

**Governor's Advisor Board Meeting Notes**  
**November 3, 2016**

**CU Section Recap**

- Effective September 30, 2016, the IDFPR-DFI Credit Union Section became accredited with NASCUS (National Association of State Credit Union Supervisors). In her letter notifying Secretary Schneider that the IDFPR-DFI Credit Union Section earned NASCUS Accreditation, NASCUS Chairperson Ito stated "The NASCUS Accreditation Review Team (ART), the Accreditation Audit Working Group (AAWG), and the Performance Standards Committee (PSC) have positively concluded that the Illinois Department of Financial and Professional Regulation meets all criteria necessary to fulfill its statutory responsibility to charter, examine, supervise, and regulate the credit unions chartered under the laws of the State of Illinois."

A plaque noting the IDFPR-DFI Credit Union's Accreditation achievement was presented by NASCUS Chairperson Ito to Secretary Schneider and Supervisor Cooper on October 6 at the Annual NASCUS Summit held in Chicago. The Illinois Credit Union Section became the 27<sup>th</sup> state Accredited by NASCUS. Currently, there are more state-chartered credit unions in Illinois than in any other state.

- Examination turn-around time continues to be completed in a timely fashion. We had 13 exams outstanding for review as of November 2, 2016 with all exams being turned around and sent to Credit Unions within Credit Union Section guideline timeframes. The oldest exam outstanding needing review and processing was received in our office from our examiner on October 4, 2016.
- We are also turning around member complaints in a timely fashion. We had 11 complaint reviews outstanding at October 27, 2016 with the oldest complaint outstanding for 35 days as we are waiting for additional response back from the credit union involved.
- Personnel
  - 15 examiners
  - 1 Supervisor
  - 1 Assistant Supervisor Role
  - 2 Review Examiners
  - 1 Problem Case Officer
  - 1 Office Administrator
  - 1 Office Associate

Note: Office Associate Lucy Earhart accepted another position in State Government. Her last day with the Credit Union Section was October 31, 2016.

- Two new examiners have been hired so far in 2016 and they are currently completing our training program. Updates have been made to our training program to enhance monitoring of each examiner's progress and to increase feedback received from the

trainers with the new examiners. Each new examiner is progressing well and we would like to give both new examiners their own credit union caseloads by the 2<sup>nd</sup> quarter of 2017.

- We will be having our Annual Examiners Meeting on November 30 and December 1. Various presentations will be given to our examiners from experts, including additional training on BSA compliance, a review of fiduciary responsibilities of CU Board of Directors, and Tom Kane CEO of ICUL will be presenting a discussion on Cybersecurity Risks from a Credit Union perspective. 3 of our examiners (Anne Keung, Pam Steele, and Rob Finney) will be attending a seminar on the new MBL Rule in 10 days presented by NCUA, and they will also give a presentation to our examiners during the Annual Meeting on what they learned.
- For fiscal year 2017 (July 1, 2016 to June 30, 2017), we projected to complete 190 exams which includes 150 full exams and 40 follow-up exams. Through September 30, 2016 (3 months), we completed 35 full exams (23% of what was projected for the 12-month fiscal year), and 9 follow-up exams (22% of what was projected for the 12-month fiscal year)
- Working to be fully functioning on the CLEAR in-house IT system. We now have the Annual Report of Directors and Committee Members on-line, allowing CU's to complete the annual CU 125 report electronically. CU's can now also make any updates to Board of Directors, Committees, CEO's, etc. online. We also began allowing CU's to pay their quarterly regulatory fees by ACH during the 3rd quarter of 2016. 80% of our state-chartered CU's signed up to pay their regulatory fees by ACH.
- We continue to make strides in reducing the amount of paper the CU Section uses and to enhance CU Section efficiencies and timeliness. Working to further enhance electronic functionality. Ultimately, we will be able to receive and send examination information from and to credit unions and the share insurers. We will be completing this through Share Point. Currently, Colleen Stuart and Rob Finney are working with our IT Department to get this up and running and to ensure that information is sent and received securely.
- Working with our examiners and with exam processes to further allow off-site work on examinations to reduce time spent by credit unions on examinations and to reduce examiner time and travel.

### **Illinois State-Chartered CU's Data Recap**

- Number of CU's
  - # CUs = 212 Illinois State-Chartered CU's as of November 3, 2016. 223 as of December 31, 2015, 235 CU's at December 31, 2014. 255 December 31, 2013)
    - 2 mergers currently in process – 2 Illinois state-chartered CU's into other Illinois state-chartered CU's.

- June 30, 2016 (215 state-chartered CU's)
  - 46 (21%) CU's lost money during the first half of 2016. 45 in 2015 – 20%. (50 first half of 2015) (49 in 2014 – 21%) (79 in 2013 – 31%)
  - 25 CU's (12%) had Operating Expense to Gross Income Ratios above 100% during the first half of 2016. 21 CU's (9%) had Operating Expense to Gross Income Ratios above 100% during 2015. 32 CU's (14%) had Operating Expense to Gross Income ratios above 100% first half of 2015. (30 at December 31, 2014 – 13%)
  - 3 CUs < 7% NW (3 at 12/31/2015) (5 at 12/31/2014) (9 at 12/31/2013)
  - 0 CUs < 5% NW (0 at 12/31/2015) (2 at 12/31/2014) (1 at 12/31/2013)
  
- June 30, 2016
  - CAMEL Breakdown:
    - 1 and 2's - 74% (74% December 31, 2015) (69% December 31, 2014)
    - 3, 4's, and 5's - 26% (26% December 31, 2015) (31% December 31, 2014)
  - Total Assets = \$35.3 billion (\$34.0 billion Dec. 2015) (\$32.1 billion Dec. 2014)
  - Total Shares = \$30.7 billion (\$29.4 billion Dec. 2015) (\$27.8 billion Dec. 2014)
  - Total Net Earnings First Half 2016 = \$125.1 million (2015 \$192.7 million) (\$186.5 million in 2014)
  - NW/Assets = 10.62% (10.67% Dec 2015) (10.71% Dec. 2014, 10.42% Dec. 2013)
  - Total Loans = \$23.2 billion (\$22.3 billion Dec. 2015) (\$20.7 billion Dec. 2014)
  - Delq – 0.60% (0.67% Dec. 2015) (0.71% Dec. 2014)
  - NCO ratio approximates 0.39% at both June 2016 and Dec. 2015 (0.42% Dec. 2014)
  - PLL to Avg. Assets 0.23% (0.24% Dec. 2015) (0.25% Dec. 2014)
  - Delq to NW – 3.70% (4.09% Dec. 2015); (4.30% Dec. 2014)
  - Note: Delq & NCO ratios could be misleading due to amount of loan mods and TDRs.*
  - Loans to Assets – 65.6% at both 06/30/2016 and 12/31/2015, (64.6% at 12/31/2014, 60.9% at 12/31/2013).

### Illinois CU Issues

- Cybersecurity – CU Section has initiated initial Cybersecurity Review steps. Questionnaire are being be completed for many CU exams, CU's with more Cybersecurity related product and service risks.
- BSA Compliance – Review procedures further defined, will be a greater focus of examination review
- Aging Memberships
- Interest Rate Risk
- Member Business Rule – ICU Rules and Regulations and NCUA

With the new MBL Rule pending, examiner examination on-site review will be enhanced to ensure CU's are operating with safe and sound MBL lending policies and procedures.

- Overhead Transfer Rate - NCUA
- Difficult Economies of Scale – Especially for Small Credit Union
- CU's with Poor Management
  - Lack of Board oversight
  - Inactive/Ineffective Supervisory Committees
  - Unwillingness to change credit union culture in new economic times.
  - Weak/non-existent internal controls opening CU up to inappropriate activities and/or losses
  - Lack of accounting/bookkeeping skills

### **Illinois State-Charter CU's Watchlist Recap**

- As of June 30, 2016, there are twenty-one (21) Watch List credit unions with total assets of \$1,389,757,433. As of December 31, 2015 there were thirty (30) Watch List credit unions with total assets of \$1,849,261,289.
- The breakdown by asset size of Watch List credit unions as of June 30, 2016 is as follows:
  - < \$10 million – 13
  - \$10 million < \$50 million – 5
  - \$50 million < \$100 million – 1
  - \$100 million and up - 2
- As of June 30, 2016, there is only 1 credit unions with less than 6% net worth to assets.
- For the first half of 2016, - eight (8) Watch List credit unions operated at a loss.
- Seven (7) watchlist CU's had operating expense to gross income ratios above 100%.
- CAMEL Composite ratings breakdown for Watch List credit unions as of June 30, 2016:
  - Composite 3 – 17
  - Composite 4 – 4