STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
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COMMISSIONER

DATE: November 27, 2006

LETTER NO.: 2006-CU-08

TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

SUBJECT: Career Transition Program

Purpose

Michigan's credit union community and Governor Granholm have announced a program to provide approximately $40 million in below market, unsecured educational loans to credit union members primarily affected by job losses in the manufacturing sector. The purpose of this letter is to provide safety and soundness guidelines for Michigan state-chartered credit unions electing to participate in this program.

Program Description

The Career Transition Program (CTP) will provide unsecured, unguaranteed student loans to credit union members who may require new or advanced training in a vocation or trade due to job loss. The program is structured to provide loans up to $10,000, with no payments required during the first two years. Interest will also be waived during the first two years, with monthly payments amortized up to ten years beginning at the end of the two year period.

OFIS believes the CTP is an opportunity for Michigan credit unions to provide a direct and tangible financial benefit to their members adversely affected by economic circumstances. Safety and soundness considerations, however, must be an integral part of each credit union's decision on whether or not to participate in this program.

Safety and Soundness Considerations

OFIS expects each Board of Directors to exercise appropriate due diligence in determining whether and how to offer CTP loans. At a minimum, the credit union's overall financial soundness and risk management systems must be commensurate with the additional risk inherent in offering these loans.

Each Board electing to offer CTP loans should develop sound policies and procedures, including net worth based exposure limits, underwriting guidelines, and ongoing monitoring processes for this product. The income effect of the interest waiver period, essentially creating a pool of nonearning assets, must be considered in the context of the institution's overall financial strength.

The volume and risk profile of CTP loans must also be considered as part of each credit union’s Allowance for Loan Loss calculation methodology.

OFIS examiners will review and evaluate the above factors, at a minimum, during our examination of credit unions that choose to offer CTP loans.

Sincerely,

Roger W. Little, Deputy Commissioner
Credit Union Division