREDIT UNION SPONSOR TYPE
1999

Sponsor	Number of Board Meetings		
	Modal Value	Modal Percent	Average
Residential	12	62	12.9
Associational	12	61	13.1
Manufacturing	12	57	13.6
Wholesale/Retail	12	67	14.2
Government (Federal, State, Local)	13	48	14.6
Higher Education	13	53	14.3
Education (K-12)	12	66	14.5
Other	13	57	13.2
Multiple Groups	13	56	14.5

Source: Survey Data and Telephone Conversations

In the section above, government-sponsored credit unions were least likely to obtain outside expertise in the next five years. Combined with their higher number of meetings, it may be concluded that more and longer meetings are

needed, possibly because these boards are trying to accomplish tasks that could be done more quickly and efficiently with outside assistance.

In Table 14, sponsor groupings are examined with respect to the length of board meetings. While the modal value was 1-2 hours for all groups in the 1980s, there was an increase to 2-3 hours for four sponsor categories: Government, Higher Education, Education (K-12), and Multiple Groups. As far as the average number of hours in meetings, every category rose in the 1990s vs. the 1980s. Higher Education increased by almost one hour, while Government, Education (K-12), and Other rose by more than one-half hour. Therefore, regardless of how the data are compared, average board meeting time has risen across all segments of the industry.

TABLE 14
LENGTH OF BOARD MEETINGS BY CREDIT UNION SPONSOR TYPE
1999

Sponsor	Length of Board Meetings		
	Modal Value (Hrs.)	Modal Percent	Average (Hrs.)
Residential	1-2	58	2.3
Associational	1-2	64	2.2
Manufacturing	1-2	47	2.1
Wholesale/Retail	1-2	53	1.7
Government (Federal, State, Local)	2-3	42	2.6
Higher Education	2-3	54	2.8
Education (K-12)	2-3	46	2.7
Other	1-2	68	2.4
Multiple Groups	2-3	49	2.7

Source: Survey Data and Telephone Conversations

Time Spent by Board Members on Credit Union Activities

Although actual board meeting activities are critically important to the efficient operations of a credit union, they do not represent the full extent of volunteer commitment to the organization. Preparation for meetings, travel time, board committee meetings, telephone, and other communication with board members and management may all add to the time commitment of board members. While most respondents estimated this time commitment in the 0-4.9 hours per month range, a larger number of responses than in a previous study fell into the 5.9-9 hour range.[9]

[9] See Appendix 5, 6, and 7

It was also observed that there was a significant across-the-board increase in responses in the 10-19.9 and 20+ hour category. This was true for all charter-insurance categories, all asset sizes, and all sponsor types. There was a positive correlation between these higher time commitments and the ownership (whole or partial) of a credit union service organization (CUSO). Even though these entities are separate from the credit union and its operations, the relationship is constantly monitored, with the consequent increase in board time and effort.

Activities of Credit Union Boards of Directors in 1999: By Charter and Insurance Type

Three categories of credit union operations have been identified for further study and analysis. They include director activities associated with the loan portfolio, savings and investment offerings, and the offering of other, miscellaneous services. Within each of these categories, four types of activities and decisions might be undertaken by credit union board members:

1. The decision to offer a new type of loan, savings/investment instrument, or other financial service.
2. Monitoring the performance of an offering such as loan volume and default rates, investment value in a particular account category, or the activities of miscellaneous offerings.
3. Adjusting loan rates charged, savings rates paid, and/or setting fees for service offerings.
4. Adjusting loan features, savings/investment features, and other service features.

A survey of responses is presented in Table 15. It may be observed quite clearly that monitoring new offerings and adjusting rates and fees involves board input more often than evaluating proposals for new offerings of loans, investment instruments, or other services. Another critical finding involves a comparison of these responses with the earlier research study. The order of magnitude for almost every response in this table has increased by approximately 75 percent over the last decade. Board involvement has grown significantly over every category of activity. The challenge of directors is now greater than ever before and is requiring a greater degree of time and effort on the part of these individuals.

Within the categories of board activities, the relative response rates follow similar patterns. In examining loan portfolio decisions, basic unsecured, new and previously owned vehicle loans, and credit/debit card offerings are the categories most frequently mentioned as requiring board actions.

TABLE 15
BOARD ACTIVITIES OF CREDIT UNIONS BY CHARTER AND INSURANCE TYPE
1999

Percent of Credit Union Boards Involved in These Decisions	Average for Loan Types (IN PERCENT)			Average for Savings/Investment Instruments (IN PERCENT)			Average for Miscellaneous Offerings (IN PERCENT)		
	Federal-Federal	State-Federal	State-Private	Federal-Federal	State-Federal	State-Private	Federal-Federal	State-Federal	State-Private
Proposed New Offerings	46	49	39	44	54	62	34	36	42
Monitoring Volume of Activities	81	80	66	76	77	68	41	39	40
Adjusting Rates and/or Fees	78	76	74	75	71	73	33	30	35
Adjusting Product Features	51	54	38	53	36	29	30	36	36

Source: Survey Data and Telephone Conversations

In the previous study, home equity loan offerings were growing in importance in the loan portfolios of credit unions and in board activities related to these products. Approximately 40 percent of responding credit unions now offer these loans, with the percentage a bit higher in the federally charted--federally insured category. Once again this is higher than the responses were ten years ago.

In the offering of investment instruments to the membership, responses were somewhat lower than those concerning the loan portfolio, but nevertheless, significantly higher than ten years ago. Certificates of deposit, money market accounts, and share draft activities are those most in need of board actions.

Participation of directors in the miscellaneous service category is quite a bit lower than in the above-discussed areas. By far, the area of greatest board activities is ATM services, similar to the earlier study. However, the category of home banking has experienced the greatest increase in response rate, while a relatively newer, write-in category has surfaced. Activities and relationships in a wholly or partially owned CUSO has now become an important extension of traditional credit union activities. This is found in all three categories of credit union charter and insurance types.

Activities of Credit Union Boards of Directors by Asset Size

The relationship between asset size and board activities is consistently positive, due to the growing complexity and diversity of credit union activities. Even though larger credit unions can afford to use more professional managers in

their operations, board duties are still more challenging and have more significant implications for efficient and effective performance. In addition, the extent of director responsibilities has generally expanded across the board, compared with responses gleaned from a study ten years ago.

Monitoring loan portfolio activities, as well as adjusting rates and/or fee schedules, remains the most frequently mentioned category. With respect to specific loan types, unsecured, vehicle and credit/debit offerings are the most time consuming. In the larger asset categories (above $50 million), real estate (first mortgage and home equity) is mentioned quite often.

In the area of savings and investment instruments offered to members, CD offerings, IRA accounts, and share draft accounts get the most attention. As credit union size increases, money market accounts grow significantly in importance. Competitive pressure from other financial institutions continues to increase, as does more and more competition between credit unions with overlapping fields of membership.

Although the response rates in the areas of miscellaneous service offerings are significantly lower than those for the loan and savings/investment groups, the gap has closed materially for the larger asset sized credit unions. ATM activities continue to require time and effort of the board, with electronic transaction technology rising rapidly over the years. While smaller credit unions may only be thinking about ways to participate in these activities or have already concluded that they cannot absorb the fixed costs involved in implementation, larger credit unions are well along in bringing these services to their members. These trends will only strengthen in the years ahead from direct communications with respondents.

TABLE 16
BOARD ACTIVITIES OF CREDIT UNIONS BY ASSET SIZE (IN MILLIONS)
1999

Credit Union Boards Involved in These Decisions	Average for Loan Types				Average for Savings/Investment Instruments				Average for Miscellaneous Offerings			
	$0-19.9	$20-49.9	$50-199.9	$200+	$0-19.9	$20-49.9	$50-199.9	$200+	$0-19.9	$20-49.9	$50-199.9	$200+
Proposed New Offerings	17	28	37	42	22	28	31	37	16	25	29	35
Marketing Value of Activities	52	59	66	72	47	55	69	76	28	41	60	69
Adjusting Rates and/or Fees	58	68	74	79	51	50	49	55	48	52	56	63
Adjusting Product Features	26	38	42	51	23	35	40	53	26	32	38	49

Source: Survey Data and Telephone Conversations

Activities of Credit Union Boards of Directors in 1999: By Primary Sponsor Types

At the end of the 1990s, three groups were most active in directing loan portfolio operations. Residential and Associational sponsored credit unions were the same two categories registered in a previous study, while the Multiple Group category joined them at the top of the list. The remaining sponsor categories were generally clustered approximately 10 percentage points below these three groups. However, all responses were 10 to 15 percentage points higher than a decade ago. (Table 17)

TABLE 17
DIRECTING LOAN PORTFOLIO ACTIVITIES OF CREDIT UNIONS BY PRIMARY SPONSOR
1999

Primary Sponsor	Percent of Credit Union Boards Involved in These Decisions			
	Proposal of New Offerings	Monitoring Volume and Defaults	Adjusting Rates and/or Fees	Adjusting Product Features
Residential	55	71	74	39
Associational	51	76	75	45
Manufacturing	38	60	62	36
Wholesale/Retail	41	64	61	32
Governmental (Federal, State, Local)	44	72	58	37
Higher Education	37	68	66	40
Education (K-12)	46	65	49	31
Other	35	61	54	37
Multiple Groups	61	79	78	57

Source: Survey Data and Telephone Conversations

Those loan categories that required the most attention for most sponsor types were vehicle, credit/debit card, unsecured and home equity loans, especially in the Residential, Educational, and Multiple Groups.

Residential and Associational credit union directors were most active in time spent concerning savings and investment offerings, followed closely by the Multiple Group (Table 18). Monitoring volumes and adjusting rates and/or fees required the most attention, although adjusting product features has grown in importance over the last decade.

Maintaining a competitive set of savings instruments is critical to the success of credit unions. This is the source of loanable funds and the industry has been able to attract these funds by offering competitive instruments to the membership. Even in the face of highly attractive, though volatile, returns on other financial instruments (corporate equities), the industry has been able to grow total assets every year.

With respect to new savings/investment offerings, the lowest response rates were found in the Higher Education and Other categories. It is likely that these groups already offer a broad variety of instruments and their high level of response to the monitoring and adjusting of rates and/or fees supports this conclusion.

TABLE 18
DIRECTING THE SAVINGS/INVESTMENT PORTFOLIO ACTIVITIES OF CREDIT UNIONS BY PRIMARY SPONSOR
1999

Primary Sponsor	Percent of Credit Union Boards Involved in These Decisions			
	Proposal of New Offerings	Monitoring Volume and Defaults	Adjusting Rates and/or Fees	Adjusting Product Features
Residential	62	76	55	41
Associational	54	60	66	40
Manufacturing	36	47	42	33
Wholesale/Retail	38	41	53	36
Governmental (Federal, State, Local)	35	62	57	28
Higher Education	27	51	54	44
Education (K-12)	43	46	51	38
Other	26	44	55	41
Multiple Groups	48	67	64	54

Source: Survey Data and Telephone Conversations

Money market accounts now form the highest response rate of products in this category, followed by CDs and share drafts. Residential, Associational, and Multiple Groups have the highest response rates in these categories, while the Manufacturing sector was found at the other end of the spectrum, but not by a larger order of magnitude.

The final category of board activities studied was miscellaneous service offerings by the primary sponsor (Table 19). Generally, boards are less involved in these activities than in the loan and/or savings activities. However, the distribution of responses is generally more stable across the four categories surveyed. Therefore, it seems that board related activities in new offerings is more likely to be found in this category, relative to monitoring, adjusting rates and/or fees, or adjusting product features.

ATM actions, along with home banking and discount insurance offerings, are often mentioned in most sponsor categories. Financial counseling and financial planning are growing in importance in the Educational categories, as well as in Residential and Governmental. The Multiple Groups category identifies these areas, but also CUSO related activities, more than any other group. In pursuing the CUSO relationship it was observed that more effort needed to be spent when the CUSO was partially owned (also for smaller credit unions) vs. wholly owned by larger credit unions.

Many traditional credit union managers and directors visualize CUSO offerings as competitors to their credit union activities. However, over the decade the perception is growing steadily that CUSO, if sharply focused on member needs, can become a vital complement to the credit union's ability to meet members' needs and compete with other financial institutions. It seems that this latter view is slowly but steadily becoming the opinion of a majority of respondents. In the next decade, they feel that the CUSO's ability to offer products and services outside the guidelines of the industry will be a major factor in supporting industry growth and development.

TABLE 19
DIRECTING THE MISCELLANEOUS SERVICE OFFERINGS OF CREDIT UNIONS
BY PRIMARY SPONSOR
1999

Primary Sponsor	Percent of Credit Union Boards Involved in These Decisions			
	Proposal of New Offerings	Monitoring Volume and Defaults	Adjusting Rates and/or Fees	Adjusting Product Features
Residential	22	36	27	24
Associational	24	37	26	27
Manufacturing	23	35	20	18
Wholesale/Retail	21	32	24	22
Governmental (Federal, State, Local)	36	33	23	25
Higher Education	33	38	29	32
Education (K-12)	30	33	28	29
Other	29	31	30	27
Multiple Groups	33	47	44	36

Source: Survey Data and Telephone Conversations

CONCLUSIONS

A broad variety of environmental factors and forces have affected the composition and characteristics of credit union directors in the last decade. By carefully examining these data and analyzing responses to the survey, along with extensive conversations with industry representatives, a cleaner picture of the future of credit union boards may be created.

With the number of credit unions declining in each year of the last two decades, a somewhat slower decline of 250 to 300 per year is anticipated for at least the next five years. All segments of the financial services industry have been experiencing consolidation and credit unions have not been any exception. These trends have been due primarily to mergers of credit unions rather than actual closings of operations. Therefore, the number of directors needed by the industry will continue to fall, even though average board size is expected to continue to rise at a modest rate.

Credit union membership continues to expand each year approximately 2½ to 3 percent. Average membership size and average asset size will continue to grow at significantly greater rates, as the industry consolidates.

The modal value of directors for all credit unions with asset levels above $20 million is trending upward, from a level of $9 million early in the decade. In fact, the $200 million plus category seems to have stabilized at a level of 11 directors for the last five years, even though the average board size was 10.2 in

1999. Additional members will continue to be needed to meet the challenges of expanded size and complexity in the years ahead.

The educational profile of the board continues to shift upward, with rising numbers of college graduates and those with advanced degrees now participating. Specific expertise in the areas of marketing, legal, information systems, and investments are quite critical to effectively directing credit union activities, as well as human resources.

With rising membership and declining numbers of credit unions, the absolute ratio of potential volunteers to director slots has been rising and is expected to continue into the new decade. However, the number of openings on boards is also expected to grow at a somewhat more rapid pace, as older board members retire from both their jobs and their board positions. Replacement with growing numbers of qualified and motivated members will pose a major challenge for the industry.

Credit union activities are growing more complex, as these institutions strive to stay competitive in a rapidly changing, deregulated economic and financial landscape. The number and variety of loans, savings investments, and miscellaneous service offerings have grown over the years and are likely to continue to expand in the foreseeable future. Director responsibilities for analyzing new offerings, making choices as to their specific characteristics, and monitoring the performance of management implementation has become more complicated and time-consuming.

In order to fulfill director functions over the years, more and longer meetings have been taking place, for every category of credit union. Preparation for board meetings is also rising, in terms of time and complexity, adding to the burden of all directors.

Anecdotal evidence suggests that credit union managers would like to be able to expand their loan portfolios to market segments outside the traditional areas of member needs (commercial loans, other types of business loans, etc.). The goal of such policies would be to diversify their loan portfolios and lessen their risk exposure to a single sponsor, a narrow market segment (consumers), or a few types of offerings. Any movement in these directions would surely expand the scope and complexity of board activities.

These forces have manifested themselves in the trend towards duel charter status of credit unions. A growing percentage of federally chartered institutions have applied for and received state charters. This has allowed their managements to expand loan activities and diversify their investment portfolios to a greater degree than if they remained with only a federal charter. Competition, flexibility of operations, and expanded member services bring about a more complex

organization. It is not only management that must face these challenges, but also the boards of directors.

For those growing numbers of credit unions with CUSO relationships (wholly or partially owned), expanded challenges are already in motion. Not only must these activities be monitored for efficient operation, but also competitive aspects of offerings, especially in the investment area, present new challenges for the more "traditional" credit union director. Yet there is no "going back" because member-driven demands for these expanded product and service offerings continue to grow.

Demographic trends show a slowdown in population growth in the next decade, especially in the 19- to 44-year-old category, coupled with continued, more rapid, growth of the 45- to 54-year-old baby boomers. This latter group tends to be more interested in and likely to "save" than to "borrow." For the younger adults, although they have more reasons to "borrow," for new cars, homes and furnishings, children's education, etc., they are also investing for their long-term financial futures. In addition, their investment choices are more and more directed towards equities than the safer, but lower yielding fixed income offerings of the credit union industry.

Historically, credit union directors have followed a philosophy of cooperative goals and objectives. Generally, the result has been to keep loan rates low and/or pay high rates to savers/investors. If these policies are carried to extremes, the result will be a squeeze on "profitability" and a slow growth in reserves (capital). In the short run, members may be impressed, but in the long run, the viability of the organization could be threatened.

The 1990s was a decade where the industry generated rates of return on assets of approximately 1 percent and experienced a generally rising trend for its capital/asset ratio to just over 10 percent at the end of 1999. This performance was outstanding, resulting in credit union capital adequacy achieving the highest levels for any segment of the financial services industry.

Many respondents expressed the opinion that credit union capital/asset ratios are now adequate to cover any expected risks that their institutions might encounter in the coming decade. Therefore, a shift in strategy to "capital maintenance" from "capital growth" is beginning to surface, especially in the larger asset, multiple group credit unions. Older, more seasoned directors could have trouble changing their decision-making focus from patterns they have used successfully throughout their entire credit union history. In contrast, managements and newer board members are more likely to support this new strategy for their institutions.

Challenges of the new millennium will require boards and their management teams to work even more closely to survive and prosper.

Regulatory, environmental and competitive forces will continue to present credit unions with obstacles and opportunities. Only a smooth, effective, and coordinated effort by both parties will bring benefits to their memberships.

Theoretically, every credit union member is a potential candidate for a position on the board of directors. Therefore, membership growth will expand the supply of directors. With more than 76 million members at the end of the year 2000, the industry could be serving approximately 84 million people in 2005.

Although the number of potential candidates is growing steadily, the desire and motivation for volunteer status of the board has been declining. Anecdotal evidence supports this conclusion for a number of reasons.

The demands of life on members' time are increasing. Two-income families feel a need to maintain their employment status in order to support their household, leaving less and less time for volunteer activities of any kind.

Time and financial demands on young adults are also increasing. One-parent households are growing rapidly in our society and their time is scarce and precious.

Volunteerism has become more diverse each year, with new organizations competing for volunteer members. Pressure on current members grows to continue board participation as well as to convince new participants to "come on board."

With growing regulatory supervision, especially for federally chartered credit unions, directing will be more complex and challenging. Although the total number of directors is likely to continue its long-term decline, other volunteer positions will become more numerous. Board committees (standing and/or ad hoc) are likely to grow in number, staffed by both board and non-board member volunteers. The following areas are likely to utilize these committee members: supervision and/or audits, budget/financial management, insurance risk management, asset-liability management, delinquency control, website management, e-commerce initiatives and activities, etc.

To effectively direct many of these expanding product and service offerings, expanded educational activities will be required of volunteers. Coupled with more and longer meetings, the number of individuals that are ready and willing to make this commitment to the organization is likely to decline.

The average age of current board members is approaching 60 years. As their availability declines, for any number of reasons, the industry will lose many experienced and valuable board members. Their replacement will be a constant challenge for all credit unions well into the future.

RECOMMENDATIONS

In order to enhance the efficiency and effectiveness of credit union directors in the next decade, the following recommendations are made by the author of this study. The intent of these suggestions is to stimulate a dialogue within current boards as well as between board members and their management teams. Full cooperation of both groups will be essential to promote trust, enhance mutual support, and keep the channels of communication open at all times. The result will be enhanced member service satisfaction, and the increased competitiveness of the credit union in the financial marketplace of the new millennium.

Membership on the board may have to be opened to non-member volunteers if a critical educational or experimental need is identified. Conditions for such membership must be clearly presented and agreed upon by current board members as well as the top management team.

Board committee activities will become even more important to effective credit union operations than they were in the past. Invite non-members to join these committees, if and when the need arises.

The product and service menus of credit unions will continue to expand. This trend will create special board pressures on the mid-sized institutions ($20-49.9 million assets). Their members demand expanded offerings, yet the institution may have difficulty staffing all of these activities. The board will have a more difficult task of determining exactly what menu of services it can efficiently afford to offer the membership. If restrictions are needed, the competitiveness of the organization may suffer. A CUSO relationship (probably partially owned) could be a critical component of an enhanced competitive institution.

These mid-sized credit unions are most likely to require an increased number of specialized or restricted director positions, on committees of the board, in order to enhance the performance of the board itself. Initially, these volunteers and/or paid individuals might be called upon only when a "special need" arises; for example, deciding on the final configuration of a website, deciding on the final configuration of an upgraded computer network, or evaluating a revised marketing initiative.

After the initial decision is made, they may be called upon to assist in monitoring these new systems. This could prove to be one route to the cultivation of a new board member. The individual would get a better understanding of board activities before formally running for a position and the current board would have the opportunity to evaluate that individual's motivation, expertise, and potential value to the board's activities.

Since the recruitment of board members will be critical to credit union success, a full-fledged and continuously functioning recruitment committee should be established. Personal experts would form the nucleus of this group, with its prime function being to cultivate a continuous supply of interested, talented, and motivated members from which to choose for a board position.

Compensation of board members is constantly a topic of discussion at many credit union meetings. While older, more experienced directors are the strongest opponents of any compensation, thus preserving the "volunteer" spirit of serving on the board, newer members are beginning to see this issue from a different perspective. Formal expense compensation for board related activities is the first step towards some form of direct compensation.[10]

In order for credit unions to remain viable, competitive financial institutions, they must be receptive to the evolving needs and desires of their members. This is likely to require a continuation of past trends in the expansion of loan categories, savings/investment instruments, and other miscellaneous services. As these service portfolios expand, each with their own regulatory guidelines, the complexity of operations expands and the pressures for effective director operations grow even more complex. A growing number of respondents expect expansion of credit union asset portfolios to include more business-related lending. In the investment portfolio, they expect a broadened choice of investments including corporate bonds (with quality and maturity guidelines) and, eventually, preferred and common stock.

The next decade will present credit union boards and their management teams with unpredictable opportunities as well as continued challenges. Considering the history of the credit union movement in the United States and its record of meeting obstacles to development in the marketplace (for example, the commercial bankers' threats to field of membership expansion in the late 1990s and the final passage of HR 1151), we are confident of its position in the financial services industry. However, hurdles will present themselves periodically. The agencies guiding the industry (NCUA, NAFCU, CUNA, etc.) and credit union managers and boards will meet these challenges and continue to supply members with exceptional products and services that are designed to enhance their financial positions.

[10] In the year 2000, the average member of a commercial bank board received over $7,000 for their services; NAFCU's 2000 Credit Union Report for the Board of Governors of the Federal Reserve System, December 8, 2000.

SUMMARY OF EXPECTATIONS THROUGH 2010

Category	1999	2000	2005E	2010E
Credit Union Membership[1]	77.5	79.9	90.4	102.3
Number of Directors	99,144	97,461	85,560	77,900
Number of Committee Members of the Board (Non-Director)	67,198	67,473	69,000	67,240
Total Number of Volunteers	166,342	164,934	154,560	145,140
Number of Operational Credit Unions	11,016	10,710	9,200	8,200
Average Number of Directors	9.0	9.1	9.3	9.5
Average Number of Non-Directors	6.1	6.3	7.5	8.2
Average Number of Volunteers	15.1	15.4	16.8	17.7
Average Number of Meetings per year	14.1	14.2	14.4	14.7
Average Length of Meetings	2.5	2.6	2.9	3.2
Percent of Credit Unions Offering 6 or More Loan Categories	80	81	84	88
Percent of Credit Unions Offering 6 or More Investment Categories	62	63	68	76
Percent of Credit Unions Offerings 6 or More Misc. Categories	73	75	79	82
Average Age of Directors	50-55	50-55	50-55	45-50
Probability of Non-Members on the Board	35%	38%	44%	48%
Credit Union Members per Director	782	820	1,057	1,313
Credit Union Members per Committee Member	1,153	1,184	1,310	1,521
Credit Union Members per Volunteer	466	484	585	705

Note: [1] Membership growth rate of 2 ½ percent per annum through the year 2010

Source: Credit Union Report 1999-2000
Survey Data and Telephone Conversations
Author Projections for 2005 and 2010

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APPENDICES

APPENDIX 1
OUTSIDE EXPERTISE OBTAINED BY CREDIT UNION BOARDS OF DIRECTORS IN THE LAST THREE YEARS (IN PERCENTS)

Asset Size (in millions)	Never (%)	Sometimes (%)	Most of the Time (%)
$0-19.9	34	18	48
$20-49.9	30	37	33
$50-199.9	21	47	32
$200+	15	54	31

Source: Survey Data and Telephone Conversations

APPENDIX 2
PAYING FOR OUTSIDE SERVICES BY CREDIT UNIONS IN THE LAST THREE YEARS (IN PERCENTS)

Asset Size (in millions)	Never (%)	Sometimes (%)	Most of the Time (%)
$0-19.9	25	53	22
$20-49.9	21	51	28
$50-199.9	33	47	20
$200+	16	22	62

Source: Survey Data and Telephone Conversations

APPENDIX 3
CREDIT UNIONS THAT ENVISION AN INCREASE IN THE NEED FOR OUTSIDE EXPERTISE IN THE NEXT FIVE YEARS BY ASSET SIZE (IN PERCENTS)

Asset Size (in millions)	Need For an Increase in Outside Expertise in the Next Five Years	
	Yes (%)	No (%)
$0-19.9	64	36
$20-49.9	86	14
$50-199.9	76	24
$200+	48	52

Source: Survey Data and Telephone Conversations

APPENDIX 4
CREDIT UNIONS THAT ENVISION AN INCREASE IN THE NEED FOR OUTSIDE EXPERTISE IN THE NEXT FIVE YEARS BY SPONSOR CATEGORIES (IN PERCENTS)

Primary Sponsor	Percent Responding That Outside Expertise Will be Needed in the Next Five Years
Residential	92
Associational	69
Manufacturing	73
Wholesale/Retail	80
Governmental (Federal, State, Local)	62
Higher Education	65
Education (K-12)	69
Other	68
Multiple Groups	49
Average	69.78

Source: Survey Data and Telephone Conversations

APPENDIX 5
TIME SPENT ON CREDIT UNION ACTIVITIES IN 1999 BY TYPE OF CHARTER AND INSURANCE (IN PERCENTS)

Charter and Insurance Type	Time Spent on Credit Union Board Related Activities Per Month			
	0-4.9 Hours	5-9.9 Hours	10-19.9 Hours	20+ Hours
Federal Charter-- Federal Insurance	62	25	7	6
State Charter-- Federal Insurance	68	22	6	4
State Charter-- Private Insurance	73	23	3	1

Source: Survey Data and Telephone Conversations

APPENDIX 6
TIME SPENT ON CREDIT UNION ACTIVITIES IN 1999 BY ASSET SIZE
(IN PERCENTS)

Asset Size (in millions)	Time Spent on Credit Union Board Related Activities Per Month			
	0-4.9 Hours	5-9.9 Hours	10-19.9 Hours	20+ Hours
$0-19.9	82	11	3	4
$20-49.9	70	15	10	5
$50-199.9	78	12	7	3
$200+	64	26	8	2

Source: Survey Data and Telephone Conversations

APPENDIX 7
TIME SPENT ON CREDIT UNION BOARD ACTIVITIES IN 1999
BY COMMON BOND (FIELD OF MEMBERSHIP)
(IN PERCENTS)

Predominant Field of Membership	Time Spent on Credit Union Board Related Activities Per Month			
	0-4.9 Hours	5-9.9 Hours	10-19.9 Hours	20+ Hours
Residential	80	18	2	0
Associational	65	31	4	0
Manufacturing	63	24	7	6
Wholesale/Retail	86	10	4	0
Governmental (Federal, State, Local)	72	18	8	2
Higher Education	60	24	11	5
Education (K-12)	66	22	10	2
Other	68	23	6	3
Multiple Groups	74	19	6	1
Average	70.45	21.00	6.44	2.11

Source: Survey Data and Telephone Conversations