

# THE CREDIT UNION REFLECTION



## Highlights

- ☛ SCC Being Studied Inside and Out
- ☛ Select Employee Group Update

## Inside

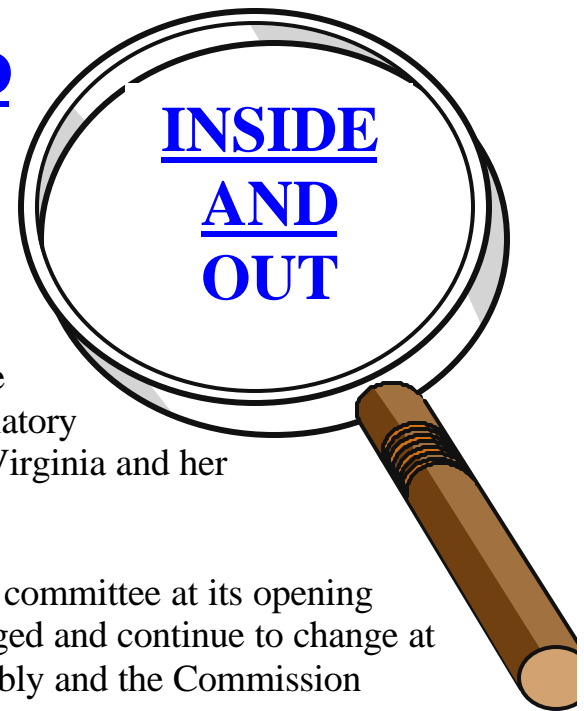
- ☛ And then there were **73**
- ☛ Current Examination Concerns
- ☛ Commission Holidays

## SCC BEING STUDIED

Two separate but related studies of the State Corporation Commission and how it works are in full swing. The first, initiated by the SCC, is a comprehensive, internal assessment of the agency by an independent consultant hired by Commission. The second, initiated by the General Assembly, is a broad assessment of the SCC's regulatory responsibilities, activities, and policies, and their impact on Virginia and her citizens.

SCC Chairman "Hulli" Moore told the legislative study committee at its opening meeting this summer, "The industries we regulate have changed and continue to change at a rapid pace. We believe it is proper that the General Assembly and the Commission perform a thorough review of what we do."

The Commission has employed David Wirick of the National Regulatory Research Institute at Ohio State University to evaluate the SCC. Wirick has already interviewed all SCC division heads and has held group meetings with other SCC employees. He is also speaking with representatives of the regulated industries to get their impressions of the SCC and how it does its work .



Wirick says, “I am extremely impressed with what I have seen so far. This Commission has a national reputation for being professional and responsible, and I haven’t been disappointed.” That doesn’t mean there isn’t room for improvement. Wirick says agencies like the SCC must change because “...the dynamics of the market in which the regulated industries operate has changed dramatically.”

Wirick has helped a number of state utility commissions through this process already. The SCC is somewhat more challenging because of its added duties involving insurance, banking, securities, and the registration of all corporate entities that do business in Virginia. Wirick quickly discovered a common thread: they all now depend more on competitive market forces, yet continue to require government intervention to ensure consumer protections.

The breadth of the SCC’s regulatory responsibility is the primary focus of the General Assembly study. Members of both the House and Senate make up the bulk of the study committee. But it also includes representatives of the Attorney General, the Secretary of Commerce and Trade, and four members appointed by the Governor from the state’s largest electric company, telephone company, and railroad company.

The study committee chairman is Senator Thomas Norment, the patron of the legislation that allowed competition in the electric industry. Senator Norment also sponsored the resolution authorizing the study of the Commission. He considers the study, “...a significant initiative of the General Assembly.”

Senator Richard Saslaw stated, “.this study ought to be about the proper role of the SCC in this changing environment.” He added, “We need to use this opportunity to set a new course for the SCC.” Senator Ken Stolle offered the fundamental question, “Is the Commonwealth of Virginia best served by the SCC as it is now [with] its current makeup?”

The SCC’s internal study is on a fast-moving timetable. An interim report to the Commissioners is expected by January 2001. The Commission intends to advise the legislative study committee of Wirick’s recommendations. The legislative study will continue until January 2002. *(submitted by Robert Mednikov, BFI, Principal Financial Analyst)*



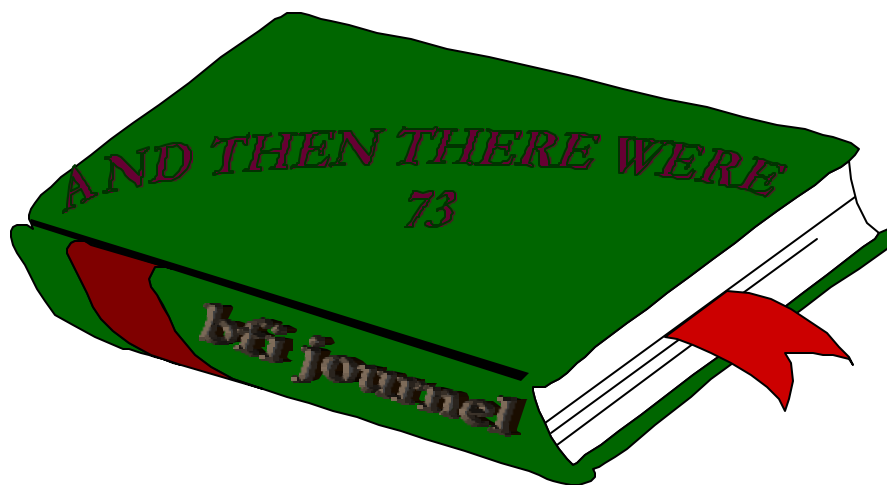
SEGS

SEGS

# SELECT EMPLOYEE GROUP UPDATE

During the third quarter of 2000 the Bureau approved 18 small employee groups (SEGs) to be added to the fields of membership of four credit unions. One request was denied for lack of enough evidence to support the request. All the requests were published in the Bureau's Weekly Information Bulletin (<http://www.state.va.us/scc/division/banking/weekly.htm>) and were subject to a 15 day comment period. No comments or objections were received on any of the requests.

A total of 3,951 new potential credit union members were approved during the quarter. The average group size for the third quarter was about 220, but one large group skewed the average. Not considering that group, the average size was about 147, which is slightly less than the average of about 154 for the second quarter. Since legislation to permit SEG expansion went into effective July 1, 1999, 13,180 new potential credit union members have been approved for Virginia state-chartered credit unions.



On November 17, 2000 the State Corporation Commission issued an Order Approving the Merger of Allied Services ECU, Alexandria, Virginia into City of Alexandria ECU. This action was taken pursuant to Section 6.1-225.10 of the Code of Virginia which permits the Commission to approve a supervisory merger when emergency conditions exist. The Order cites declining trends in Allied Service ECU, that management had ceased operating the credit union, and that members thus did not have access to their accounts and services.

Allied Services ECU had about \$85,000 in assets and about 80 members as of the merger date. City of Alexandria ECU has about \$16.5 million in assets and serves a number of SEGs in addition to Alexandria City employees.

There are now 73 Virginia state-chartered credit unions. The trend continues of small credit unions merging into large credit unions. While the number of credit unions continues to drop, total assets continue to increase. The 73 credit unions have combined assets of about \$2.6 billion currently.

## CURRENT EXAMINATION CONCERNS

As credit union examiners travel from job to job the problems they may find are generally familiar or recurring, the type of problem the examiner sees on a normal basis. Other problems seem to be cyclical. One year a few credit unions are experiencing a particular problem, and the next year some other credit unions are experiencing another problem.

Recently, examiners have been seeing liquidity problems. Normally, liquidity is not a problem area, except that credit unions might have too much of it. This portion of the asset portfolio generally earns less than loans, so too much liquidity can cause earnings problems, especially when expenses are high. This is apparently not the current scenario.

NCUA reports that in credit unions with assets over \$50 million at the end of the third quarter of 2000 savings increased 5.5% from the second quarter. Since loans increased at 9.8%--nearly double the savings rate--the loans-to-shares ratio nationwide increased from 76.6% to 79.7%--over three percentage points! Open the door to liquidity problems!

Credit union managers need to plan properly for reduced liquidity. Despite the national averages, some credit unions have experienced a significant reduction in share levels. This has resulted in unplanned borrowing with no repayment schedule--a "no! no!" to any seasoned examiner. Other recent liquidity concerns include investing funds in long-term securities for a few extra basis points, but finding it is not possible to liquidate these investments--another "no! no!" Some credit unions are now doing loan participations; a credit union with high loan demand (and low liquidity) sells loans or a portion of them to a credit union with a lot of cash to



invest. What they find out is that a seemingly simple transaction is really labor-intensive and costly, as lawyers and accountants become involved.

If you are experiencing any of these liquidity concerns, ask the Bureau's credit union examiners for their advice. Avoid the rush. Get answers now before the problem is cited in your examination report!



**UPCOMING COMMISSION HOLIDAYS ARE SCHEDULED FOR THE FOLLOWING DATES:**

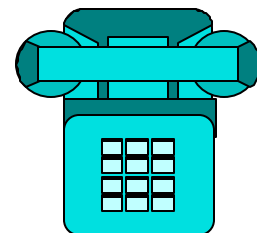


**December 25<sup>th</sup> -26<sup>th</sup> Christmas Holiday (December 22<sup>nd</sup> Noon Closing)  
January 1<sup>st</sup> - 2<sup>nd</sup> New Year's Holiday  
January 12<sup>th</sup> Lee - Jackson Holiday  
January 15<sup>th</sup> Martin Luther King, Jr. Holiday**



**“Important Numbers”**

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