



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES
OFFICE OF CREDIT UNIONS
DENICE SCHULTHEISS
DIRECTOR

ANITA G. FOX
DIRECTOR

DATE: February 07, 2020

LETTER NO.: 2020-CU-03

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

SUBJECT: 2019 Calendar Year Activities of the Office of Credit Unions

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), as amended eff. Sept. 7, 2016
- 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)

OCU 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.

OCU staff is comprised of 47 full-time employees. The Examination section consists of 41 full-time employees and includes 40 examiners and one Assistant Director whose primary function is to examine the condition of Michigan state-chartered credit unions. The Corporate Activities and Risk Assessment section includes four staff members responsible for credit union corporate activities and aggregate industry risk assessment functions. Administratively the office includes one additional support employee and the Director.

OCU provides extensive staff training and professional development opportunities. During 2019, staff members attended training sponsored by the National Credit Union Administration (NCUA), the National Association of State Credit Union Supervisors (NASCUS), Federal Financial Institutions Examination Council (FFIEC), ISACA, and other professional organizations. Besides the two meetings with the Director's Credit Union Advisory Council, OCU also conducted its ninth 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 legal issues, the protection of vulnerable persons in the financial industry, and other compliance/examination related issues. OCU also held a Fraud School encompassing past cases, emerging fraud schemes, and related risk management recommendations. OCU additionally held its annual Director's College to aid officials in

their duties by arranging presentations on relevant and emerging issues. This year's topics included national issues, compliance and marijuana banking.

The MCUA requires Michigan credit unions to be federally insured. 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 2019, staff completed 149 safety and soundness reports on state-chartered credit unions. Reports included 123 examinations, and 26 follow-up contacts at credit unions requiring additional supervision. Additionally, safety and soundness examinations were performed for two federally chartered credit unions who were applying to convert to the Michigan charter (both have been consummated) and on two proposed bank asset acquisitions. There were 27 Information Technology related examinations performed, which are now conducted as part of safety and soundness examination procedures and included with the regular examination report.

OCU accepted for filing seven merger applications and finalized five during the calendar year. One purchase and assumption application was accepted for filing in 2019, and three were completed during the year. Two applications to convert from a federal charter to a state charter were accepted in 2019, and three were completed during the year. Eleven field of membership expansion applications were accepted and sixteen were finalized in 2019. Miscellaneous corporate applications for bylaw changes, certificate of organization amendments, etc. completed during the year totaled forty-five.

The following pronouncements were issued in 2019.

- [Letter 2019-CU-01](#) 2018 Calendar Year Activities of the Office of Credit Unions
- [Letter 2019-CU-02](#) Contracts and Vendor Relationships

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

INDUSTRY TRENDS

Overall, Michigan's state-chartered credit unions remained in sound financial and operational condition during 2019. In 2019, the number of Michigan state-chartered credit

unions decreased by one (but then increased two on 01/01/20), and total assets increased 11% or \$5.4 billion to \$54.7 billion.

The number of Michigan state-chartered credit unions remained relatively level in 2019 as mergers of state chartered institutions were minimal, and partially offset by federal credit unions converting to the Michigan state charter. While merger activity is forecasted to be slightly higher in 2020, the number of conversions of federal credit unions into the state-chartered system is similarly anticipated to be higher.

Industry Associations

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

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

During 2019, OCU Director Schultheiss served on NASCUS Legislative and Regulatory Affairs Committee, the NASCUS Interstate Branching Task Force, participated in various workgroups evaluating respective operating agreements with the NCUA, served on NASCUS Accreditation Review Team, and represented Michigan and state-chartered credit unions throughout the country in policy discussions with the state and federal legislative and executive branches. OCU interacts with organizations representing regulators and industry participants including the Michigan Credit Union League, National Association of State Credit Union Supervisors, Federal Financial Institutions Examination Council, National Credit Union Administration, Consumer Financial Protection Bureau, Credit Union National Association, and several other state and federal regulatory agencies and associations.

The Michigan Office of Credit Unions remains committed to serving and protecting Michigan residents and ensuring the soundness of Michigan's credit union industry.

Sincerely,

A handwritten signature in blue ink that reads "Denice Schultheiss". The signature is fluid and cursive, with the first name "Denice" written in a larger, more prominent script than the last name "Schultheiss".

Denice Schultheiss, Director
Office of Credit Unions