

# Credit Union Division Performance Report 2007

## **AGENCY OVERVIEW**

### *Vision/Mission/Values*

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 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. Our guiding principals are customer focus, results orientation, long-range thinking, data-based decisions, continuous improvement, collaborative leadership, and employee participation.

### *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 controls unacceptable levels of risk. Our performance target is to perform 80 examinations annually for Iowa Code Chapter 533.330 compliance. A red flag system, subject matter specialists, and training are other key services provided by the Division.

The intent of the core function of resource management is to improve communication and accessibility to information by providing timely and accurate services to division employees, credit union management & members, members of the public, and other state agencies. This unit is responsible for the accounting, budgeting, human resources, rules, planning, and information technology.

### *Customer/stakeholders*

The Division identified the following customer groups:

Credit unions, which expect the Division to perform examinations at least every 24 months, a copy of which is provided to the credit union and the National Credit Union Administration, the federal insurer of credit union deposits; stakeholders and depositors, which expect the Division 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; the National Credit Union Administration which expects the Division to verify accurate and timely 5300 Call Reports, Audit Committee verification, and a Banking Secrecy Act questionnaire; the Legislative Branch, which the Division requests the appropriation of adequate funds to perform safety and soundness examinations; and the Executive Branch, that requires the Division to operate within the laws and regulations, and executive orders; and members of the public which expect timely response to inquiries.

#### *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 and enforcement of the laws, bylaws, rules and regulations pertaining to the organization and operation of credit unions operating under a state charter.

The Governor appoints a seven-member Review Board for staggered three-year terms, also subject to confirmation by the Senate. Two of the Board members may be public members; however, at no time are there more than five of the members' directors or employees of a state or federal credit union. The Board meets at least four times each year and holds special meetings at the call of the chairperson. Four members constitute a quorum. The Board may adopt, amend, and repeal rules pursuant to Chapter 17A or take other action as it deems necessary or suitable, to effect the provisions of Iowa Code Chapter 533.

#### *Employees*

Employees of the Credit Union Division are noncontract, nonmerit employees. There are currently 13 examiners, an executive officer, a secretary 2, deputy superintendent and the superintendent in the Division. Although it is not a requirement, most employees have a 4 year degree.

The Division is committed to providing a well educated and well trained examination and administrative staff to effectively supervise and regulate Iowa Credit Unions and provide administrative support to the Division.

The Division provides an expanded career path structure to accommodate the risk focused examination process. Both examination and administrative position duties and responsibilities have been updated. A supervisory examiner position was created to have direct responsibility for the examination and supervision program and direct oversight of the examination staff.

Additional senior examiner slots were added to provide an elongated career path for examiners. The senior examiners specialize in selected areas in addition to their regular examination work. They assist in their areas of expertise on exams/contacts, as well as, being a resource for other staff members. The Special Actions Examiner is charged with the supervision of the credit unions on the Watch List or under administrative action. The Training Specialist is assigned the responsibility of all aspects of the Division employee's training. The Capital Markets specialist serves as the Asset Liability Management and Investment Specialist and is responsible for the examination of the Iowa Corporate Central Credit Union. The IT Specialist position is responsible for the review of EDP systems, e-commerce and payment systems, as well as, the Division's technology needs. The Consumer Compliance Specialist is responsible for the compliance reviews and questions. The senior exam staff are assigned supervision of the larger more complex credit unions.

The Division's administrative unit consists of an executive officer, and a secretary. This unit is responsible for all administrative functions in the Division.

### *Budget*

Annual fees are paid by state-chartered credit unions to support the Credit Union Division. The amount collected each fiscal year reflects the actual operating costs of the Division. The annual operating fee is collected each year in two installments, during the months of December and August to coincide with the Division's fiscal year of July 1<sup>st</sup> to June 30<sup>th</sup>. The Credit Union Division was appropriated \$1,543,984 in Fiscal Year 2007 and expended \$1,436,088 of the appropriation. The Division was appropriated \$1,377,164 in Fiscal Year 2006 with total operating expenses of \$1,260,871. The Credit Union Division is cost neutral to the general fund of the State of Iowa since all expenses are paid by the regulated industry.

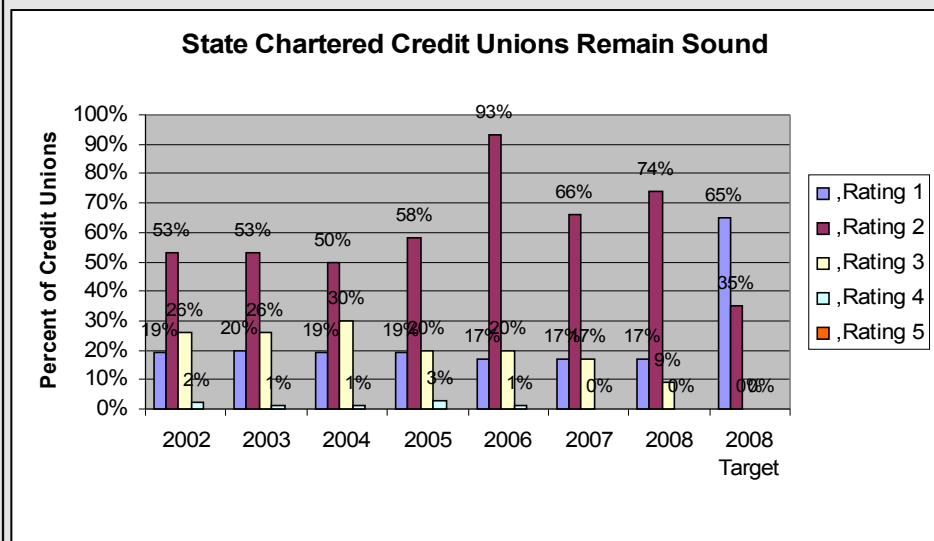
- State of Iowa Credit Union Division Agency Performance Report 2007

**Highlighted Measure:**

Percent of state chartered credit unions operated in a safe and sound manner and in compliance with applicable laws and regulations.

Data Source: Credit Union Division database reporting system

Updated 11/1/07



**Why this is important:**

Composite ratings are based on 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 as follows:

**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.

**What we're doing about this:**

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 154 credit unions in the state. While the number of credit unions is declining, the industry is not losing members or assets and through mergers, the members are gaining additional services. Credit unions at risk are closely monitored by problem case examiners and Letters of Understanding are put in place between the credit union and the Division to resolve problems identified before further administrative action is required.

