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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES
OFFICE OF CREDIT UNIONS
JOHN J. KOLHOFF
DIRECTOR

ANNETTE E. FLOOD
DIRECTOR

DATE: February 11, 2015

LETTER NO.: 2015-CU-01

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

SUBJECT: The purpose of this letter is to report to the credit union industry the activities of the Office of Credit Unions over the 2014 calendar year.

The Office of Credit Unions (OCU) regulates and supervises state-chartered credit unions under the authority of the following statutes:

- Michigan Credit Union Act (2003 PA 215)
- Credit Union Multiple-Party Account Act (1968 PA 41)
- Beneficiary Accounts Act Credit Union Regulation (1992 PA 31)
- Electronic Funds Transfer Act (1978 PA 322)

The office ensures Michigan's state-chartered credit unions are operating safely and soundly, public confidence in the system is maintained, and the interests of depositors, creditors, and shareholders are protected. Under the Michigan Credit Union Act (MCUA), OCU issued two Cease and Desist Orders and one Memorandum of Agreement to credit unions during 2014. Two credit unions were liquidated during 2014, one the result of a previously enacted conservatorship.

OCU staff is comprised of 48 full-time employees. The Examination section consists of 42 full-time employees and includes 35 examiners whose primary function is to examine the condition of credit unions; four examiners who perform IT related examinations in state-chartered credit unions, banks and their third-party service providers, one administrative assistant, an Assistant Director and one support employee. The Corporate Review section includes four staff members responsible for corporate activities for all Michigan chartered depositories. Administratively the office includes one support employee and the Director.

OCU provides extensive staff training and professional development opportunities. During 2014, staff members attended training sponsored by the National Credit Union Administration (NCUA), the National Association of State Credit Union Supervisors (NASCUS), and other professional organizations. Beside the two meetings with the Director's Credit Union Advisory Council, OCU also conducted its fourth annual Industry Day as a forum for regulated credit unions. The Industry Day session included almost all OCU staff members and interested industry participants to jointly discuss issues relevant to the industry, including the examination process. This year OCU also successfully brought the NASCUS/CUNA Bank Secrecy Act Conference to the Industry Day event. The NASCUS BSA Conference provided a lower cost certification opportunity for Michigan state-chartered credit unions. All OCU examination staff and approximately 50 industry participants became certified at the conference.

The MCUA requires Michigan credit unions to be federally insured. The OCU works with the NCUA, which administers the National Credit Union Share Insurance Fund (NCUSIF), to manage NCUSIF risk. NCUA places substantial reliance on the office's examination and supervisory activities, and NCUA and OCU management meet as necessary to discuss emerging issues, institutions requiring more than normal supervision, and other matters of mutual interest.

ACTIVITY SUMMARY

Examination and Supervision

The office uses a "risk-based" examination process, focusing on material areas of risk unique to each credit union. Credit unions are monitored between examinations using financial reports and other information filed by each institution.

During 2014, staff completed 231 safety and soundness reports on state-chartered credit unions. Reports included 163 examinations, and 68 follow-up visitations at credit unions requiring additional supervision. OCU staff also performed information technology examination reports at 37 credit unions and several third-party service providers during the year.

Corporate applications submitted in calendar year 2014 increased in all areas except field of membership expansions. OCU accepted for filing 20 merger applications and 16 mergers were finalized during the calendar year. Nineteen field of membership expansion applications were received and 21 completed. There were two requests for branch acquisitions and both of those requests received approval with one acquisition completed in 2014. Other corporate applications for bylaw changes and/or certificate of organization amendments completed during the year totaled 65.

During 2014, OCU issued the following publications:

- [Bulletin 2014-14-CU !\[\]\(b6d55d0b173caf9b2505126db01e6158_img.jpg\)](#) Allowance and Reserve Accounts (supersedes Bulletin 2005-09-CU)
- [Letter 2014-CU-03 !\[\]\(12811766810e4126d2bed4d8c0808e60_img.jpg\)](#) Required Reporting under the MCUA

- [Letter 2014-CU-02](#)  UFIRS Individually Assess Sensitivity or Market Risk Exposure
- [Letter 2014-CU-01](#)  Activities of OCU for 2013

OCU maintained NASCUS Accreditation of its regulatory program. Michigan was the first state accredited under the program in 1989, and has maintained that status every consecutive year.

INDUSTRY TRENDS

Overall, Michigan's state-chartered credit unions remained in sound financial and operational condition during 2014. Although the number of Michigan credit unions declined, total assets increased 7.5% or \$2.6 billion to \$37.6 billion.

The number of Michigan state-chartered credit unions declined from 186 to 174 during 2014, primarily due to mergers between institutions. While generally market driven, mergers also occur because of serious operational or safety and soundness concerns. Larger, well-run credit unions can absorb troubled institutions with minimal negative impact and often provide a higher level of financial services for the members of the merged credit union. Merger activity is forecasted to remain high.

Industry Associations

OCU senior staff members were featured speakers on various topics for meetings of the Michigan Credit Union League, Credit Union National Association, the Michigan Association of Certified Public Accountants and other organizations.

Assistant Director Leanne O'Brien is involved as an Educational Committee member with NASCUS, working to enhance educational opportunities for examiners and the credit union industry.

During 2014, OCU Director John J. Kolhoff served on the NASCUS Board as Board Chair and sat on several NASCUS related committees. Kolhoff represents Michigan and state-chartered credit unions throughout the country in policy discussions with the state and federal legislative and executive branches. Kolhoff interacts with organizations representing regulators and industry participants including the Michigan Credit Union League, Federal Financial Institutions Examination Council, National Credit Union Administration, Consumer Finance Protection Bureau, Credit Union National Association, National Association of Federal Credit Unions, and National Association of Credit Union Service Organizations. Kolhoff is also a state liaison member of the Information Sharing Task Force of the Federal Financial Institutions Examination Council, working to ensure data integrity between the financial institution regulators.

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OCU staff members are also actively involved in several ongoing and ad hoc NCUA Task Forces on many issues facing the industry, credit union regulation and examination efficiency.

Sincerely,

A handwritten signature in black ink, reading "John J. Kolhoff". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

John J. Kolhoff

Director

Office of Credit Unions