

THE CREDIT UNION REFLECTION



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RISK FOCUSED EXAMINATIONS TO BEGIN IN THIRD QUARTER

In conjunction with NCUA the Bureau is changing the way it performs examinations. The new examination will be a risk-focused examination process that is designed to be forward-looking. Examiners will evaluate both credit union performance and management's ability to identify, measure, monitor, and control risk. Bureau examiners will attend an NCUA sponsored training program in August 2002 in Orlando, Florida. The new risk-focused software package will be rolled out at that time.

This new examination may require the examiner to request preliminary information and perform initial analysis off-site. This off-site analysis will help determine the examination steps that are appropriate for a particular credit union. Once on-site, the examiner will meet with management to more thoroughly discuss risk assessments during the examination process. CAMEL ratings will still be discussed in the report, but the discussion will focus primarily on significant items in terms of risk.

More emphasis will be placed on the evaluation of management and the potential risk the credit union is associated with, known as "risk profile." The risk profile is made up of seven specific categories:

1. Credit Risk
2. Interest Rate Risk
3. Liquidity Risk
4. Transaction Risk
5. Compliance Risk
6. Strategic Risk
7. Reputation Risk

Each of these seven risk categories will be assessed a level (High, Moderate, or Low) reflecting the current and prospective risk to the credit union's earnings and net worth.

Some of the improvements you will see over the existing examination program will be:

- Less examination time spent on credit union premises;
- Enhanced emphasis on improved communication;
- Increased focus on areas of risk;
- Optional meetings with the board of directors for qualifying credit unions;
- Customized examination reports; and
- Greater emphasis on supervision where appropriate.

For additional information both NCUA Letter 02-FCU-09 and the risk indicators listing can be found at www.ncua.gov/ref/letters/02-FCU-09.html

UPDATE ON FEDERAL LEGISLATIVE PROPOSALS:

NO CHANGES EXPECTED IN 2002

The deposit insurance reform bill (H.R. 3717), reported in the last “Credit Union Reflection,” was passed by the House of Representatives by a 408-18 vote. The bill would increase coverage limits for individual accounts to \$130,000 and index future coverage limits to inflation and double coverage limits to \$260,000 for certain types of IRAs and 401(k)s. The outlook for Senate action following House passage appears to be doubtful at this time.

The Financial Services Regulatory Relief Act (H.R. 3951) was approved by the House Financial Services Committee. This bill would allow privately insured credit unions to become members of the Federal Home Loan Banks. A secondary capital provision (see “Alternative Capital: Is It For Virginia State Chartered Credit Unions?” in the last “Credit Union Reflection”) was not included in the bill after strong objections from the commercial banking industry. It appears that until the next session of Congress NASCUS and other credit union groups will need to educate legislators on the benefits of secondary capital. Several studies on this subject are due to be released soon. Again, because of the short amount of time left before Congress recesses in late August, no action will apparently be taken on the Senate side.

FIELD OF MEMBERSHIP CHANGES AND CHARTER ACTIVITY

During the second quarter of 2002 the Bureau approved 10 small employee groups (SEGs) to be added to the fields of membership of four credit unions. A total of 610 new potential credit union members were approved for the quarter. The average group size was 61. The average approval time was about four days.

Since legislation to permit SEG expansion went into effect on July 1, 1999 there have been 199 SEGs approved for total new potential membership of 38,446. The average group size is about 193. December 2001 Call Report figures indicate that there are about 542,000 members of Virginia state-chartered credit unions. It appears that the addition of small employee groups has increased credit union potential field of membership

only about 7%. Activity in this area for Virginia state-chartered credit unions slowed down considerably during the second quarter of 2002.

The request of DuPont Community Credit Union, Waynesboro, to expand its community field of membership was approved during the second quarter. The Virginia Bankers Association has filed a petition to the State Corporation Commission appealing the Commissioner's decision in this case. A hearing date may be set during July. Another request to expand a community field of membership expired with no approval or denial at the end of the statutory time frame for the Commissioner to make his decision. It was felt that more evidence and documentation was needed to support the request, and the request is expected to be resubmitted. Finally, the Commissioner recently approved the request of Virginia League Central CU, Lynchburg, to convert to a community field of membership. This community is the same as that served by Central Virginia Federal Credit Union and thus sets up a direct overlap. There are now eight Virginia stated-chartered credit unions with community fields of membership.

The merger of Hercules Covington Employees Credit Union into WECCU Credit Union, Covington, was completed during the second quarter of 2002. The number of Virginia state-chartered credit unions now stands at 70. It is noteworthy that this current number is nearly a 50% reduction from the high of 137 Virginia state-chartered credit unions at the end of 1977. On the other hand, the combined assets of those 137 credit unions at the end of 1977 was \$236 million; at the end of 2001 combined assets of all Virginia state-chartered credit unions was \$3.1 billion. Consolidation continues as credit union assets continue to increase.



PAYDAY LENDERS: Proposed Regulations; Applications Now Being Accepted

The State Corporation Commission (SCC) held a hearing on the proposed regulations for payday lenders on June 26, 2002. The regulations are designed to clarify certain requirements and consumer protections applicable to payday lending licensees and payday loans. A number of issues were raised at the hearing that are still being reviewed by the Commission, so the final regulations have not yet been issued.

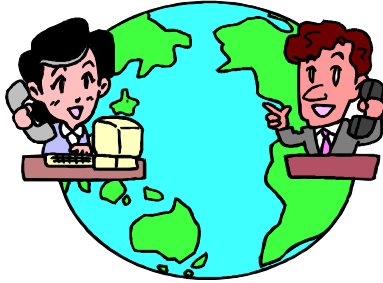
The SCC's proposed new regulations define various terms and address prepayment of payday loans, record keeping requirements, interest and fees, and responses to requests from the SCC's Bureau of Financial Institutions. They would also require payday lenders to provide prospective borrowers with a pamphlet that explains the borrower's rights and responsibilities regarding payday loans, as well as a warning that payday loans are not intended to meet long-term or recurring financial needs.

Legislation enacted by the 2002 Virginia General Assembly allows payday lenders to transact business in Virginia. The legislation becomes effective and allows payday lenders licensed by the SCC to begin such business on July 1, 2002.

The Bureau of Financial Institutions is now accepting applications from entities seeking a license to conduct a payday lending business in Virginia. Application forms are available on the Bureau's web site at <http://www.state.va.us/scc/division/banking/index.htm>. Basic requirements for filing an application include a \$500 application fee, a surety bond in the sum of \$10,000 per location to be licensed up to a maximum bond of \$50,000, and evidence that an applicant has at least \$25,000 in unencumbered liquid assets per location to be

licensed. Before issuing a license, the Commission must find that an applicant meets the standard tests of financial responsibility, character, reputation, experience and general fitness.

A copy of the SCC's May 28, 2002, order and proposed regulations are available on its web site at www.state.va.us/scc/caseinfo/orders.htm or, upon written request, through the Clerk's Office. *Written by Nancy Walker*



CONTACT US AT OUR WEBSITE

www.state.va.us/scc/division/banking

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(applications or notices for mergers, relocations, name changes, and branch openings and closings)

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