
REPORT OF THE SYSTEM STRUCTURE AND GOVERNANCE TASK FORCE

to the CUNA Board of Directors

September 2015

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CUNA SYSTEM STRUCTURE AND GOVERNANCE TASK FORCE FINAL REPORT

System Structure and Governance Task Force Roster of Task Force Members		
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Benson Porter	BECU <i>Washington</i>	President/CEO
Stephanie Sherrodd	TDECU <i>Texas</i>	President/CEO
Rod Staatz	SECU <i>Maryland</i>	President/CEO
Glenn Strebe	Air Academy FCU <i>Colorado</i>	President/CEO
Brett Thompson	Wisconsin Credit Union League <i>Wisconsin</i>	President/CEO

EXECUTIVE SUMMARY

There have been major changes in the credit union industry since the last major review of CUNA's structure and governance almost two decades ago, and those changes are likely to continue unabated over the coming decade. The System Structure and Governance Task Force was established in 2014 to review and make recommendations concerning a number of issues related to CUNA's governance and structure, and the operation and effectiveness of the CUNA/League System in providing trade association services to credit unions.

The Task Force recognizes that the CUNA/League System has a proud history. Over the past eight decades, leagues and CUNA have been intimately involved in the creation of most credit unions, and in the major advocacy victories of the credit union movement. Six out of every seven credit unions voluntarily affiliate with their league and CUNA. Despite this strong and deep record, the Task Force believes the system's structure must be enhanced and must evolve to meet future credit union needs.

The Task Force's analysis reveals an industry that is consolidating into fewer and fewer credit unions serving more and more of the financial services needs of a growing number of members. Credit union leagues are also consolidating. Although there is a strong desire for effective advocacy from credit unions of all sizes, credit unions' needs, expectations and perceptions of the System vary by size. Rather than trying to be all things to all credit unions, the System will need to tailor services to meet the needs of both smaller and larger credit unions.

The Task Force adopted this vision statement for the future CUNA/League System:

The CUNA/League System will remove barriers to credit union growth through "best in class" advocacy excellence, relying on an interdependent, comprehensive trade association system that sets and executes nation-wide priorities, so that Americans choose credit unions as their best financial partners.

To achieve this vision, the Task Force recommends that CUNA:

- Offer credit unions choice of membership in CUNA and/or a league,
- Enhance cooperation and interdependence with leagues in the delivery of advocacy for credit unions, and
- Streamline the CUNA Board structure.

Further, the Task Force suggests that leagues take similar actions, and that credit unions commit to engage in and support a comprehensive League/CUNA System, and to participate fully in advocacy efforts of leagues and CUNA.

The Task Force appreciates that these recommendations and suggestions will require significant changes in how the System operates, and that they will have to be carefully executed. Effective implementation of the recommendations and suggestions will require leagues and CUNA to work together to achieve the desired outcomes. If the CUNA Board accepts the recommendations, the Task Force hopes that CUNA would immediately act on them in earnest, understanding that full implementation of all of the recommendations and suggestions will take some time.

In the course of its deliberations, the Task Force discussed the idea of recommending a new brand for the CUNA/League System. The Task Force sees considerable value in the unifying and messaging benefits of a shared identity. However, since CUNA has already adopted the *America's Credit Unions* brand in its external communications, and many leagues have similar initiatives, the Task Force believes that the issue is already being considered, and no further recommendations are necessary.

The Task Force feels it is in the best interests of the credit union industry to share the research and background information that led to its recommendations. The report contains considerable information from the Task Force's research about the views and perceptions that credit unions have of the CUNA/League System. The Task Force believes that the current System is strong, but can be further improved. The research supports that belief. The Task Force is releasing this information confident that credit unions, leagues and CUNA will use it to fortify an advocacy system that produces major results to remove barriers to credit unions so that they can serve as primary financial institutions to even more Americans.

LIST OF TASK FORCE RECOMMENDATIONS

Recommendations to the CUNA Board

- I. In order to foster more powerful advocacy by (1) enhancing the engagement and participation of credit unions with the CUNA/League System, and (2) ensuring a comprehensive state and federal advocacy system to further the interests of credit unions, the Task Force recommends that CUNA, working with leagues, take the necessary steps, as soon as is feasible and without delay, to:
 - Accept into membership a credit union regardless of that credit union's membership in one or more leagues.
 - Enter into agreements in which CUNA and leagues:
 - Commit to practices and procedures in advocacy that promote collaboration, efficiency and joint efforts.
 - Commit to establishing and furthering a System-wide advocacy agenda.
 - Commit to promoting dual membership by promoting each other's value proposition and providing financial and other incentives that encourage credit unions to belong to both a league and CUNA.

- II. In order to streamline CUNA's governance, the Task Force recommends that CUNA take the necessary steps to amend CUNA's governance structure so that:
 - The CUNA board of directors is reduced from 24 to 15 members, with two classes based on the proportion of total credit union memberships, each with six credit union directors, and one class of directors comprised of three league presidents.
 - Six Class I credit union directors (smaller credit unions accounting for half of total credit union membership) are elected by and from member credit unions in six geographic districts, representing equal proportions of credit union members in each district.
 - Six Class II credit union directors (larger credit unions accounting for half of total credit union membership) are elected at large by and from all Class II eligible member credit unions.
 - A maximum of two credit union board members are from any one state.
 - Three Class III directors (league presidents) are elected by and from all member leagues.
 - One third of each class's members are elected each year, on staggered terms.
 - Current term-limit rules continue: lesser of three full three-year terms or twelve years.
 - A nominating committee process be established, subject to the following requirements:
 - The committee to have both board and non-board members.
 - The committee to operate under an open and transparent process.
 - There is a failsafe opportunity for candidates not nominated by the committee to qualify for the ballot by petition.

- There shall be at least one nominee for each position.
- The committee will seek to maintain diversity on the CUNA board based on:
 - Qualifications and experience
 - Participation in CUNA’s advocacy efforts.
 - Geography
 - Demographics
- League president candidates to be nominated by a similar, separate nominating committee made up of league presidents.

Suggestions to Credit Union Leagues

In order to foster more powerful advocacy by (1) enhancing the engagement and participation of credit unions with the CUNA/League System, and (2) ensuring a comprehensive state and federal advocacy system to further the interests of credit unions, the Task Force suggests that leagues, working with CUNA, take the necessary steps, as soon as possible and without delay, to:

- Accept into membership a credit union regardless of that credit union’s membership in CUNA.
- Enter into agreements with CUNA in which the league and CUNA:
 - Commit to practices and procedures in advocacy that promote collaboration, efficiency and joint efforts.
 - Commit to establishing and furthering a System-wide advocacy agenda.
 - Commit to promoting dual membership by promoting each other’s value proposition and providing financial and other incentives that encourage credit unions to belong to both the league and CUNA.

Suggestions to Credit Unions

In order to foster more powerful advocacy by the CUNA/League System, the Task Force suggests:

- Credit unions use the policy of membership optionality both to demand a more responsive League/CUNA System, and also to become more engaged with the System and its advocacy. This includes participating in programs such as the Member Activation Program (MAP), Project Zip Code, and other similar efforts sponsored by leagues and CUNA, as well as supporting CULAC and league PACs.
- Credit unions commit to providing adequate resources to fund the System’s advocacy agenda, using their engagement with the System to ensure that it is operating efficiently and effectively in pursuit of that agenda.
- Credit unions expect and demand a powerful, interdependent advocacy machine made up of credit unions, leagues and CUNA working together.

Introduction

The System Structure and Governance Task Force was established to review a number of issues related to CUNA's governance and structure, and the operation and effectiveness of the CUNA/League System in providing trade association services to credit unions. There were primarily two reasons for its establishment.

First, CUNA last implemented a significant change in structure and governance with the Renewal project in 1996, establishing direct credit union membership in CUNA and substantially reducing the size of the board of directors. To reduce the risk of becoming stagnant, CUNA Renewal called for reviews every five years. There have been two such reviews of the Renewal structure, with only minor modifications. It has been over five years since the last review, and the CUNA board determined that with dramatic change in the credit union system, with both credit union and league consolidation, it was time for a thorough review of the association support systems.

Second, in the midst of continued consolidation of the credit union industry, a growing number of member and non-member credit unions voiced a variety of concerns regarding the current structure and operation of the CUNA/League System, calling into question the willingness of these credit unions to engage in the future with the System as it currently exists.

CUNA chairman Dennis Pierce appointed the Task Force in the summer of 2014. At its first in-person meeting in October, the Task Force adopted the following:

Purpose and Scope Statement

The goal of the governance and structure review is to gain agreement on an overall model for CUNA and affiliated trade associations (the "System") that will best meet credit union member needs now and in the next phase of credit union and System evolution through 2025. This will enable the System to accomplish its mission and vision and work together in a unified manner. The task force is to recommend an overall system governance and structure model that will:

- Be inclusive and serve the varying needs of credit unions of all sizes while being sustainable and supporting growth of the credit union share of financial services market;
- Achieve a unified approach to advocacy that effectively engages credit unions at a national and state level with coordinated, well-resourced efforts in all domains; and
- Articulate CUNA's role and structure in providing and/or facilitating continued access to services and products that members value.

The Task Force also adopted an initial work plan with the following components:

1. Fact-based, credible and comprehensive “market research” analysis of various credit union segments (e.g. small, medium, large, very large): key needs and requirements of trade association support, perceptions of the System, and related data and analysis
2. Areas of satisfaction and dissatisfaction with the current System
3. Analysis of current and future CUNA and league membership trends and their effect on the financial viability of the current System structure
4. Analysis of the CUNA and league organizational elements supporting advocacy
5. Analysis of the CUNA, league and service corporation suite of fee-based services
6. Input from AACUL and System partners on the league membership, organizational, administration, and operating expense structures
7. Analysis of the CUNA governance system
8. Analysis of the pattern of past initiatives that were or were not implemented, determine the root cause where appropriate; and design and implement the process needed to gain support to implement recommendations from this task force
9. Alternative System operating, governance, and financial models to account for projected industry trends to make recommendations on the foregoing to the CUNA Board

THE CREDIT UNION SYSTEM IN 2025

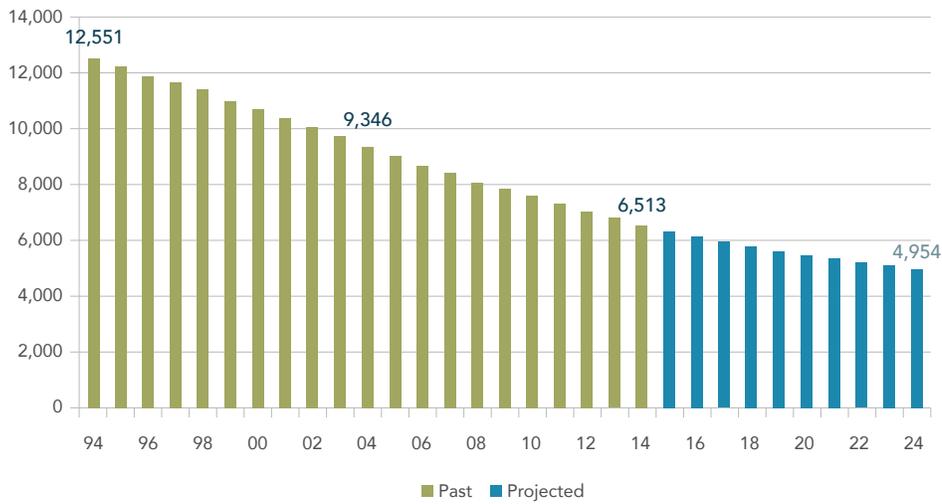
The Task Force began its analysis by considering recent trends in the credit union system, and its likely evolution over the coming decade, with the following major observations:

- Credit unions are consolidating, with more and more assets and members becoming concentrated in fewer and fewer credit unions.
- There are substantial differences in the challenges facing smaller and larger credit unions.
- Credit union leagues are also consolidating.
- Credit union affiliation with the CUNA/League System tends to vary by size, with larger credit unions more likely to belong to a league and CUNA than smaller credit unions.

Since 1994, the number of credit unions in the US has declined from over 12,500 to around 6,500, and by 2024 CUNA analysts expect the number to decline to under 5,000 (see chart on following page). Despite the decline in the number of credit unions, the credit union industry as a whole has grown at a healthy pace over the past two decades, and CUNA analysts expect that growth to continue or even accelerate over the next 10 years.¹ Total credit union memberships have grown by over 50% since 1994, from 67 million to 102 million, and are expected to rise by almost 30% by 2024 to reach 131 million.

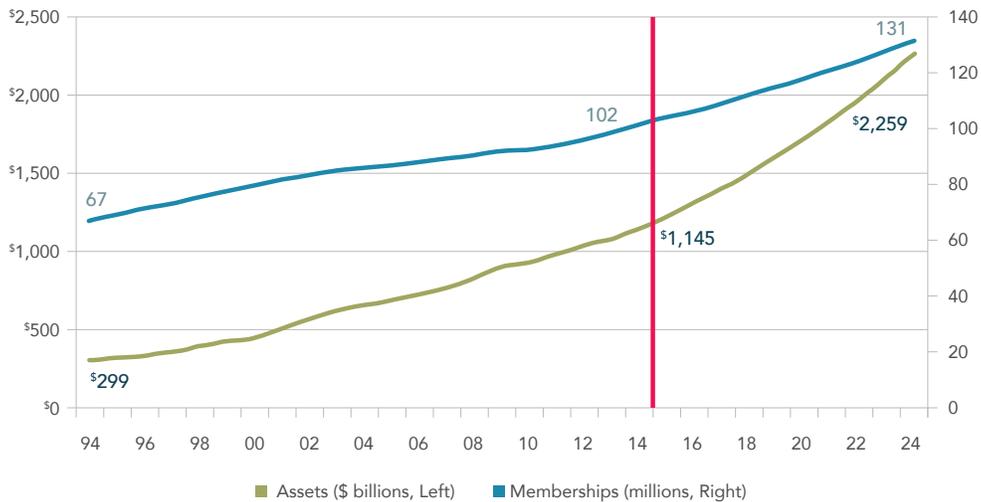
¹Forecasts of the number of credit unions and total members and assets were derived by applying historical merger rates and member and asset growth rates across nine asset-size categories. Moving into the forecast period, the rate of contraction in the number of credit unions decelerates while member and asset growth rates accelerate. This is because historical merger rates are higher for smaller than larger credit unions, and growth rates are higher for larger than smaller credit unions. Consolidation leads to fewer smaller and more larger credit unions, thus slowing the attrition rate and speeding up growth rates.

Number of Credit Unions Past and Projected



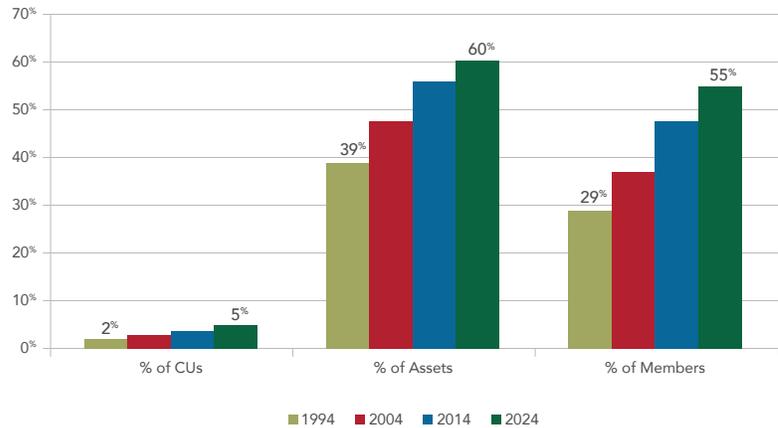
The assets that credit unions manage on behalf of members have grown even faster than memberships, and that trend is also likely to continue. By 2014, total credit union assets (over \$1.1 trillion) had grown to almost four times the total of \$300 billion in 1994. Even adjusting for inflation, assets in 2014 were almost two and a half times the level of 1994. Over the coming decade, total assets are expected to double again, to almost \$2.3 trillion.

CU Assets and Memberships Past and Projected

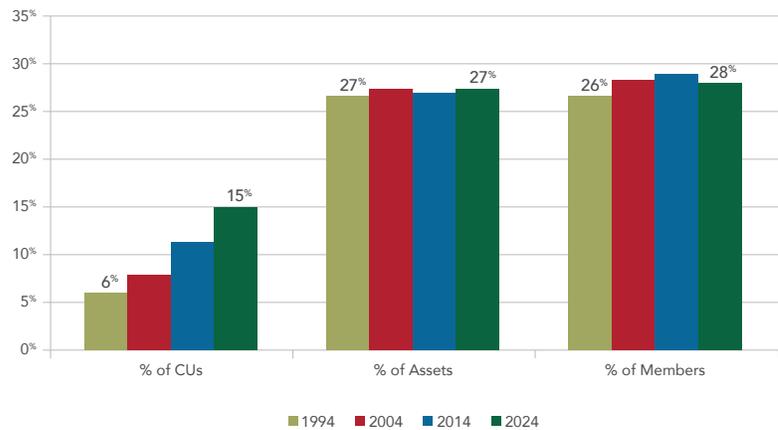


The charts at right show that the consolidation of credit unions, and strong growth at larger institutions, is causing the assets and members of credit unions to be more and more concentrated into the largest institutions. In 1994, the largest 250 credit unions represented 39% of total credit union assets and 29% of memberships. By 2024, CUNA analysts expect the top 250 credit unions' share of assets and members to rise to 60% and 55%. Conversely, over the same twenty-year period, the share of credit union assets and memberships at all credit unions below the top 1,000 is expected to decline by almost two thirds, from 35% to 13% and 45% to 17% respectively.

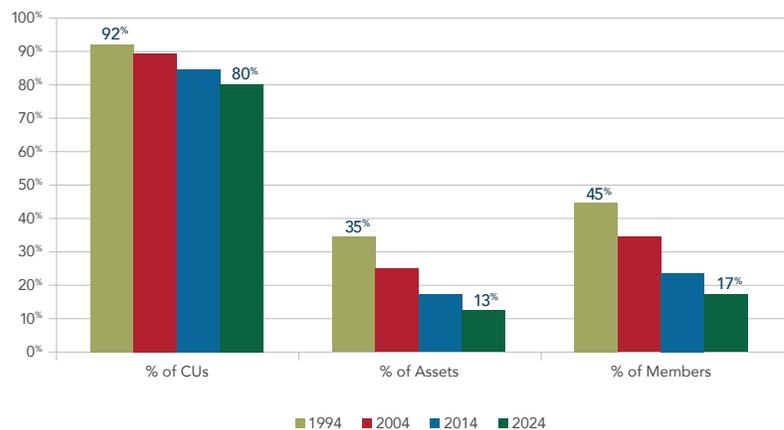
Largest 250 Credit Unions



Next 750 Credit Unions



Credit Unions Not In Top 1,000

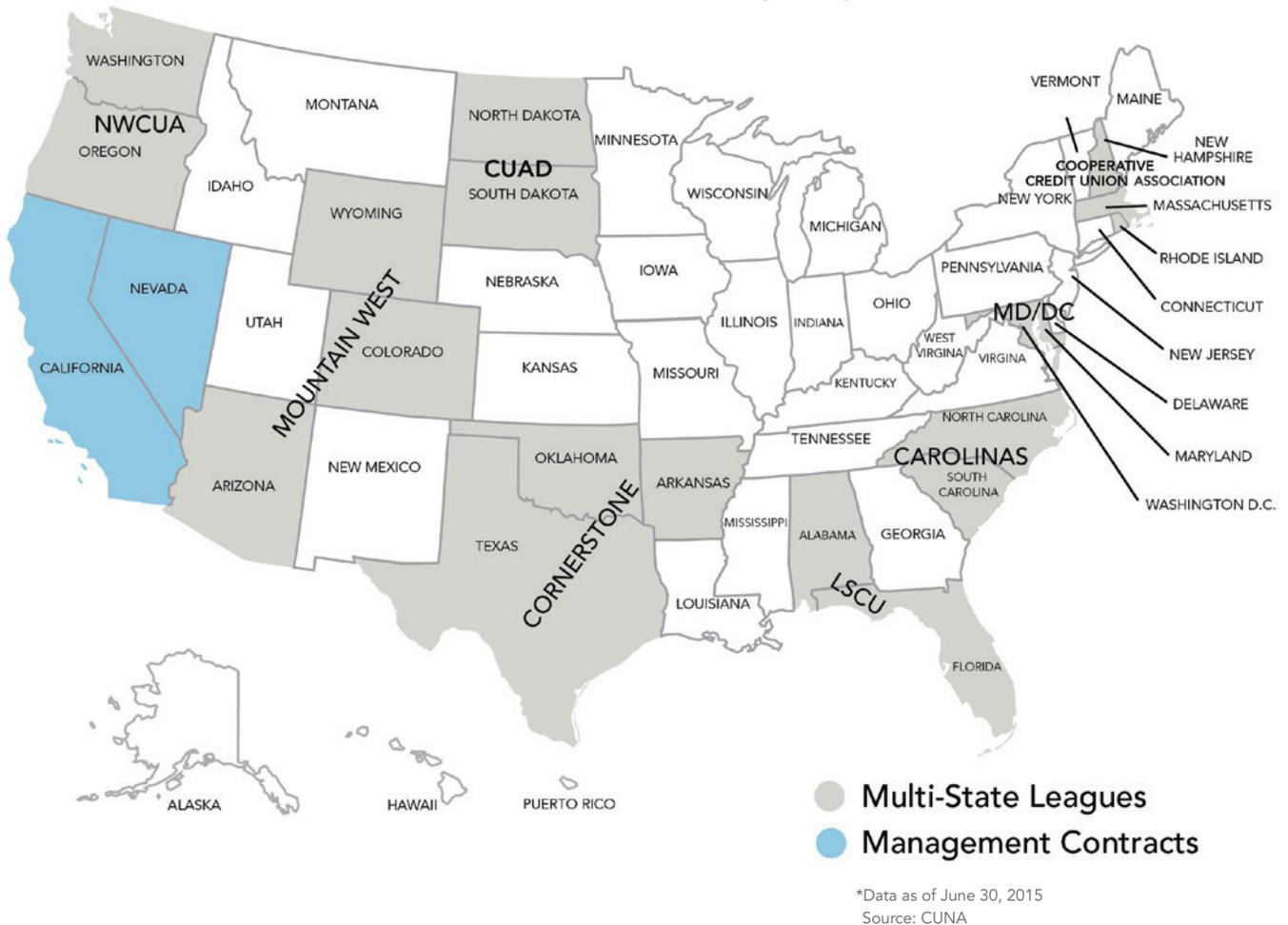


The Task Force is left with two observations regarding the credit union industry over the coming decade. First, the number of credit unions is declining, and this is of concern to the Task Force. Second, the amount of credit union activity in terms of members and assets is growing at a healthy rate. More and more Americans are trusting the nation's credit unions to meet their financial services needs.

These observations suggest the CUNA/League System needs both to provide assistance and support to those small credit unions with the best opportunities to survive and grow, as well as to enhance trade association services desired by those credit unions serving the majority of credit union members.

In addition to consolidation among credit unions, state credit union leagues are also coming together in a variety of collaborative ways, including multi-league management agreements and consolidation by merger. The map below shows the current state of League consolidation.

Current Landscape of the League System



There are currently 30 single-state leagues, 8 consolidated leagues, each covering two or three states, serving a total of 19 states, and two states that are served by separate leagues under a management contract. The Task Force believes that there will be further league consolidation over the coming decade, although it has not forecast the pace of that consolidation.

Focus Group and Survey Research

At its first in-person meeting in October 2014, the Task Force decided to engage third parties to conduct both qualitative and quantitative research, with a series of focus groups followed by a comprehensive national survey based in part on the findings of the focus groups. This research revealed the following about credit unions' perceptions of and attitudes toward the CUNA/League System:

- Perceptions and attitudes differ based on credit union size.
- Advocacy is the primary service that credit unions require of the system, especially for larger credit unions.
- Satisfaction with CUNA/League System is not very high, although it is higher for leagues than for CUNA.
- Credit unions are disappointed with lack of results on big advocacy issues.
- Reducing regulatory burden would be the best way to increase the value proposition of the CUNA/League System.

A more detailed description of the research results follows.

Focus Groups

Three pairs of focus groups were conducted in the winter of 2014/2015 in Connecticut, Illinois and California. At each site, a group of smaller credit unions (mostly under \$50 million in assets) and larger credit unions (mostly with assets between \$100 million and \$500 million) met. Very large credit unions—with over \$1 billion in assets—had met previously on the same topic at a national meeting in October.

There were some differences in views expressed at the focus groups across the three sites, but the more significant differentiator was credit union size. Following is a summary of major findings from the size groups:

Smaller Credit Unions (up to \$100 million in assets)

- The main services desired from the System are operational support; practical resources that are easy to implement, and that will help them survive.
- These credit unions tend to connect mostly with their respective leagues, and therefore value and appreciate leagues more than CUNA due to this greater familiarity.
- Smaller credit unions value leagues for providing networking opportunities, hands-on operational support, local training, state political influencing, webinars, compliance, and endorsed vendors.
- These credit unions see CUNA's value as a national political voice to preserve the tax treatment and influence NCUA. Some also use CUNA's education and training and conferences.
- They wish CUNA and Leagues would do more for them, such as fostering collaboration, to help them to compete.
- These credit unions believe large credit unions are self-sufficient, and do not need the same type of support that small credit unions do.
- Some question whether CUNA is focused too much on larger credit unions.

- There is widespread confusion among this group between the identities of CUNA and CUNA Mutual Group.
- There is a desire for CUNA and leagues to tell the credit union story to the public.

Larger Credit Unions (\$100 million to \$1 billion in assets)

These credit unions are more familiar than smaller credit unions with CUNA. They have a greater appreciation for what CUNA does (e.g. success on risk-based capital), but also have more concerns that CUNA is not accomplishing major legislative goals (e.g. MBL cap, supplemental capital).

- Their top priority is political representation and proactive NCUA advocacy.
- They are interested in awareness building, getting the credit union message out.
- They value the educational products of both leagues and CUNA, and see room for further improvement.
- The focus for the System by 2025 should be a menu of choices for credit unions so that credit unions can access what they need.
- CUNA should not try to be all things for everyone, instead segmenting the market and providing services appropriate to each segment.
- There is a desire for CUNA and NAFCU to either better unify their efforts or merge.
- They are concerned about the future of small credit unions, and what further consolidation might mean for the image and advocacy efforts of the credit union industry.

Very Large Credit Unions (assets over \$1 billion)

At the meeting of the very large credit unions in October 2014, the following themes emerged:

- Very large credit unions want a powerful, lean and aggressive national trade association, closely aligned with streamlined, efficient state or regional associations.
- Most believe that credit unions should be free to choose which components of the system they affiliate with. Joint membership should not be required, but instead should be encouraged by accountability, performance and pricing incentives.
- The pre-eminent (to some, exclusive) role of CUNA should be legislative and regulatory advocacy; and not simply defensive advocacy, but expanding powers under the credit union charter.
- A secondary role of CUNA should be to increase awareness of credit unions and the credit union model among consumers and policymakers, but this should not include branding credit unions.
- CUNA needs to develop and articulate a clear and attractive value proposition.
- The CUNA board should be reduced in size, with at least some positions elected nationally.
- Credit unions would best be served by a single voice in Washington.

Survey Research

CUNA engaged the independent firm Reach Research to conduct an in-depth survey of credit unions. A link to the survey was sent to CEOs of all credit unions, affiliated and non-affiliated in two emails in February 2015. Access to the survey was also publicized on CUNA's website, and by a number of leagues. There were 808 responses, for a 12.5% response rate, providing for accuracy of +/- 3.5% at the 95% confidence level. The Task Force believes the survey results are sufficiently reliable to inform its deliberations.

Responses were grouped into four asset size categories: less than \$20 million, \$20 million to \$100 million, \$100 million to \$750 million, and over \$750 million. In what follows, "small" and "large" refer to the first and fourth categories while "smaller" and "larger" refer to the first two and second two taken together. A summary of the major findings from the survey follows in three sections: attitudes about the CUNA/League System, structural issues, and CUNA governance issues.

ATTITUDES ABOUT THE CUNA/LEAGUE SYSTEM

Reasons for belonging to the CUNA/League System:

Credit unions' reasons for joining CUNA/Leagues vary based on size and, consequently, preferences for what services the associations should deliver also vary based on size.

- Larger credit unions join for advocacy, and little else.
- Smaller credit unions also join for advocacy, but access to products and services (compliance services, education and training, etc.) is almost as important.

External factors of greatest concern:

Credit unions of all sizes cite regulatory burden and technological requirements for compliance as major external factors affecting the credit union's ability to thrive.

- For smaller credit unions, other areas of major concern are: U.S economic conditions, credit unions' tax status, and the need to offer new products.
- For larger credit unions, an area of significant concern, among others, is non-traditional competitors.

Importance of various trade association services:

Respondents were asked to assign a level of importance to 15 different trade association services on a scale of 1 (not at all important) to 7 (extremely important). The overall ranking of the services and how those rankings vary depending on credit union size are shown in the following table:

SERVICE	MEAN IMPORTANCE SCORE	SIGNIFICANTLY MORE IMPORTANT TO
Federal regulatory representation	6.0	Larger Credit Unions
Keeping you informed	5.8	Little or no size difference
Federal compliance products	5.8	Smaller Credit Unions
Federal lobbying	5.7	Larger Credit Unions
Education and training	5.6	Smaller Credit Unions
State regulatory representation	5.5	Little or no size difference
Awareness/image campaign	5.5	\$100–\$750 million
State lobbying	5.3	Larger Credit Unions
State compliance products	5.3	Smaller Credit Unions
Networking opportunities	5.2	\$20-\$100 million
Federal PAC	5.1	Larger Credit Unions
Operational products	5.0	Smaller Credit Unions
State PAC	5.0	Little or no size difference
Building industry consensus	4.8	Little or no size difference
Access to business partners	4.3	Smaller Credit Unions

Overall Perceptions of CUNA and Leagues:

Respondents rated CUNA and the leagues on several general attributes, and on the trade association services listed above. Satisfaction with CUNA and the leagues is moderate. While no major problems emerge, there is a lack of enthusiasm about the effectiveness of the System based on perceived results.

- For all the general attributes evaluated, between 41% and 58% of respondents rate CUNA highly (6 or 7 on a 7-point scale), while between 3% and 6% rate CUNA poorly (1 or 2 on the 7-point scale).
- For the same attributes, Leagues were rated more highly, with between 56% and 67% rating leagues highly and between 5% and 9% rating leagues poorly.
- Unaided comments suggest that many credit unions would like to see CUNA and the leagues do more, and have more positive outcomes.
- The different concerns and priorities of smaller vs. larger credit unions result in competing views of what CUNA and the leagues should deliver, and in how well they feel these organizations are meeting their needs.

- Large credit unions prefer greater specialization between leagues and CUNA in advocacy services, with CUNA handling federal lobbying, regulatory representation and grassroots, and leagues handling state lobbying and grassroots. Smaller credit unions are more likely to want both organizations to offer all advocacy services, in addition to wanting both to provide operational and compliance products, education, and access to business partners.
- For CUNA, comparing delivery to expectations on trade association services, the highest scores are on federal-level regulatory representation, keeping credit unions informed about key issues, federal-level lobbying and the federal PAC. CUNA's lowest scores are on state-level lobbying, representation and state PACs, building industry-wide consensus, access to business partners, and operational products.
- For leagues, comparing delivery to expectations on trade association services, the highest scores are for keeping credit unions informed about key issues, federal level lobbying, state-level regulatory representation, and state-level lobbying. Leagues lowest scores are for state compliance products, operational products, building industry-wide consensus, and access to business partners.
- Evaluations of delivery compared to expectations are consistently higher for both organizations among smaller credit unions than larger ones, and for leagues than for CUNA.
- Unaided suggestions for increasing the value and relevance of the CUNA/League System from larger credit unions focused largely on reducing regulatory burden and achieving a victory in legislative lobbying. For smaller credit unions, the list is more varied. In addition to reducing regulatory burden and greater lobbying success it includes focusing on the needs of small credit unions, help with compliance, and providing cost-effective products and services.

STRUCTURAL ISSUES

Dues Structure

There is general support for the current structure of CUNA dues, and for leagues to continue to individually establish their own dues formulas. However, this does not necessarily imply satisfaction with the **level** of dues. Neither CUNA nor the leagues are rated very highly for "value for dues paid," especially by larger credit unions.

- Overall, credit unions support the current CUNA dues structure, whereby all credit unions pay the same proportional rate, regardless of size.
- Small credit unions are slightly more in favor of having larger credit unions pay at higher rates.
- Although a majority of larger credit unions are fine with the current system, about a quarter of them prefer a structure where they pay a lower rate.
- There is a strong preference (72%), regardless of credit union asset size, for each league to set its own dues.

League/CUNA dual membership

A plurality of credit unions (42%) favor the option of choosing CUNA and/or league membership separately. 36% favor the current system in which joint CUNA and league membership is required. 13% support a system of national membership that would include both CUNA membership and access to all leagues.

- Large credit unions are twice as likely (59%) to support choice of separate membership than small credit unions (31%).
- Small credit unions are two and a half times as likely (43%) to support joint membership than large credit unions (17%).
- Larger credit unions are twice as likely (20%) to favor the single national model than smaller credit unions (10%).
- Assuming the current joint membership requirement persists, a majority of credit unions would like to have the option of which league to join, and larger credit unions are more likely to feel this way.

Single vs. multiple national associations

Credit unions were presented with the following statement: "Currently, both CUNA and NAFCU provide national-level services to the credit union movement. Is the movement better served by a single association or more than one?" A plurality of credit unions (40%) would prefer a single national organization, 31% favor more than one, and 29% had no opinion.

- Large credit unions are much more likely (73%) to favor a single organization than small credit unions (25%).
- Small credit unions are more likely to have no opinion on this topic (42%) than to either favor or oppose a single national association.

CUNA GOVERNANCE ISSUES

Weighted Voting

The vast majority (80%) of all credit unions prefer to maintain the current system of one vote per credit union for matters put before the membership. However, a slight majority (52%) of large credit unions would prefer that votes be weighted by asset size or dues paid.

Size of the CUNA board

Just over half of credit unions (54%) believe the current CUNA board size of 24 is about right. The remaining opinions are about evenly split between expressing the board is too large and having no opinion. Almost no one feels the board is too small. However, there are sharp differences by credit union size.

- Among small credit unions, 63% believe the current size is about right, and only 7% believe it is too large.
- Among large credit unions, 32% believe the current board size is about right, and 55% believe it is too large.

Board Structure

Credit unions responding to the survey were provided a description of the current CUNA board structure: equal representation from six districts, with four board members per district comprised of three credit union representatives by credit union size and one league president, each elected by and from their own group and district. The majority (55%) of credit unions favored this structure, with the bulk of the remainder either neutral or without an opinion. Only 8% expressed dislike for the system. Responses varied by size.

- Large credit unions are less likely (34%) than all credit unions to like the current structure, and almost as many (32%) expressed dislike. Very few large credit unions expressed no opinion on the issue.
- Small credit unions are slightly more likely (59%) than all credit unions to like the current structure, and only 1% expressed dislike. Many small credit unions expressed no opinion on the issue.
- Some credit unions provided unaided suggestions about board structure. The most frequently mentioned was that the board should be smaller. Other ideas mentioned less often include: reduce or eliminate league presidents on the board, change or reduce districts, make formulas more representative (either to protect small credit unions or base representation on dues), reduce or eliminate size categories, and elect some board members at large.

AMERICAN ASSOCIATION OF CREDIT UNION LEAGUES

In addition to focus group and survey group research, the Task Force reviewed a report on the work of AACUL's System Evolution Work Group, and discussed the group's findings. The Work Group's assessment of the evolution of the credit union system is similar to the Task Force's view. The Work Group's report called for a number of improvements in the way CUNA and the leagues deliver on advocacy, and expressed strong support for the dual membership model.

TASK FORCE VISION

After reviewing the research and data just described, the Task Force came to some basic conclusions about the state of the system, which informed its vision of how to proceed. The Task Force's initial observations and conclusions were:

- The top priority for the system must be advocacy. Credit unions want, and deserve, positive gains in advocacy. Advocacy is the purpose and mission of the CUNA/League System, and must be the core of what the System does each day.
- Comprehensive advocacy at both the state level (all 50 capitals) and in Washington, D.C. is critical to protecting credit union interests and preserving the dual chartering system.
- The CUNA/League System has significant strengths, including an 85% affiliation rate, a state-national advocacy network that is the envy of many other associations, and an 80-year history of accomplishments such as organizing over 20,000 credit unions, securing major expansions in credit union powers (checking accounts, mortgage lending, credit cards, field of membership) and leading the effort to secure major changes to NCUA's recent risk-based capital rule. However, there are opportunities to improve the comprehensive system to gain more engagement and, in turn, more effectively meet the evolving needs of credit unions.
- Under the current dual membership structure, credit unions tend to have more engagement with their leagues than with CUNA, and are therefore more familiar with leagues than with CUNA. This lack of contact with CUNA leaves many credit unions without an appreciation of what CUNA does for them, and it also renders CUNA without the information and engagement needed to best serve credit unions.
- The provision of self-sustaining, fee-based, trade association services such as education and training and compliance services should be continued.
- The System should support smaller credit unions to ensure they have every opportunity to thrive and grow. This support can be provided through education and training, other services, and facilitating collaboration.
- Given past and future expected consolidation, the system will need to focus on the provision of trade association services to help credit unions that serve the bulk of members thrive and grow. This will require both enhancing and articulating the value proposition of CUNA to these credit unions.
- A strength of the current system is the fact that CUNA and leagues are joined in advocacy. This facilitates thousands of voices from throughout the nation all delivering the same advocacy message in Washington. Nevertheless, credit unions, especially larger ones, have expressed a strong preference for options as to which organizations they belong to. Any solution that involves membership choice will have to incorporate strong incentives and mechanisms to maintain a fierce interdependence between leagues and CUNA.
- The CUNA Board should be streamlined.
- The Task Force recognizes that its only role is to advise the CUNA board of directors, and that the CUNA board only makes decisions for CUNA, not for leagues or any other organizations. Therefore, the Task Force's recommendations pertain only to CUNA. However, the Task Force does have a number of suggestions for leagues and credit unions to consider.

With these observations and preliminary conclusions in mind, the Task Force developed the following vision:

2025 VISION OF THE CUNA-LEAGUE SYSTEM

The CUNA/League System will remove barriers to credit union growth through “best in class” advocacy excellence, relying on an interdependent, comprehensive trade association system that sets and executes nation-wide priorities, so that Americans choose credit unions as their best financial partners. The System should:

- Expect CUNA to devote 100% of dues to advocacy.
- Be mission & member focused.
- Attract and engage all credit unions, striving to represent the vast majority of consumers who select credit unions as their financial partner.
- Be the foundation for unified credit union collaboration to create a powerful advocacy capability.
- Continue to provide self-sustaining, traditional trade-association operational support services (education, compliance, products & services) to assist credit unions that seek these services.
- Create system-wide accountability.

This vision is the foundation of all of the Task Force’s recommendations.

OTHER INPUT

Over the past several months, the Task Force has shared summaries of its research, initial observations, and vision at various meetings of stakeholders including the CUNA Board, credit union CEOs, and league presidents. In addition, members of the Task Force have engaged in numerous conversations with stakeholders throughout the credit union system. The Task Force considered the input and feedback it received, in addition to all the other information it had gathered, in formulating its recommendations.

RECOMMENDATIONS

Recommendation: Membership Choice

The current CUNA/League System is a unified, integrated system in the sense that credit unions affiliated with the System are required to belong to both CUNA and their state or regional league. A credit union cannot join one without automatically joining the other. Conversely, a credit union cannot disaffiliate from one without having to disaffiliate from the other.

The most difficult issue the Task Force faced was whether to recommend ending this system of required joint membership and instead to provide credit unions the option of belonging to either a league, CUNA or both, i.e., membership optionality.

The task force believes that the most effective advocacy model is one in which credit unions are members of both their League and CUNA, but that does not necessarily mean that credit unions should be required to belong to both.

Ultimately the Task Force believes it should be each credit union's choice as to which trade associations it joins. Therefore, the Task Force is recommending that CUNA no longer require league membership in order to belong to CUNA, and that leagues need no longer require membership in CUNA for league membership.

The Task Force considered carefully the following arguments in favor of maintaining required joint CUNA/League membership:

- Effective advocacy requires coordinated action at the local and national level, and a unified voice with all levels of policy makers. The joint membership structure supports such coordinated action and a single voice.
- Under the current structure, CUNA and league lobbyists have strong incentives to coordinate actions because they are tied together in performance. Membership optionality could create an unintended incentive for CUNA and leagues to compete rather than collaborate.
- Other associations in Washington have expressed envy at the cohesion and breadth of representation of the CUNA/League System, and the amount of coordination and cohesion between the national and state organizations.
- Membership optionality could lead to inadequate resources being devoted to advocacy. Advocacy is a "public good" like national defense, clean air or a fireworks display. The benefits of advocacy accrue to all credit unions, not just those that support the organizations that provide it. There is a concern that if league and CUNA membership are separated, regardless of how effective each organization is, some credit unions may feel they can meet their "obligation" to support the collective advocacy effort by supporting just one, but not both of the organizations.
- Adopting a system of membership optionality could be disruptive to a CUNA/League System that is already under significant stresses.
- Regardless of the ultimate value of membership optionality, it is premature to make such a significant change now.

There have been strong reasons in the past for the joint membership structure. Nevertheless, the Task Force believes the case for providing credit unions with membership optionality is more compelling:

- The first of the seven cooperative principles is voluntary and open membership.
- Membership optionality, properly executed, will foster a more inclusive, open system of voluntary membership. Effective advocacy requires an engaged credit union industry. True and effective engagement cannot be required, it must be earned. Membership optionality should provide for more engagement of credit unions to both their league and CUNA.

- Credit unions have expressed a preference for membership optionality. The issue of required joint membership has been contentious for some time, dating back to the initial Renewal process in 1996, when a number of credit unions expressed a desire for choice. A plurality of credit unions responding to the survey now favor membership optionality, and large credit unions hold that view by a two to one margin.
- The Task Force understands that separating membership requirements of leagues and CUNA could be disruptive. Doing so will impose challenges and financial pressures on both. However, the Task Force believes those challenges are surmountable, and that membership optionality will create a sense of urgency and positive incentives for both leagues and CUNA to be more efficient, member centric, and responsive.
- Not providing membership optionality could also be disruptive, as the engagement of many credit unions that favor optionality could further erode.
- Under a system of membership optionality, leagues and CUNA would receive much better signals as to their performance and the attractiveness of their value propositions. Each's affiliation rate would be the direct result of potential members' evaluation of its own effectiveness, not that of the broader system. This should drive improved value to credit unions.

The Task Force therefore recommends that CUNA and the leagues take the necessary steps to decouple membership requirements in order to strengthen advocacy by fostering voluntary credit union engagement with the system. To accomplish this, leagues and CUNA should work together to execute the necessary changes as soon as is feasible and without delay. In order to avoid harm to the advocacy benefits of a unified CUNA/League System, the Task Force also recommends a number of measures to build the interdependence of the League/CUNA System (see below). Finally, the Task Force challenges credit unions to responsibly consider how they support and actively participate in a comprehensive League/CUNA advocacy system. Credit unions must not only demand accountability and excellence from their associations, but also should increase their engagement and participation in the advocacy efforts of leagues and CUNA. Credit unions should expect and require outstanding performance by leagues and CUNA, and also provide the resources necessary to both leagues and CUNA to be a world-class advocacy engine.

Recommendation: League and CUNA Interdependence

The Task Force is convinced that a comprehensive state/federal advocacy ecosystem through League/CUNA interdependence and cooperation is essential to achieving the mission of the System: world-class advocacy. In recommending membership optionality, in no way does the Task Force believe that CUNA/League interdependence should be sacrificed. A system with membership optionality will require explicit mechanisms to ensure a voluntary confederation of leagues and CUNA to replace the current system of forced unity through dual membership. Therefore, the Task Force recommends a number of steps to enhance, encourage and support interdependence.

In place of the automatic connection of joint membership, in the future leagues and CUNA will need to proactively collaborate to effectively advocate for credit unions. Because both leagues and CUNA are essential to the advocacy process, it is in the interest of credit unions that leagues and CUNA work together. This should be assured by establishing cooperative or partnership agreements between leagues and CUNA that lay out roles, responsibilities and accountabilities that are transparent to credit unions.

The Task Force therefore recommends that the CUNA board and each league board adopt a policy that requires each to execute an agreement with the other that:

- Commits to practices and procedures in advocacy that promote collaboration, efficiency, and joint efforts, including the establishment and support of a System-wide credit union advocacy agenda.
- Provides financial and other incentives to credit unions that belong to CUNA to also belong to a league, and vice versa.
- Promotes each other's value proposition.

CUNA GOVERNANCE

CUNA's current governance structure has been in place for almost two decades. The Board is comprised of twenty-four members — eighteen from credit unions and six from leagues — divided into four classes, elected from six districts. Three classes consist of 6 representatives from credit unions of three different size groups, each size group representing approximately one third of total credit union members. The fourth class consists of six league presidents. The six geographic districts each represent approximately one sixth of nationwide credit union members.

An issue with the current board structure is that the number of credit unions that account for one-third of members from larger credit unions is becoming quite small because of the consolidation of the movement. In addition, some have suggested that the size of the board is not optimal as it makes communication and decision-making at the full board level cumbersome. Most credit unions responding to the survey expressed satisfaction with the current board size, but larger credit unions believe, by an almost two-to-one margin, that the current board is too large.

After considerable discussion the Task Force recommends that in order to promote efficient and nimble board leadership, the following structure be adopted:

- Board size: 15 members
- Two classes of credit union board seats:
 - 6 Class I credit union directors (smaller credit unions accounting for half of total credit union members), elected by and from 6 districts
 - 6 Class II CU directors (larger credit unions accounting for half of total credit union members), elected at-large nationwide
- District boundaries to be reviewed so that each represents approximately one sixth of all credit union members.
- No more than 2 credit unions positions per state
- Three Class III directors, league presidents elected at-large from member leagues
- One third of each class's members elected each year on staggered terms

In addition to these structural changes, the Task Force believes that the effectiveness of the board would be enhanced by adopting a nominating committee process to ensure that a group of candidates that would create a qualified, diverse board are presented to the membership at each election. Therefore, the Task Force recommends that CUNA institute a nominating committee process with the following features:

- A nominating committee with both board and non-board members
- An open and transparent process
- A failsafe opportunity for candidates not nominated by the committee to be nominated by petition
- At least one nominee for each position
- The goal of diversity of the board based on:
 - Participation in CUNA and its advocacy
 - Geography
 - Qualifications and experience
 - Demographics
- League president candidates would be nominated by same process, by a separate nominating committee made up of league presidents.

CONCLUSION

The Task Force appreciates the opportunity to serve, and hopes that the CUNA Board will find its recommendations appropriate to the assignment and useful. The Task Force believes that acting on those recommendations and suggestions will promote a comprehensive trade association support system that will best serve a successful, growing credit union industry over the coming many years. With the submission of this report, the Task Force's assignment is completed.