

**Department of Commerce – Credit Union Division**

# **PERFORMANCE REPORT**

**Performance Results Achieved for Fiscal Year 2013**

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# INTRODUCTION

## *Purpose and Scope*

This performance report is provided pursuant to Iowa Code §8E.210, which requires each agency to prepare an annual performance report stating the agency's progress in meeting performance targets and achieving its goals consistent with the enterprise strategic plan, its agency strategic plan, and its performance plan. The annual performance report shall also include a description of how the agency has reallocated human and material resources in the previous fiscal year. This reporting is used to improve performance, improve strategic planning and policy decision making, better allocate human and material resource, recognize superior performance, and inform Iowans about their return from investment of government.

This report contains information pertaining to five agency goals and measures.

## *Executive Summary*

Performance remained stable in all goals and measures. Iowa's 114 credit unions are operating in a safe and sound manner, and are increasing in overall asset size and membership, even while the number of credit unions has declined due to mergers. The Division performed 107 examinations during the year, well in excess of the performance target of 80. Credit unions at risk are closely monitored. Letters of Understanding and Agreement (LUA) are put in place between the credit union and the Division to correct problems identified before a merger becomes necessary.

The Division overall received an increased number of consumer complaints, but the majority of complaints were resolved within a 30-day time frame, while the bulk of the remainder were resolved within the 60-day target for resolution.

The Division has worked to improve communication and accessibility to information, working with the Iowa Credit Union League to disseminate information regarding new administrative rules and legislation, and educating credit unions regarding changes in the 5300 Call Reports that credit unions are required to file quarterly.

# **AGENCY OVERVIEW**

## ***Mission and Vision of the Credit Union Division***

The primary purpose and mission of the Credit Union Division is the administration and execution of the laws of the State of Iowa relating to credit unions so as to effectively safeguard the interests of the depositors and shareholders of those organizations. Our guiding principles are customer focus, results orientation, long-range thinking, data-based decisions, continuous improvement, collaborative leadership, and employee participation.

Our vision is to provide for a regulatory environment in which Iowa's credit unions can prosper, operate in a safe and sound manner, and meet the financial service needs of their members. We safeguard the interests of credit union depositors and shareholders through the effective administration and execution of the laws relating to state-chartered credit unions.

## ***Organizational structure***

The Superintendent of Credit Unions is appointed by and serves at the pleasure of the Governor, subject to confirmation by the Iowa Senate. The Superintendent is charged with the supervision of state-chartered credit unions, and control and enforcement of the laws, bylaws, rules and regulations pertaining to the organization and operation of credit unions operating under a state charter.

The Credit Union Review Board meets quarterly pursuant to Iowa Code §533.107. It consists of 7 members, 5 of whom shall have been a credit union member for at least the previous 5 years. The members are appointed by the Governor and confirmed by the Senate, and serve staggered terms of 3 years. The review board may adopt administrative rules or take other action as it deems necessary or suitable to administer the Iowa Credit Union Act.

Employees of the Credit Union Division are noncontract, nonmerit employees, pursuant to Iowa Code §20.4. 10 Credit Union Examiners and 1 Credit Union Examiner Supervisor work in the field and are responsible for providing credit union examinations throughout the state. Senior examiners are assigned supervision of the larger and more complex credit unions. The Des Moines office consists of the Superintendent, an Executive Officer and Legal Counsel, an Information Technology Specialist, and a Secretary.

## ***Core Functions/SPAs***

The Division's core functions are regulation and compliance, and resource management.

Regulation and compliance services include a risk-focused supervision and examination program which identifies, measures, monitors, and control unacceptable levels of risk. The Division utilizes a red flag system, subject matter specialists, and training to appropriately manage the risk in credit union operations.

Iowa Code §113(1)(a) provides that examinations will be made whenever necessary or advisable, but in no event less frequently than once during each twenty-four month period. Most credit unions are examined within a 12 to 14 month cycle. Our performance target is to perform 80 examinations annually. We also aim to identify, measure, monitor and control unacceptable levels of risk through our risk-focused supervision and examination program, in order to assure that all credit unions are operating in a safe and sound manner.

Resource management aims to improve communication and accessibility to information with a desired outcome of enhanced external and internal communication in the areas of administration and legislation. This unit is responsible for the accounting, budgeting, human resources, rules and regulation, planning, consumer complaint response, and information technology functions. The Division provides timely and accurate services to division employees, credit union management & members, and other state agencies. Our performance targets are to resolve the majority of consumer complaints within 60 days of receipt, and to comply fully with all pre-audit expenditure regulations.

### ***Budget***

The Division's funding is administered by the Administration and Regulation Appropriations Subcommittee, which annually approves the Division's spending authority from the Department of Commerce Revolving Fund, pursuant to Iowa Code §546.12. The actual expenses of operating the Division are paid by state-chartered credit unions through fees, assessed according to categories of institutional asset size, that are paid in two installments in August and December of each year. The Credit Union Division receives no funding from the general fund.

The Division's spending authority for both FY 2013 and FY 2014 was set at \$1,792,995. Actual expenditures for FY 2013 were \$1,659,368.

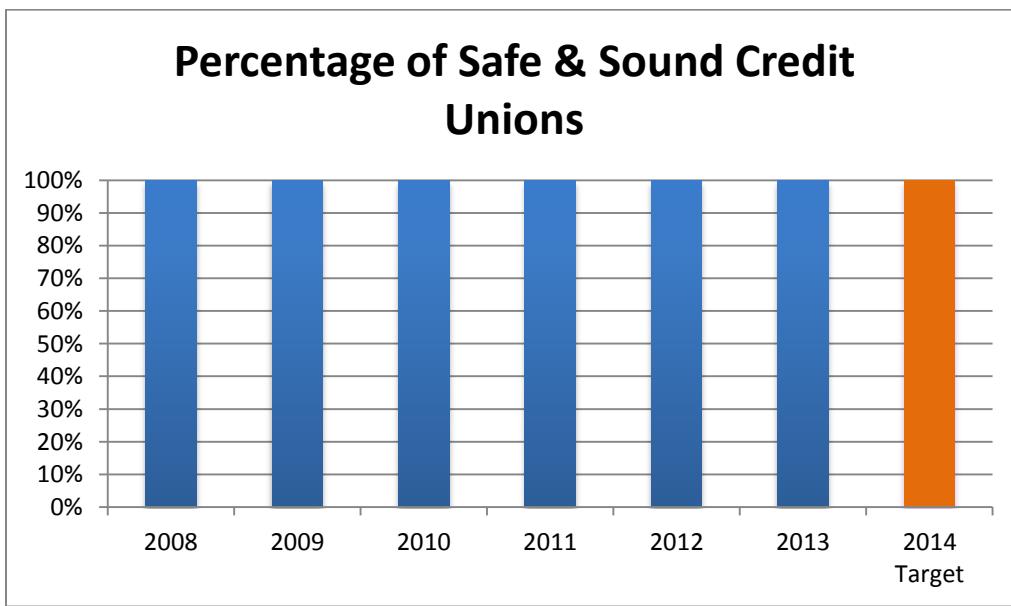
## Key Result

### CORE FUNCTION

**Name:** Regulation and Compliance

**Description:** Percentage of state-chartered credit unions operated in a safe and sound manner and in compliance with applicable laws and regulations. Credit unions within the State of Iowa continue to operate in a safe and sound manner.

**Why we are doing this:** The Superintendent of Credit Unions is given the authority to regulate state-chartered credit unions under Iowa Code Chapter 533. The Superintendent is authorized to institute various administrative actions under the Code for the protection of Iowa credit union members in the event any credit union is operating in an unsafe or unsound manner.



**Performance Measure:** Safe and sound credit unions in Iowa

**Performance Target:** 100% of Iowa credit unions.

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**What we're doing to achieve results:** The Division works to identify, measure, monitor, and control unacceptable levels of risk through a risk-focused supervision and examination program which works to manage the risk presented by credit union operations. Administrative action by the Division is instituted as needed, including additional supervisory contact with a credit union,

Documents of Resolution, Letters of Understanding and Agreement, Cease and Desist Orders, and, in rare instances, management of a credit union and dissolution.

**What was achieved:** Our vision is to provide for a regulatory environment in which Iowa's credit unions can prosper, operate in a safe and sound manner, and meet the financial service needs of their members. By providing a safe and sound regulatory environment, we safeguard the interests of credit union depositors and shareholders. Presently there are 114 credit unions in the state.

**Data Sources:** Credit Union Division Examination Reporting System

**Resources:** Iowa credit unions fully fund the costs of operating the Division, including examination, through fees paid in August and December of each year which are deposited in the Commerce Department Revolving Fund.

## Key Result

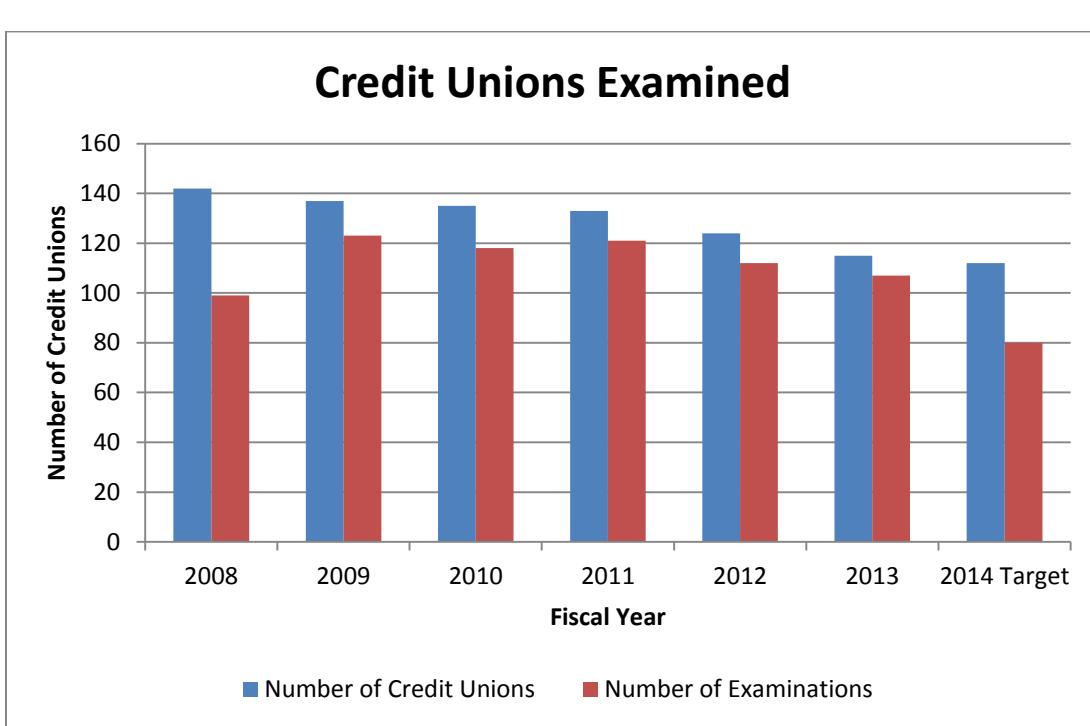
### SERVICES/ PRODUCTS/ACTIVITIES

**Name:** Examinations

**Description:** Iowa Code §533.113(1)(a) requires that examinations of credit unions be made whenever necessary, but in no event less frequently than once in each twenty-four-month period.

**Why we are doing this:** As part of our strategic goal to identify, measure, monitor, and control unacceptable levels of risk in Iowa credit unions, frequent examination and supervisory contact is necessary.

**What we're doing to achieve results:** The Division strives for regular contact and examination in all Iowa credit unions. As some credit unions have grown in size of assets and complexity of operations, additional examiner presence and time is needed in some credit union exams. Nevertheless, the Division has been able to exceed its targeted goal of 80 credit unions examined annually. Most credit unions are examined on a 12 – 14 month cycle.



**Performance Measure:** Number of Iowa credit unions examined annually

**Performance Target:** 80

**What was achieved:** By making frequent contact with credit unions through examinations and related supervisory contact, potential problems can be caught earlier, when remedial efforts are more effective for the health of the credit union and the protection of credit union members.

**Data Sources:** Credit Union Division Examination Reporting System

**Resources:** Iowa credit unions fully fund the costs of operating the Division, including examination, through fees paid in August and December of each year which are deposited in the Commerce Department Revolving Fund.

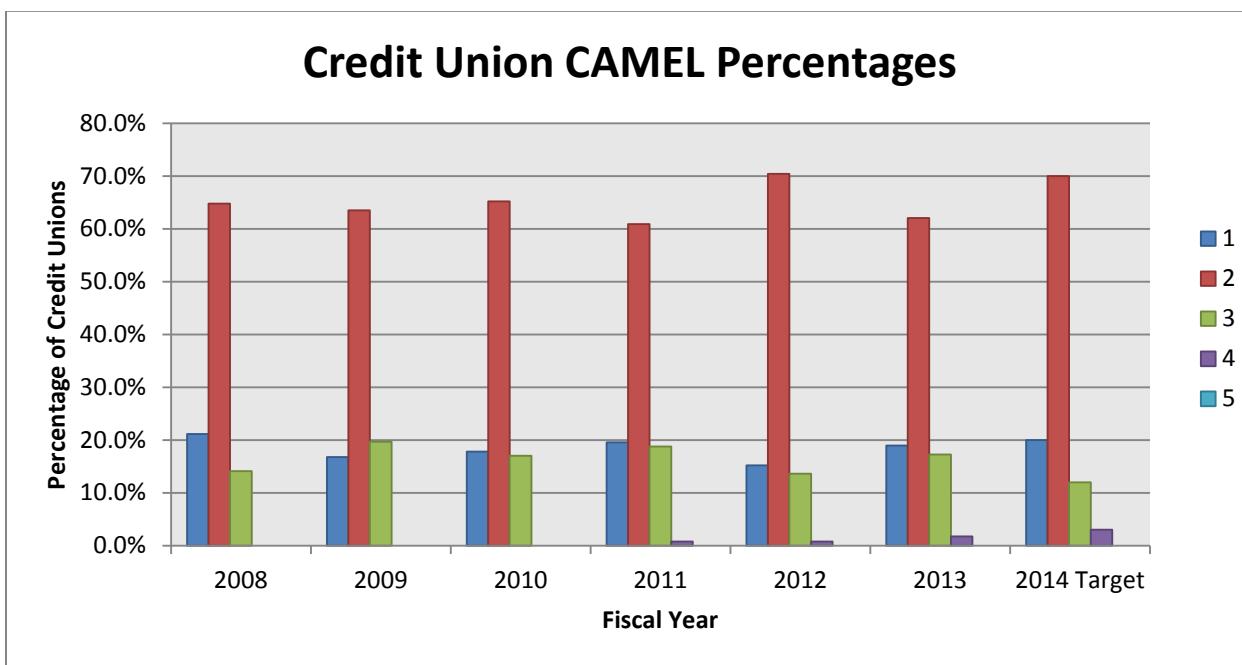
## Key Result

### SERVICES/PRODUCTS/ACTIVITIES

**Name:** Examinations

**Description:** State-chartered credit unions are all operated in a safe and sound manner and in compliance with applicable laws and regulations. Credit unions within the State of Iowa continue to operate in a safe and sound manner.

**Why we are doing this:** Composite CAMEL ratings are based on examinations, including a careful evaluation of an institution's managerial, operational, financial, and compliance performance. The six key components used to assess an institution's financial condition and operations are: capital adequacy, asset quality, management capability, earnings quantity and quality, the adequacy of liquidity, and sensitivity to market risk. The rating scale ranges from 1 to 5, with a rating of 1 indicating: the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile; and the level of least supervisory concern. A 5 rating indicates: the most critically deficient level of performance; inadequate risk management practices relative to the institution's size, complexity, and risk profile; and the greatest supervisory concern. The composite ratings are defined on the next page.



**Performance Measure:** Safe and sound credit unions in Iowa – CAMEL ratings

**Performance Target:** 100% of Iowa credit unions.

## CAMEL Ratings

Composite 1 Rating - indicates strong performance and risk management practices, and any weaknesses are minor and can be handled in a routine manner. These credit unions give no cause for supervisory concern.

Composite 2 Rating - reflects satisfactory performance and risk management practices, areas of weakness may be present but are considered minor and if left unchecked could develop into greater concern. These credit unions have minor supervisory contact.

Composite 3 Rating - represents performance that is flawed to some degree and risk management practices may be less than satisfactory, credit unions require more than usual supervisory attention to address deficiencies.

Composite 4 Rating - refers to poor performance of serious supervisory concern that, if left unchecked, would be expected to lead to conditions that could threaten the viability of the credit union, and weaknesses and problems are not being satisfactorily resolved.

Composite 5 Rating - considered unsatisfactory performance that is critically deficient and in need of immediate remedial attention, weaknesses and severity of problems are beyond management's ability or willingness to control or correct, and these conditions directly threaten the viability of the credit union. These credit unions have a high probability of failure, are under continuous supervisory scrutiny and involvement, and will likely require emergency assistance, liquidation, merger or acquisition.

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**What we're doing to achieve results:** The Division works to identify, measure, monitor, and control unacceptable levels of risk through a risk-focused supervision and examination program. Administrative action by the Division as needed, including Documents of Resolution, Letters of Understanding and Agreement, Cease and Desist Orders, and additional supervisory contact with a credit union, works to manage the risk presented by credit union operations.

**What was achieved:** Our vision is to provide for a regulatory environment in which Iowa's credit unions can prosper, operate in a safe and sound manner, and meet the financial service needs of their members. By providing a safe and sound regulatory environment, we safeguard the interests of credit union depositors and shareholders. Presently there are 114 credit unions in the state, none of which have a CAMEL rating of 5.

**Data Sources:** Credit Union Division Examination Reporting System

**Resources:** Iowa credit unions fully fund the costs of operating the Division, including examination, through fees paid in August and December of each year which are deposited in the Commerce Department Revolving Fund.

## Key Result

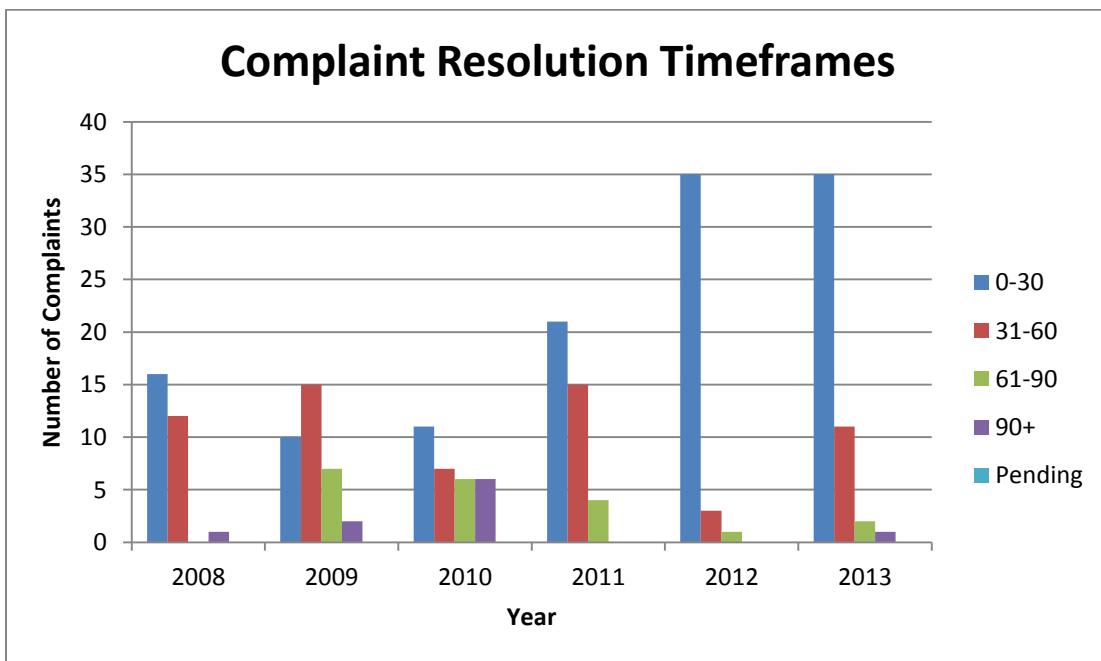
### CORE FUNCTION

**Name:** Resource Management

**Description:** Iowa Code §533.501(3) provides for a process for resolving consumer complaints filed regarding credit union activity. Our goal is to resolve the majority of complaints within 60 days of receipt.

**Why we are doing this:** To improve communication and accessibility to information, the Division aims to enhance external and internal communication in areas of administration and legislation. Prompt and timely resolution to member complaints helps to provide effective administration and execution of the laws relating to credit unions.

**What we're doing to achieve results:** The Division has expanded the complaint resolution process, evaluating new complaints for legal issues that may require additional research. When appropriate, responses sent to consumers often explain in layman's terms the effect of complex federal and state laws and regulations on the specific complaint, as well as an analysis of a consumer's account activity. In certain cases, guidance may also be provided to a specific credit union regarding best practices and legal compliance.



**Performance Measure:** Complaints resolution times

**Performance Target:** 100% within 60 days

**What was achieved:** In spite of an increase in the total number of complaints in FY 2013, both the timeliness and quality of complaint responses has improved, with the majority of complaints resolved within 30 days, and the bulk of the remainder concluded within the 60-day target..

94% of complaints were resolved within the 60-day target window. Complaints are typically resolved within 30 days unless an extended investigation is necessary. Each complaint is initially assessed to determine if the complaint requires an examiner investigation. If assigned, the examiner is expected to respond and investigate the complaint within 60 days. At the conclusion of all complaints, the findings are sent to the credit union and the complainant in written correspondence. While most complaints are resolved within the 60 day window, some complaints are complicated and require extended investigation and/or additional communication and correspondence with the parties involved or other state agencies.

**Data Sources:** Credit Union Division Examination Reporting System

**Resources:** Iowa credit unions fully fund the costs of operating the Division, including the complaint resolution process, through fees paid in August and December of each year which are deposited in the Commerce Department Revolving Fund.

## Key Result

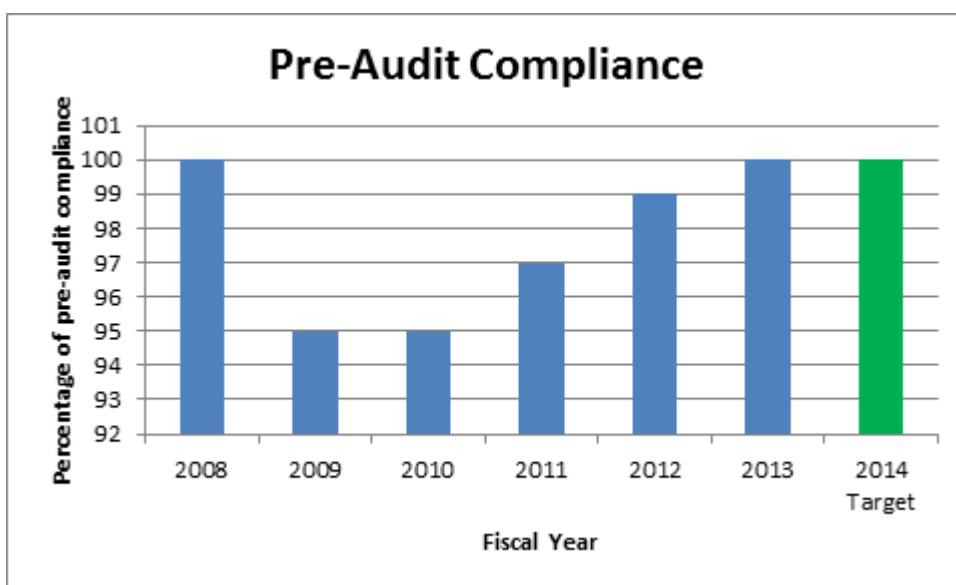
### SERVICES/ PRODUCTS/ACTIVITIES

**Name:** Administration Services

**Description:** Expenditure compliance with state laws and regulations

**Why we are doing this:** Appropriate and effective resource management includes compliance with expenditure regulations regarding the use of state funds. Because the majority of Division staff travels throughout the state during the year to examine credit unions, travel expense reimbursement is a significant activity in Division administration.

**What we are doing to achieve results:** The Division utilizes available training resources regarding travel expenses and procurement. The Auditor's office performs a yearly audit, including travel expense claims.



**Performance Measure:** Division pre-audit expenditure compliance with state law and regulation

**Performance Target:** 100%

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**What was achieved:** Results are not yet available for FY 2013, but the Division continues to improve its performance with each audit, and hopes to achieve the target level.

**Data Sources:** Audit documents from State Auditor's office

**Resources:** Iowa credit unions fully fund the costs of operating the Division, including annual audits, through fees paid in August and December of each year which are deposited in the Commerce Department Revolving Fund.

## CREDIT UNION DIVISION - PERFORMANCE PLAN RESULTS FY 2013

<b>Name of Agency:</b> Department of Commerce – Credit Union Division			
<b>Agency Mission:</b> To safeguard the interests of credit union depositors and stakeholders through the effective administration and execution of the laws relating to credit unions.			
<b>Core Function:</b> Regulation and Compliance			
Performance Measure (Outcome)	Performance Target	Performance Actual	Performance Comments & Analysis
1. Percent of credit unions in safe and sound status	100%	100%	<p><b>What Occurred:</b> Iowa credit unions continue to operate in safe and sound condition</p> <p><b>Data Source:</b> Credit Union Division Examination Reporting System</p>
<b>Service, Product or Activity:</b> Examinations			
Performance Measure	Performance Target	Performance Actual	Performance Comments & Analysis
1. Number of credit unions examined annually	80	107	<p><b>What Occurred:</b> Examinations exceeded target.</p> <p><b>Data Source:</b> Credit Union Division Examination Reporting System</p>
2. Credit Unions in safe and sound status	100%	100%	<p><b>What Occurred:</b> Iowa credit unions continue to operate in safe and sound condition. No credit union had a 5 CAMEL rating.</p> <p><b>Data Source:</b> Credit Union Division Examination Reporting System</p>
<b>Core Function:</b> Resource Management			
Performance Measure	Performance Target	Performance Actual	Performance Comments & Analysis
1. Complaints resolved within 60 days of receipt	100%	94%	<p><b>What Occurred:</b> Due to complexity of some complaints and extended investigation, correspondence, and other communication, 3 complaints were not resolved within the 60-day target window.</p> <p><b>Data Source:</b> Credit Union Division Examination Reporting System</p>
<b>Service, Product or Activity:</b> Administration Services			
Performance Measure	Performance Target	Performance Actual	Performance Comments & Analysis
1. Division pre-audit expenditure compliance with state laws and regulations	100%	Data not yet available	<p><b>What Occurred:</b> Audit for FY 2013 will not be completed until 2014.</p> <p><b>Data Source:</b> State Auditor's Reports</p>

## **RESOURCE REALLOCATIONS**

During FY 2013, the Division experienced some resource allocation when a Senior Examiner retired. The Division received approval to secure his services for a maximum of 780 hours within the next year for examinations of larger and more complex credit unions. Because the examiner is a SLIP retiree, the Division will be responsible only for payment for hours worked, and not for the cost of benefits.

## **DIVISION CONTACTS**

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