

Quarterly Newsletter

THE CREDIT UNION REFLECTION

Highlights Inside

- 📖 First Credit Union Directors College
- 📖 Independent Validation of ALLL Methodology
- 📖 New Bureau Reports Published
- 📖 SEG, FOM, and Merger Activity
- 📖 Proposed CUSO Regulations
- 📖 New Department of Defense Regulation



**FIRST CREDIT UNION
DIRECTORS COLLEGE
SET FOR OCTOBER 31, 2007**

The Bureau has announced that the first Credit Union Directors College will be held on October 31, 2007 in Richmond. This educational opportunity for members of each credit union's board of directors will be held at the Sheraton Park South Hotel, 9901 Midlothian Turnpike. The agenda on the attached insert shows that registration with continental breakfast begins at 8:30AM, and the program will begin at 9:00AM.

The Virginia Credit Union League is handling the administration of the College, including registration. The cost is \$50 per director, which includes lunch and refreshments at break times. For those who need to stay overnight the Sheraton has a rate of \$90 per night plus taxes. Reservations must be made with the hotel by October 25, 2007 at 804-323-1144, or toll free at 800-525-9538, or faxed at 804-320-5255, or you may e-mail the hotel at sales@sheratonparksouth.com. Contact Don Graham with the Virginia Credit Union League at 800-768-3344, ext. 618, or e-mail dgraham@vacul.org, to register for the College or to ask questions.

The program will provide five hours of focus on credit union directors' duties and responsibilities, and will provide insight into understanding the Bureau's examination process. There will also be sessions on current economic developments as well as Congressional, NCUA, and industry association initiatives that affect credit union directors in their decision-making. This is also an opportunity for directors to meet the Commissioner and ask questions of him.

There has been good initial response to the Bureau's flier announcing the College with nearly half the spaces filled up. While the College is designed for directors, at the end of the registration period the Bureau will consider attendance by others to fill out the planned attendance. Credit union CEOs are encouraged to remind your board members of this one-of-a-kind educational opportunity.

INDEPENDENT VALIDATION OF THE ALLL METHODOLOGY

NCUA's Interpretive Ruling and Policy Statement (IRPS) No. 02-3 states that a credit union's Allowance for Loan and Lease Loss (ALLL) account methodology is valid when it accurately estimates the amount of loss contained in the loan portfolio. Thus, a credit union's methodology should include procedures that will adjust loss-estimation methods so that differences between estimated losses and actual subsequent charge-offs are reduced.

A credit union's board should ensure that policies and procedures include procedures for a review. To confirm the effectiveness of this review a party who is independent of the ALLL estimation process, of the ALLL methodology, and of its application must perform the review.

In practice, credit unions employ numerous procedures when validating the reasonableness of their ALLL methodology, including:

- Reviewing trends in loan volume, delinquencies, restructurings, and concentrations.
- Reviewing charge-off and recovery histories, including evaluation of the timeliness of the entries to record both the charge-offs and the recoveries.
- Reviewing (on a test basis by an independent party) source documents and underlying assumptions.
- Evaluating the appraisal process of any underlying collateral.

The board should oversee this process, either directly or through its designee (supervisory committee, internal, or external auditors). An external auditor's opinion audit does express an opinion on the fair presentation of the financial statements (including the ALLL) in accordance with generally accepted accounting principles (GAAP); however, this opinion should not be a substitute for a validation review process. Additional documentation of other review procedures is needed. This could include a summary of findings by an independent reviewer. The results of the review should be documented in the board meeting minutes. If the ALLL methodology is changed based upon the findings of the validation process, documentation that describes and supports the changes should be maintained.

**VIRGINIA CREDIT UNION DIRECTORS COLLEGE
AGENDA**

8:30 a.m. - 9:00 a.m.	Registration	
9:00 a.m. - 9:30 a.m.	Welcome, Introductions, and Get to Know the Commissioner	<i>Joe Face Commissioner Bureau of Financial Institutions</i>
9:30 a.m. - 10:15 a.m.	Credit Union Director Duties, Responsibilities, and Training	<i>George Latham Deputy Commissioner Bureau of Financial Institutions</i>
10:15 a.m. – 10:30 a.m.	Break	
10:30 a.m. - 11:00 a.m.	Responding to Exam Findings	<i>Werner Paul Principal Financial Institution Analyst Bureau of Financial Institutions</i>
11:00 a.m. - Noon	Economic Overview	<i>Dean Croushore Associate Professor of Economics University of Richmond</i>
Noon – 1:00 p.m.	Lunch	
1:00 p.m. - 2:00 p.m.	What's News in Washington, DC?	<i>Mary Martha Fortney President/CEO NASCUS</i>
2:00 p.m. - 2:15 p.m.	Break	
2:15 p.m. - 3:00 p.m.	Allowance for Loan and Lease Losses (ALLL)	<i>Carl Gustafson Principal Financial Institution Analyst Bureau of Financial Institutions</i>
3:00 p.m. – 3:30 p.m.	Explanation of CAMEL Rating System and Risk Focused Examination	<i>Speaker TBD</i>
3:30 p.m.	Adjournment	

The Bureau recently published its first “Summary of Operations.” This report provides an overview of the Bureau’s mission; receipts and disbursements; regulated institutions; accreditations; a description of the Bureau’s organizational structure; and selected financial information for the industries regulated by the Bureau. A copy of the report is available in PDF format on the home page of the Bureau’s Web site <http://www.scc.virginia.gov/bfi/>.



The 2006 Annual Report of the Bureau of Financial Institutions is also available on the Bureau’s Web site <http://www.scc.virginia.gov/bfi/annual.aspx>. The report is divided into four sections and lists: (a) Banks, Savings Institutions, Trust Companies, and Credit Unions; (b) Mortgage Lender and Broker Licensees, Industrial Loan Associations, Money Transmitters, and Credit Counseling Agencies; (c) Consumer Finance Licensees; and (d) Payday Lender Licensees and Registered Check Cashers.



During the third quarter of 2007 the Bureau approved four small employee groups (SEGs). The two credit unions requesting these groups added 525 new potential credit union members. The average size of the approved SEGs was 131 members, which is well below a threshold of 600 the Bureau has determined is necessary for a new credit union charter to be feasible. Since legislation to permit SEG expansion went into effect on July 1, 1999 there have been 423 SEGs approved for total new potential membership of 115,188.

After 36 years in business, and with final assets of \$1.7 million, Smithfield Packing ECU will soon merge into Hometown Community CU. Also, \$10 million asset-sized Associates CU in Richmond, which opened as Blue Cross Blue Shield ECU in 1958, is finalizing a conversion to a federal charter. After these two transactions are completed there will be 54 state chartered credit unions. Total assets for 56 Virginia state-chartered credit unions at the end of June 2007 were \$4.55 billion. Annualized asset growth for the first half of 2007 was 11.5%. This asset growth is up significantly from asset growth in 2005 and 2006 of 3.7% and 5.7%, respectively.

In the first three quarters of 2007 there has been no community or underserved area field of membership requests. There are ten Virginia state chartered credit unions operating with community or underserved area fields of membership.

PROPOSED CUSO REGULATIONS PUBLISHED FOR PUBLIC COMMENT

As a result of increased activity and investment in Credit Union Service Organizations (“CUSOs”) by Virginia’s state-chartered credit unions, the State Corporation Commission (“Commission”) has issued proposed regulations on CUSOs for public comment. The regulations are being proposed pursuant to subsection 10 of § 6.1-225.57 of the Code of Virginia, which authorizes state-chartered credit unions to invest their funds in or make loans to CUSOs.

Like Part 712 of the NCUA’s Rules and Regulations, the Commission’s proposed regulations prescribe the terms and conditions under which credit unions may invest in or make loans to CUSOs. The proposed regulations may generally be characterized as “parity” regulations because most of the provisions track those found in Part 712. However, under Part 712 federal credit unions may only invest up to 1% of their paid-in and unimpaired capital and surplus in CUSOs, while § 6.1-225.57 and the proposed regulations allow state-chartered credit unions to invest up to 5% of their outstanding shares and reserves in CUSOs. Furthermore, under the proposed regulations the 5% limit may be exceeded with prior written approval from the Commissioner of Financial Institutions. Because of this significant difference in the allowable amount of investment, the Commission’s proposed regulations diverge from the NCUA regulations in a few areas, and may require additional credit union due diligence in some cases.

Credit unions, the public, and other industries that may be affected by the proposed regulations have until December 14, 2007 to file written comments or request a hearing. The Commission’s Order to Take Notice was entered on October 5, 2007. To view the proposed regulations or submit comments electronically, go to the following Web site: <http://www.scc.virginia.gov/case.aspx> Case Number BFI-2007-00161).



DoD ISSUES FINAL RULES ON CREDIT PROTECTIONS FOR MILITARY

October 1, 2007 is the effective date that creditors must start to comply with the Department of Defense (DoD)’s regulations on borrowing by military personnel and their families. These rules (32 CFR Part 232), titled “Limitations on Terms of Consumer Credit Extended to Service Members and Dependents,” can be found at: <http://a257.g.akamaitech.net/7/257/2422/01jan20071800/edocket.access.gpo.gov/2007/pdf/07-4264.pdf>.

Because of Virginia's extensive military installations and the large number of Virginia residents working for the federal government in the Washington, DC, metropolitan area, the federal government plays a major role in the Virginia economy. Virginia ranks second in the nation in total DoD aggregate expenditures. In federal fiscal year 2005, Virginia employed 11.6% of all military and civilian DoD employees in the nation. With this vast military presence in Virginia, state-chartered credit unions must ensure that military members and their dependents who are in their field of membership are properly identified, and that the terms of their loans comply with the new DoD regulation.

In October 2006 Congress passed Public Law 109–364, the John Warner National Defense Authorization Act for Fiscal Year 2007. Section 670 of this Act required the Secretary of Defense to prescribe regulations to carry out the new law’s provisions for borrowing by members of the military.

The new DoD’s rules apply to all persons (including credit unions) engaged in the business of extending consumer credit to active duty service members and their dependents (“covered borrowers”). The rules cover “payday loans,” “vehicle title loans,” and “tax refund anticipation loans,” as defined by the DoD. For covered loans, the regulations limit the military annual percentage rate (MAPR) to 36 percent, require the creditor to provide oral and written disclosures, and prohibit or limit certain terms and conditions associated with these types of loans. Consumer credit contracts that are not in compliance with the rules are deemed void from inception.

The final rules includes a safe harbor provision to protect creditors from inadvertent violations caused by their failure to recognize covered borrowers. Under the safe harbor provision, a creditor must have each applicant sign a clear and conspicuous “covered borrower identification statement” in which the applicant declares whether or not he is a covered borrower. However, the safe harbor does not apply if the creditor obtains conflicting documentation during the credit transaction.

The mission and purpose of the Credit Union Section is to effectively and efficiently supervise, regulate, and assist credit unions chartered by the Commonwealth of Virginia in order to:

- 1. Protect the financial interests of credit union members.*
- 2. Ensure compliance with applicable laws.*
- 3. Ensure adherence to safe and sound operating procedures and principles.*

These three objectives are to be pursued so as to safeguard a financial environment within Virginia worthy of the public's confidence in credit unions and the financial system as a whole.



CONTACT US AT OUR WEBSITE:

www.scc.virginia.gov/bfi/

**FAX
804-371-9416**

IMPORTANT COMMISSION TELEPHONE NUMBERS

- George H. Latham, **Deputy Commissioner**..... 804-371-9698
Internet e-mail: george.latham@scc.virginia.gov
- Jeanette J. Sanders, Principal Office Technician804-371-9267
Internet e-mail: jeanette.sanders@scc.virginia.gov
- Nicholas C. Kyrus, Deputy Commissioner804-371-9690
Corporate Structure and Research
Internet e-mail: nick.kyrus@scc.virginia.gov
(applications or notices for mergers, relocations, name changes, and
branch openings and closings)

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF FINANCIAL INSTITUTIONS
POST OFFICE BOX 640
RICHMOND VA 23218-0640

**IMPORTANT
INFORMATION
INSIDE**