

THE CREDIT UNION REFLECTION



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On June 16, 1999 Commissioner Joe Face hosted a group of eight Ecuadorian Regulators in the Bureau offices. The World Council of Credit Unions funded the visit of the team from the Ecuadorian Superintendency of Banks. The National Association of State Credit Union Supervisors (NASCUS) spent about a week with the team introducing them to the principles of credit union regulation. The team visited the Bureau to learn about promulgating regulations and taking supervisory action with problem credit unions.

Ecuador recently passed legislation that requires large credit unions to be regulated. Currently, these credit unions are audited by the Superintendency of Banks, whose auditors are Certified Public Accountants. However, regulation of credit unions is different from auditing and a new concept that necessitated their reviewing other regulatory systems.

Using an interpreter a lot of useful and educational information was passed between the Ecuadorians and Bureau staff. Ecuador has 276 credit unions, but only 26 “large” (about \$6 million in assets) credit unions are audited. Apparently in recent years loan and share interest rates became inverted due to economic conditions. The resulting drain on capital may have been an initiative for the new legislation.

YEAR 2000

YEAR 2000 LIQUIDITY PLANNING

Now that the June 30th deadline for development of liquidity and business resumption plans has been met, the next step is to implement these plans. The problem is something like the one dogs that chase cars have: what do you do when you catch it? Credit unions have the required plans. Now what?

It is very important for your credit union to start building up liquidity NOW! Waiting until the fall may be too late since every other credit union may be trying to build up liquidity then, too. Lines of credit must be established or increased as soon as possible. One option is the Central Liquidity Fund (CLF).

NCUA's letter to Credit Unions 99-CU-2 discusses the CLF as an external source of liquidity available to credit unions. That letter mentioned a \$600 million limitation on the amount of funds available from the CLF. Congress has recently removed this limit. The CLF can now borrow up to \$20.7 billion for liquidity loans to credit unions.

In order to obtain funds from the CLF, a credit union must be a member of the CLF. If a credit union has an account at a corporate credit union, it may have access to the CLF through its corporate credit union. Credit unions should contact their corporate credit union to determine if they have access to the CLF through their corporate affiliation. If a credit union does not have access to the CLF, it should consider a corporate credit union membership that provides CLF access or else obtain a CLF membership application and instructions from the NCUA at:

National Credit Union Administration
Central Liquidity Facility
1775 Duke Street
Alexandria, VA 22314-3428



BUSINESS RESUMPTION CONTINGENCY PLANS

The Federal Financial Institutions Examination Council (FFIEC) issued a second question and answer paper on business resumption contingency planning titled "Additional Questions and Answers Concerning Year 2000 Business Resumption Contingency Planning." This paper provides additional information on the business resumption contingency planning process and clarifies the June 30, 1999 business contingency planning deadline.

All credit unions have completed a Business Resumption Contingency Plan (BRCP). As described in NCUA Letter to Credit Unions 98-CU-12, there are four phases to the development of a BRCP. Validation is the final phase. It would be a disaster to find out too late on January 1, 2000 that your BRCP doesn't work! The FFIEC publication referred to above recognizes that some institutions may need to execute tests of their BRCPs during the third and fourth quarters of 1999. The Bureau and NCUA agree and encourage testing of the BRCPs to allow ample time to make the necessary changes and retest the BRCP. A qualified and independent party should review the BRCP and validation method. Examiners will be reviewing BRCPs for appropriateness.

The FFIEC paper also discusses the subject of "event planning." NCUA considers event planning to be an optional step in business resumption contingency planning. Therefore there is no completion milestone date for this additional step.

COMMUNICATE WITH YOUR MEMBERS



Consumers are seeing on TV and in the newspapers increasing coverage of the millennium bug. They are concerned with how this event will affect them personally. Now is the time for your credit union to let your members know all that your credit union has done to assure uninterrupted services will be provided to them on January 1, 2000. Your newsletter or a flyer attached to paychecks are great ways to communicate this message to your members. Your tellers are also a front line resource to build up member confidence in your credit union's ability to address the Y2K problem. As the end of the year approaches, members will question you more. Be prepared! Start addressing your members' concerns now.

NEW PROCEDURE FOR FIELD OF MEMBERSHIP EXPANSION REQUESTS

On July 1, 1999 the new credit union common bond statute became effective. In order to fully document that the Bureau has properly applied the new statute in its decision to approve or disapprove a field of membership expansion request, the Bureau's review procedure has changed.

When your credit union's board has approved an amendment to the field of membership section of your bylaws, the Virginia Credit Union Act requires that it be forwarded to the Commissioner for his approval before it becomes effective. A Request for Field of Membership Expansion form must be completed for small employee group (SEG) additions. A copy of this form was sent to all credit unions in May, 1999; more copies are available from the Bureau upon request.

When a completed request for a field of membership expansion with all required documentation is received by the Bureau, the statute provides thirty days for the Commissioner to approve or disapprove the

request. The Commissioner may extend the period for approval for an additional thirty days. The request will be published in the Bureau's Weekly Information Bulletin. This bulletin is published every Friday and mailed to all depository financial institutions regulated by the Bureau as well as other interested parties. The bulletin is a record of the receipt of and action taken on all applications by depository financial institutions regulated by the Bureau. A 15 day comment period is allowed. A request for a hearing may be made during this period. When the comment period has expired and no hearing date is set, the request will be forwarded to the Commissioner for his approval.

This new procedure requires more documentation than previous change of field of membership requests. Credit unions must be careful to file requests completely and correctly. This is necessary because the new statute requires the Bureau to assure requests comply with the Code of Virginia. Missing documentation will only delay the approval of your request. If necessary the Bureau must be able to explain why it approved a request by providing documentation that shows a credit union complied with the law.

CREDIT UNION EXAMINING STAFF

Over the past few years you may have noticed that the Bureau's credit union examiner staff has changed and expanded. Not that many years ago all credit union examination work was done by just three examiners. But as Virginia's state-chartered credit unions have grown and have expanded services more examiner resources have been added to meet the increased workload. A little over 10 years ago at the end of 1988 100 state credit unions had a little over \$1 billion in total assets. At the end of 1998 there were only 76 state credit unions, but total assets had grown to over \$2.4 billion.

Currently the Bureau has seven examiners. Steve Pemberton and Carl Gustafson are our review examiners. Working primarily in the Bureau office they review all examination reports for accuracy, content, and quality. They have over 36 years experience working for the Bureau. Elwood Johnson and Werner Paul are our senior field examiners. They are in charge of team jobs, supervising examinations, and training new examiners. In addition, we are fortunate to have Werner's expertise with computers; he not only helps resolve some of our computer problems but he has also been our point man on Year 2000 readiness. Elwood and Werner have about 15 years total experience with the Bureau. However, Werner also has about 20 years previous experience managing several credit unions as well.

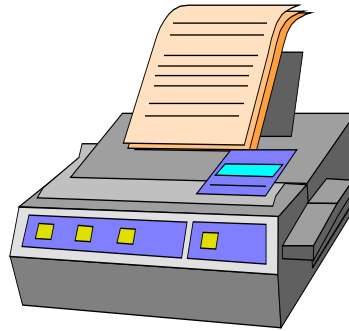


Finally, our three newest examiners are Ray Tower, who came to work for the Bureau of the beginning of 1997, and Tony Perez and Bill Opperman, both of whom just started work in the last couple of months. Tony was previously an auditor for the government of Puerto Rico and has private practice experience as well. Bill was previously a credit union examiner and supervisory examiner for 20 years with the regulatory agencies in Utah and Washington state. He and his wife have made a bold move to the Eastern United States to start a new life as "empty nesters" as they approach retirement in several years.

You can clearly see the Bureau has garnered a staff of seasoned and quality credit union professionals. We feel fortunate to have a staff of such high pedigree. But the real beneficiaries are the credit unions the Bureau regulates. Our staff stands ready to help you when you call on them. Please remember, any criticism they mete out is always constructive. Hopefully, your knowing them a little better from the foregoing will make it easier for you to ask for their assistance.

“Important Numbers”

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**IMPORTANT
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