



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 24, 2023

LETTER NO.: 2023-CU-01

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

SUBJECT: 2022 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 in 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 including 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 examination staff extensive training and professional development opportunities. During 2022, 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), Information Systems Audit and Control Association (ISACA), and other professional organizations.

OCU also continues to offer educational opportunities for industry representatives, opportunities to collaborate in joint learning with the industry, and events where OCU can engage in open dialogue with the industry on topics of mutual interest. In addition to three meetings held virtually with the Director's Credit Union Advisory Council, OCU also conducted its twelfth annual Industry Day for regulated credit unions. Industry Day included almost all OCU staff members

and interested industry participants to jointly discuss issues relevant to the industry including national issues, compliance, economic updates, and other current issues. During 2022, OCU held its annual Director's College covering a variety of relevant issues and initiated eighteen individual outreach meetings with new Michigan credit union CEOs to establish open lines of communication and advance the collaborative efforts between OCU and the credit union industry.

The Michigan Credit Union Act 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 OCU's examination and supervisory activities and meets with OCU management 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 of Credit Unions continues to use 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.

In 2022, examinations returned to the hybrid posture assumed at the end of 2019. During 2022, staff completed 138 safety and soundness examinations; reports included 113 examinations, 24 follow-up contacts at credit unions requiring additional supervision and one third party examination contact. There were 42 Information Technology related examinations performed with URSIT ratings issued, which continue to be conducted as part of safety and soundness examination procedures and included within the regular examination report.

Corporate Activities

In 2022, three federal credit unions merged into Michigan state-chartered (domestic) credit unions, there were three mergers between domestic credit unions, one merger of a domestic credit union into a federal credit union, one conversion of a federal credit union to a domestic credit union, two voluntary domestic credit union dissolutions, and one Michigan state-chartered credit union acquisition of a bank purchase/assumption completed.

In process at the end of 2022 were four mergers between domestic credit unions, one merger of a federal credit union into a domestic credit union, one conversion of a federal credit union to a domestic credit union, and one bank purchase/assumption. Further, eighteen field of membership amendment requests were accepted and thirteen were finalized in 2022. Miscellaneous corporate applications for bylaw changes, certificate of organization amendments, etc. completed during the year totaled forty-five.

Issuances

The following pronouncements were issued in 2022.

- [Letter 2022-CU-01](#) 2021 Calendar Year Activities of the Office of Credit Unions
- [Letter 2022-CU-02](#) Office of Credit unions Contact Information Changes

In supplement to these issuances, eight internal policies were updated including those to permit longer intervals between examinations for lower risk institutions over \$250 million. Additionally, there were many advisories and resources supplied to the industry throughout 2022 within emails to executives and other public announcements.

INDUSTRY TRENDS AND SUPERVISORY FOCUS

Overall, Michigan's state-chartered credit unions were safe and sound during 2022, increasing in total assets and remaining strong financially and operationally. As expected, the number of Michigan state-chartered credit unions decreased by five in 2022, and total assets increased \$2.87 billion or 3.68% to \$80.62 billion. While this growth was partly from increased borrowed funds, including subordinated debt, the majority of growth was the result of the ongoing trend of consolidations and organic growth in the Michigan credit union industry, as has also been occurring nationally.

Financially, the aggregate financial metrics of Michigan state-chartered credit unions continues to be strong with key components at reasonable levels at the end of 2022. Overall credit risk has been observed to be increasing, contributed by economic factors and fluctuations in collateral values for various loan portfolio segments. While not in an alarming position at year end, increases in market rates further compressed net margins and increased unrealized losses on investment portfolios. There has also been a general decline in liquidity. The ongoing supervisory plans of the Office of Credit Unions will include increased emphasis on:

- Long term liquidity risk and liquidity risk management, with careful consideration of the implications of ongoing fluctuations in market rates and interest rate risk
- Credit risk within loan and investment portfolios, with careful consideration of underlying collateral risk for various portfolio segments, and credit risk management practices
- The due diligence, oversight and risk exposure related to third-party programs, products and services
- Institution's information technology controls, risk exposure and business continuity/disaster recovery preparedness
- Institution's compliance management systems, recordkeeping, and internal controls

INDUSTRY ASSOCIATIONS

Michigan's Office of Credit Unions was the first agency accredited by NASCUS under the program in 1989 and continues to successfully maintain accredited status each year. Executives within the Office of Credit Unions remain strong advocates for credit unions and the state credit union industry through active involvement at the state and national levels. Director Schultheiss serves on the NASCUS Audit Committee, the NASCUS Legislative and Regulatory Affairs Committee, served on multiple NASCUS Accreditation Review Teams and was appointed to the NASCUS Board in 2022. Key Office of Credit Union staff additionally served on many other committees, workgroups and task forces throughout the year; representation on these committees and more organized work groups are expected to continue through 2023.

OCU senior staff members were active participants in several national committees and events including NASCUS workgroups related to interstate activities and examiner training. Additionally, several examination staff hold designations as a Certified Fraud Examiner, Certified Anti-Money Laundering Specialist, Bank Secrecy Act Certification, Certified State Credit Union Examiners, Certified State Credit Union Examination Supervisors, et al. Memberships within various ISACA chapters were also maintained by various senior examination staff members.

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, appearing to read "Denice Schultheiss". The signature is stylized with a large initial "D" and a flourish.

Denice Schultheiss, Director
Office of Credit Unions