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DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES
OFFICE OF CREDIT UNIONS
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DATE: February 06, 2024

LETTER NO.: 2024-CU-01

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

SUBJECT: 2023 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 2023, in addition to Michigan sponsored events, 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), Conference of State Bank Supervisors (CSBS), Credit Union National Association (CUNA) and other professional organizations.

OCU also continues to offer educational opportunities for industry representatives. This include 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 meetings held with the Director's Credit Union Advisory Council, OCU also conducted its thirteenth annual Industry Day for regulated credit unions. Industry Day included nearly 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 2023, OCU held its annual Director's College covering a variety of relevant issues and attended three Chapter meetings to 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 2023, examinations proceeded normally, and most often in a hybrid posture (partially off-site). During 2023, staff completed 130 safety and soundness examinations; reports included 110 examinations, 20 follow-up contacts at credit unions requiring additional supervision and two third-party examination contacts. There were 37 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 2023, one federal credit union merged into a Michigan state-chartered (domestic) credit union, there were four mergers between domestic credit unions, and one Michigan state-chartered credit union completed acquisition of a bank (purchase/assumption).

In process at the end of 2023 were three mergers between domestic credit unions, one merger of a domestic credit union into a federal credit union, and two bank purchase/assumption transactions completed. Further, seven field of membership amendment requests were accepted and thirteen were finalized in 2023. Miscellaneous corporate applications for bylaw changes, certificate of organization amendments, etc. completed during the year totaled forty-eight.

Issuances

The following pronouncements occurred in 2023.

- [Letter 2023-CU-01](#) 2022 Calendar Year Activities of the Office of Credit Unions
- [Bulletin 2023-07-BT/CF/CU/INS](#) Impact of the Amended Elliott-Larsen Civil Rights Act
- [Bulletin 2023-15-CU Field of Membership](#): Groups Whose Common Bond is Common Interests, Activities or Objectives

Updates

The following were updated in 2023:

- [Form FIS 2341](#) Application to Amend Bylaws (except field of membership)
- [Form FIS 2342](#) Application for Purchase and/or Assumption
- [Form FIS 2343](#) Application to issue Subordinated Debt (Secondary Capital)
- [Form FIS 2340](#) All Other Regulatory Approvals
- [Form FIS 2372](#) Notice of Cybersecurity Event
- [Form FIS 1040](#) Pre-Examination Inquiry
- [Exam Manual 10052](#) URSIT Ratings (minor corrections/updates)
- [Exam Manual 10605](#) Information Technology and Security (minor corrections/updates)
- [Exam Manual 10640](#) Cybersecurity (minor corrections/updates)

In supplement to these issuances, nine internal policies were updated. Additionally, there were many advisories and resources supplied to the industry throughout 2023 within emails to executives and other public announcements.

INDUSTRY TRENDS AND SUPERVISORY FOCUS

Overall, Michigan's state-chartered credit unions continued to remain safe and sound during 2023, increasing in total assets and remaining strong financially and operationally. As expected, the number of Michigan state-chartered credit unions decreased by four in 2023, and total assets increased \$4.59 billion or 5.70% to \$85.22 billion. While this growth was partly from increased borrowed funds, 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 continued to occur 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 2023. Overall credit risk has been observed to continue increasing, contributed by economic factors and fluctuations in collateral values for various loan portfolio segments. While still sizeable at year end, there was a slight decrease in unrealized investment losses year-over-year. There has also been a continued general decline in liquidity. The ongoing supervisory plans of the Office of Credit Unions will continue to include increased emphasis on:

- Long term liquidity risk and liquidity risk management
- 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
- Strategic planning, staff development, and succession management relating to executive positions and board composition

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, and serves as the NASCUS Board Treasurer. 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 throughout 2024.

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

OCU representatives continue to interact 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,



Denice Schultheiss, Director
Office of Credit Unions