

INSIGHTS
Survey
Results
for Credit
Unions

2015

Abound Resources shares results from its annual survey of credit unions.

Optimism
Abounds in
Spite of
Regulatory,
Security and
Fraud
Concerns

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Executive Summary

Credit union CEOs are feeling the most optimistic they have felt since we began this survey back in 2010. After a low point in 2013 when only 37% of credit union CEOs was optimistic, today 69% of CEOs feel either somewhat or very optimistic about 2015. What a difference solid earnings and a clean balance sheet make!

That is not to say that all CEOs are content. They still have serious concerns about the regulatory burden, and they are still worried about the economy and interest rates. Additionally, replacing NSF/OD income with other fee income sources was the concern that moved the most up the list this year, with 27% of CEOs rating this as a focus for 2015, as opposed to 15% last year.

While CEO's top priority for 2015 is to grow consumer loans, they are also focused on growing mortgage loans and on growing their Internet and mobile channels.

While CEOs are growth focused, they have not lost sight of the need for cost containment. Streamlining workflow was the top cost saving strategy cited this year.

The biggest move this year was the big jump in CEO's focus on fraud and information security, nearly doubling in importance.

The credit union executives in charge of IT seem to have heard their CEOs loud and clear. Those executives named their top three technology concerns as using technology for better member services and competitive differentiation, better efficiencies, and gaining more value from existing technologies and vendor relationships.

Those same credit union executives expect an increase in technology spending with 13% expecting "much more" spending in 2015 compared to 2014, and 53% reporting "slightly more."

While credit union officers expect technology spending to increase, this year's priorities reflect CEO's focus on Internet and mobile channels with consumer and commercial remote deposit capture (RDC), commercial and consumer Internet banking, and mobile banking making the top five planned purchase list with one out of five credit union officers making at least one of them their priority.

We are very optimistic for credit union prospects in 2015. Though there is only a glimmer of hope that we might see any real regulatory relief, the recovery is hitting full steam and interest rates will likely rise in the second half of the year. That alone will lift earnings for the majority of credit unions. There are still challenges, of course, and credit unions will need to continue to improve efficiency and update information security and fraud mitigation strategies. The big banks are back to their aggressive growth strategies, so sales execution and sound pricing strategies will also need to be a priority.

For more strategies for maximizing your 2015 opportunities, view Abound's free archived webinar:

http://www.aboundresources.com/top_5_strategies_for_success_in_2015_credit_unions_webinar

Selected Survey Highlights

- ✓ CEOs are optimistic about the year ahead, with 69% stating that they feel either somewhat or very optimistic- a huge jump in confidence from 2013 when only 37% were optimistic, and from 2014 when 48% were optimistic.

- ✓ CEOs named the regulatory burden as their top overall 2015 concern (61%).

- ✓ Concerns about the interest rate environment rose while concerns about the economy dropped significantly, from 37% to 40% and from 65% to 38%, respectively.

- ✓ Growing consumer loans was again CEO's number one priority for 2015, with 83% citing it as a priority. Expanding online presence was the second largest growth priority, but it only grew slightly in importance from 49% to 52% this year. Growing mortgage loans and/or mortgage originations is the third largest growth priority.

- ✓ Streamlining workflow for more efficiency was the top cost saving strategy cited by CEOs (60%).

- ✓ Addressing fraud and information security concerns continues to rise in importance and is now the second most important risk management priority with 40% of CEOs citing it as a priority, up from 27% in 2014. Improving lending policies also moved up the CEO priority list from 19% to 28%.

- ✓ For the third year in a row, credit union officers expect to spend more on technology in 2015, with 69% saying technology spending will increase in the next year compared to 58% in 2014.

- ✓ Technology purchasing priorities changed dramatically with mobile, Internet and member-focused technologies replacing the "infrastructure" system priorities from 2014. Mobile consumer and commercial RDC, consumer and commercial Internet banking and mobile banking made up the top 5. In another clear trend, technologies aimed at member businesses jumped in importance.

About the Survey

Abound Resources conducts an annual web-based survey of senior executives in credit unions throughout the U.S. This year's survey, administered in December 2014, received 187 responses.

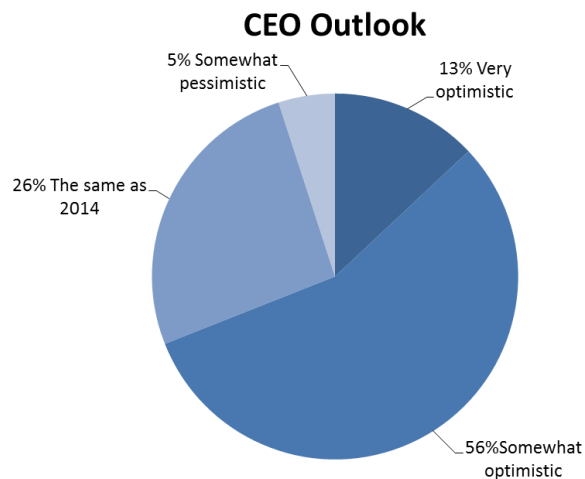
Responses were distributed as follows:

Asset Size	Responses
\$0 – 50 million	19%
\$50 – 100 million	9%
\$100 – 250 million	31%
\$250 – 500 million	16%
\$500 million - \$1 billion	13%
\$1 – 3 billion	12%

The CEO Perspective

Optimism Abounds

Credit union CEOs are feeling more optimistic about the year ahead, with 69% stating that they feel either somewhat or very optimistic; a huge jump in confidence from 2013 when it was just 37% and an increase over 2014 when it was just 48%.



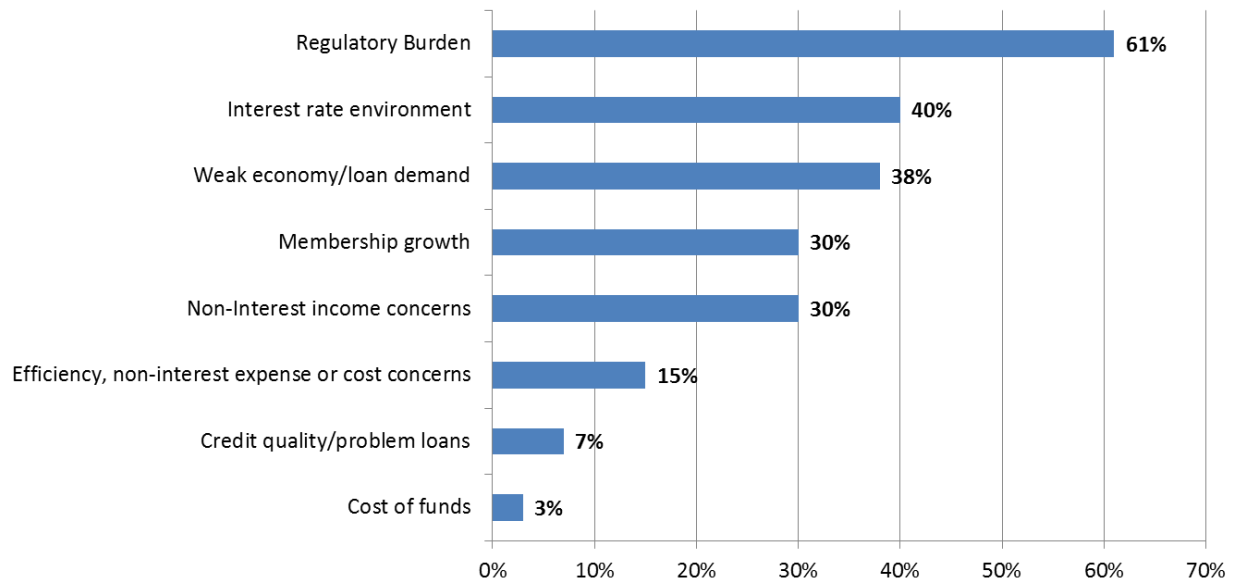
There are plenty of reasons to expect 2015 will be another good year for most credit unions. A strong economic recovery is underway with most leading indicators pointing up; rising retail sales, record levels of private sector employment and growth in housing starts. (Source: ITR Economics).

With the recovery in full swing, credit unions are lending; even ahead of the likely rate increase in the second half of 2015, most credit unions have already seen loan yield growth in the last two quarters, which bodes well for margin gains in 2015 now that most of the hot money has been flushed from balance sheets.

Regulations Back To Top CEO Concern

In spite of the optimism, the regulatory burden remains a serious concern for CEOs. The regulatory burden is the top CEO concern by a landslide, with 61% of CEOs citing it as a major concern.

CEO Major Concerns for 2015



The interest rate environment jumped to the number two concern with 40% of CEOs citing it as a concern. There is reason to be optimistic though as the Fed has made it fairly clear that rates will likely rise in late 2015.

The economy/loan demand dropped in importance from the number one spot last year at 65% to just 38% this year. Loan demand has picked up in all corners of the country though many CEOs still worry about the quality of these new loans.

Consumer Loan Growth Continues to Lead the Way

Growing consumer loans has been the number one growth priority for CEOs for several years, and again, it ranked as their top growth priority in 2015. This year, 83% of CEOs said it was a priority.

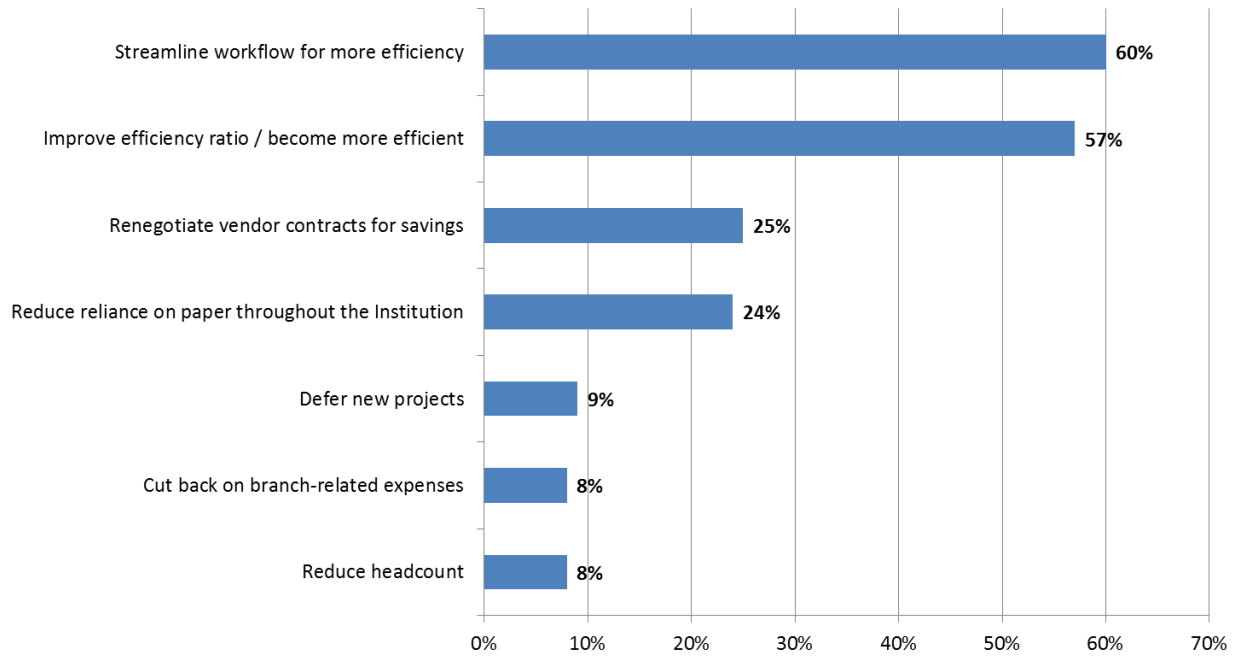


Expanding online presence grew in importance over last year as did mortgage lending, but virtually all of the other growth priorities dropped in importance over last year. This, combined with credit union's purchase plans, signal that 2015 will be a year focused on loan and online presence growth.

Another Important Year for Efficiency Improvements

Streamlining workflow increased in importance from 56% to 60% and is the top cost saving strategy for 2015. Becoming more efficient has held its importance since we began this survey, with 57% of CEOs rating it important, versus 60% last year. Even with rates expected to rise a bit this year, *cost containment* remains a priority to improve profitability.

CEO Efficiency and Cost Saving Priorities for 2015



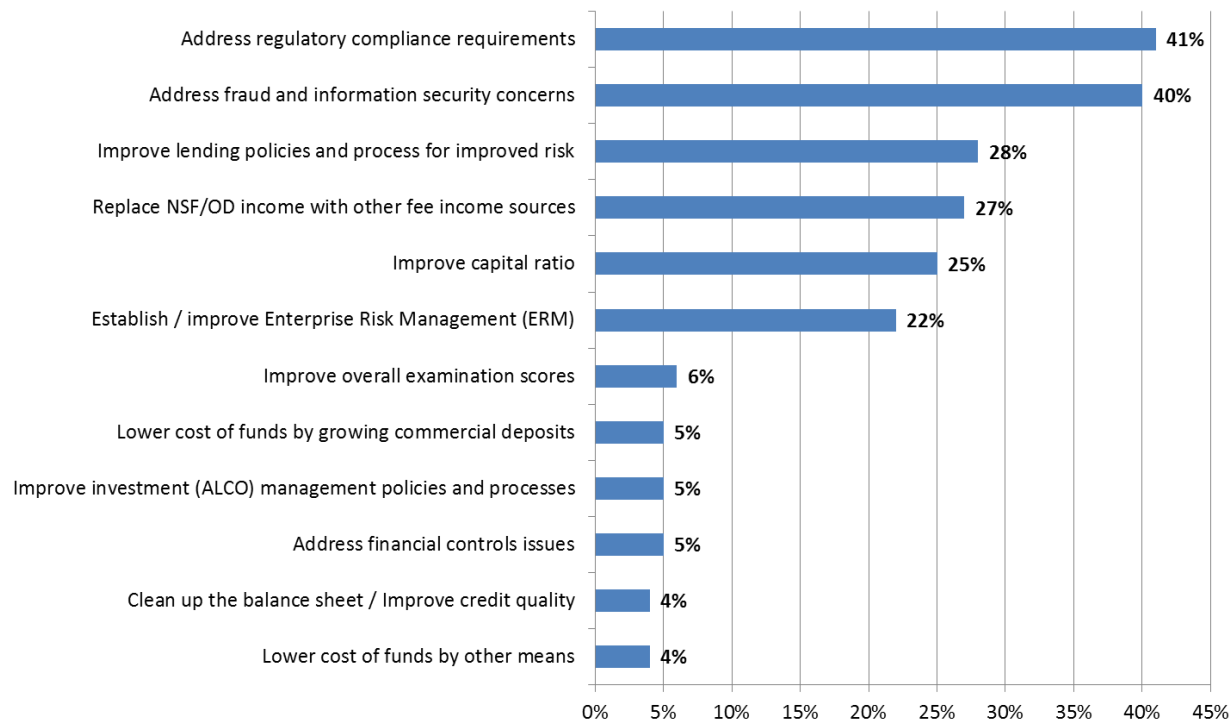
Interestingly, reducing paper dropped from 46% last year to 24% this year as more credit unions have invested in enterprise content management systems.

The other cost saving priorities remained consistent with last year's results.

New Focus on Fraud

Again, it is not a surprise to see *addressing regulatory compliance requirements* coming in as the top financial and risk management priority, with 41% of CEOs rating it as the top priority.

CEO Financial and Risk Management Priorities for 2015



The big surprise, however, was with *addressing fraud and information security concerns*. In 2012, it was just the sixth most pressing risk concern. This year it is the second highest priority with 40% of CEOs citing it - up from 25% last year. Clearly the continued assault of debit card and corporate ACH fraud has CEO's attention.

Improve lending policies dropped from 37% last year to 28% in 2015.

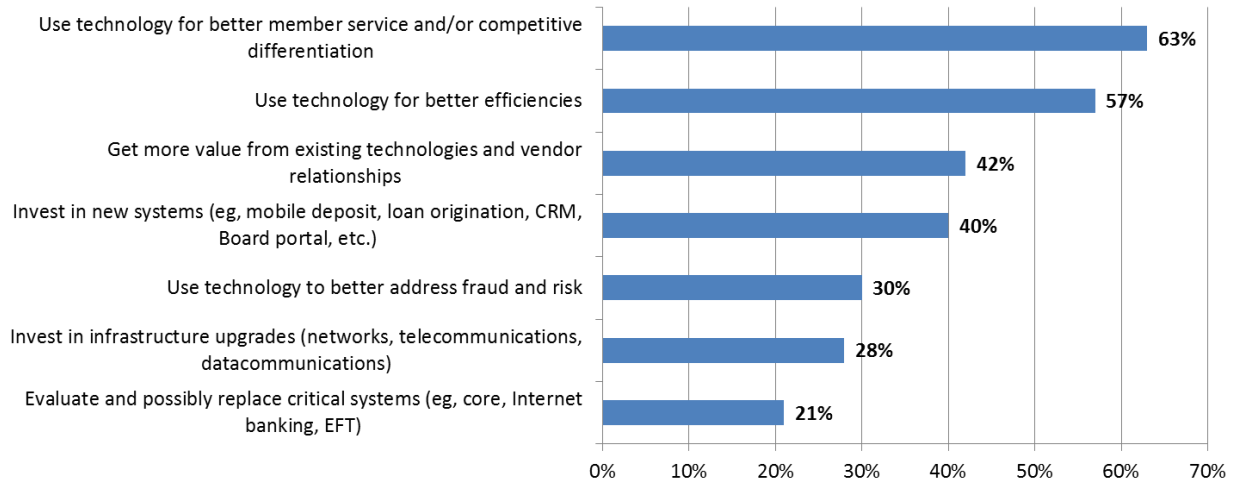
Replacing NSF/OD income increased in importance from last year. In 2014, it was the seventh highest financial and risk priority cited by 15%. This year, it moved up to fourth with 27%. Clearly, CEOs are looking for new fee income opportunities.

Maximize Existing Technology

The top three CEO technology priorities remain unchanged from last year, with *technology for better member service/differentiation* first at 63%, *using technology for better efficiencies* again coming in second at 57%, and *more value from existing technology* at third with 42%.

Investments in fraud and risk mitigation (up from 15% last year to 30% this year) appear to be edging out other "strategic" technology purchases with *invest in new systems* dropping from 45% last year to 40% this year.

CEO Technology Priorities for 2015

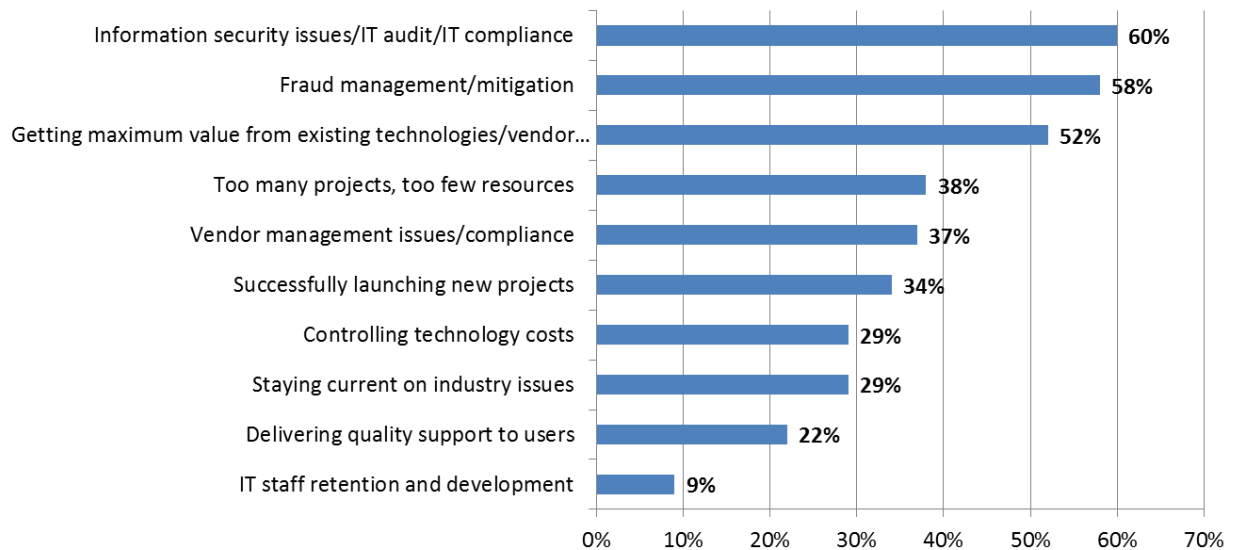


The COO, CIO, CFO and Compliance Executive Perspective

Security and Fraud Mitigation Top Concerns

The business line executives appear to be more concerned about technology than their CEOs. Nearly every listed technology concern increased significantly in importance over last year.

Credit Union COO, CIO, CFO, and Compliance Executives Concerns about Technology for 2015



There was a shuffling in the order with *information security issues* moving from the fifth spot last year at just 45%, to the top spot with 60% of executives expressing concern.

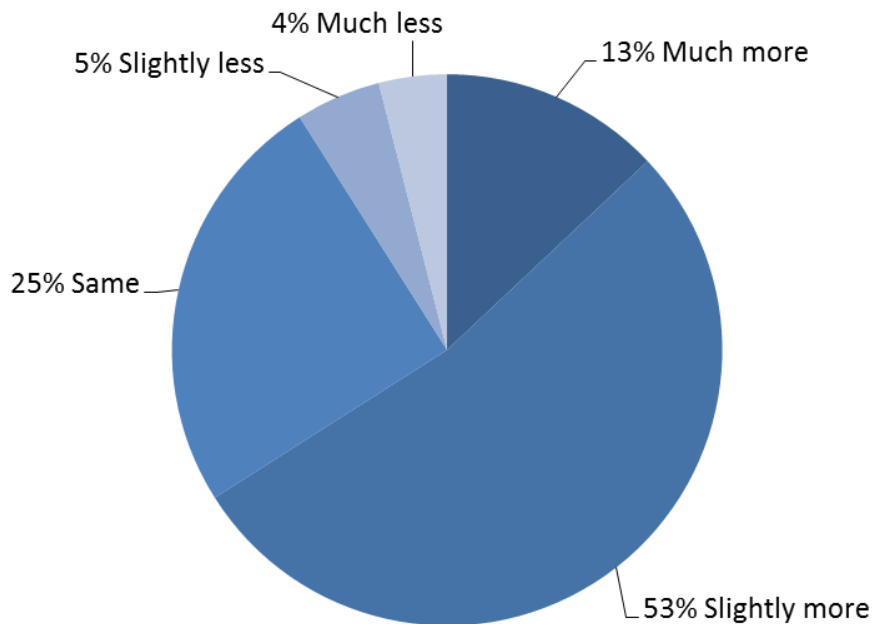
Last year's top priority of *fraud management/mitigation* dropped a bit to the number two priority, but more executives cited it as a concern than last year; 54% last year and 58% this year.

In a clear connection with CEO concerns, fraud and information security are the big concerns in 2015.

Technology Spending Continues to Increase

Two-thirds of credit union officers expect technology spending to continue to increase in 2015; a finding that is consistent with results from past years.

Expected Differences in Technology Spending: 2015 vs. 2014



Mobile Back on Top

2013 was the first big year of mobile investments. 2014 saw a shift in purchase priorities to internal systems including core, ERM, document imaging, and board portals.

The purchase priorities for 2015 take a dramatic shift back to mobile and member focused investments with all of those internal systems dropping out of the top 10.

Top 10 Project Priorities for Credit Unions: New or Replacement Purchases	
Mobile consumer remote deposit capture (RDC)	27%
Internet banking – commercial Internet banking and other cash management systems	26%
Mobile commercial remote deposit capture (RDC)	24%
Internet banking – consumer Internet banking	22%
Mobile banking	22%
Call center systems	19%
Customer relationship management (CRM) and other marketing systems	19%
Online account opening	19%
Internet banking – merchant capture/remote deposit	18%
iPads, tablets	18%

Consumer mobile remote deposit capture (RDC) moved up to the top spot and commercial mobile remote deposit capture moved to the third spot after neither made the top ten last year.

Internet banking, both consumer and commercial, and traditional mobile banking rounded out the top five after not making the top ten last year.

Online account opening, call center systems and Internet-based merchant capture were the other member-focused technologies that made the top ten.

In addition to a clear shift towards member-focused technologies, there is also a clear priority on growing and serving member businesses with better technology. Credit unions are having success stealing small business accounts away from banks but are realizing that consumer-focused mobile and Internet banking don't provide adequate functionality for small businesses.

Customer relationship management (CRM) dropped from the number two priority last year to number seven this year. CEO's enthusiasm for improving sales and marketing methods dropped this year over last and apparently that has influenced CRM system purchases as well.

iPads and tablets dropped from the number one spot last year to the number ten spot as seemingly every credit union invested in iPads last year for their Boards.

Greater Focus on Utilization

This year's survey showed a significant increase in credit union executives' focus on utilization. Many of the top 10 technologies targeted for utilization were rated higher than the number one from last year (at 56%).

Top 10 Project Priorities for Credit Unions: Improve Utilization of Existing Vendor	
Asset liability (ALM) systems	61%
Fraud management, security, tokens, etc.	59%
Facebook, LinkedIn, social media	58%
Call center	57%
iPads, tablets	57%
ACH Origination	54%
Document imaging/ document management/ workflow/ ECM	54%
BSA automation/ case management	53%
Core processing system	51%
Debit/Credit/ATM/EFT systems and services	51%

The top focus for improved utilization was, surprisingly, asset liability management (ALM). With a renewed regulatory focus on asset liability management, ALCO committees and regulators are pushing for better system functionality.

Building on the theme for the year, the second utilization priority was fraud management – up from fifth place last year.

The other big movers were social media, which moved all the way up to number three spot from the number eight spot last year, and both iPads and ACH origination made the top ten list this year for the first time.

Document imaging (ECM) also moved up a bit in importance from 45% last year to 54% this year as the focus on efficiency escalates.

Core Processing Remains Top Renegotiation Target

Once again, it is no surprise that the core contract remains the top renegotiation target since it represents a credit union's biggest technology expense.

Top 5 Project Priorities for Credit Unions: Renegotiate Existing Contract	
Core processing system	18%
ACH Origination	15%
Branch capture	15%
Debit/Credit/ATM/EFT systems and services	15%
Internet banking – bill payment (tie)	14%
Rewards and loyalty (tie)	14%

Nearly one in five (18%) credit unions expect to renegotiate their core contract this year. That's up from 11% last year.

Although other systems, such as debit/credit card, Internet banking and bill payment, are a lower priority and represent a smaller percentage of credit union technology spending, credit union executives should still look to maximize cost savings on renewals. Additionally, with member-focused systems such as Internet banking and cards, credit unions should explore ways that vendors can help with registration and usage to maximize revenue opportunities.

About Abound Resources

Abound Resources is a full service credit union consulting firm with the sole purpose of helping community and small regional financial institutions achieve their goals - whether those goals are for profitability, technology or risk management.

Abound Resources offers an array of services designed to improve performance and profitability and to help credit unions cope with an increasingly stringent regulatory environment.

Abound's seven practice areas are each headed by an experienced practice leader:

- **Technology** – technology plans, vendor evaluations, core vendor RFPs, bank vendor contract negotiations, bank vendor management, core implementation
- **Performance Management** – bank workflow improvement, revenue enhancement, bank efficiency improvement
- **Lending** – loan process improvement, loan origination, vendor evaluations and implementations
- **Small Business** – business deposit and fee income growth programs
- **Strategic Planning** – bank strategic planning, risk tolerance planning, one page strategic plans, competitive differentiation
- **Sales and Marketing** – branch performance improvement, sales coaching and training, e-marketing strategies and campaign management
- **Risk Management and Compliance** – ERM, IT audits, information security assessments, compliance, BSA audit or review, GLBA, GLBA branch survey, security testing, BCP

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