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GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES  
OFFICE OF CREDIT UNIONS  
JOHN J. KOLHOFF  
DIRECTOR

R. KEVIN CLINTON  
DIRECTOR

**DATE:** May 10, 2013

**LETTER NO.:** 2013-CU-01

**TO:** The Board of Directors and Management of Michigan State-Chartered Credit Unions

**SUBJECT:** The purpose of this letter is to report to the credit union industry the activities of the Office of Credit Unions over the 2012 calendar year.

The Office of Credit Unions (OCU) regulates and supervises state-chartered credit unions under the authority of the following statutes:

- Michigan Credit Union Act (2003 PA 215)
- Credit Union Multiple-Party Account Act (1968 PA 41)
- Beneficiary Accounts Act Credit Union Regulation (1992 PA 31)
- Electronic Funds Transfer Act (1978 PA 322)

The office ensures Michigan's state-chartered credit unions are operating safely and soundly, public confidence in the system is maintained, and the interests of depositors, creditors, and shareholders are protected. Under the Michigan Credit Union Act (MCUA), OCU issued two Memorandums of Agreements, and one Cease and Desist Order to credit unions during 2012. One Prohibition against an individual was issued and one credit union was liquidated.

OCU staff is comprised of 48 full-time employees. The Examination section consists of 42 full-time employees and includes 34 examiners whose primary function is to examine the condition of credit unions, five examiners who perform IT related examinations in state-chartered credit unions, banks and their third-party service providers, one administrative assistant, an Assistant Director and one support employee. The Corporate Review section includes four staff members responsible for corporate activities for all Michigan chartered depositories. Administratively the office includes one support employee and the Director.

The office provides extensive staff training and professional development opportunities. During 2012, staff members attended training sponsored by the Nation Credit Union Administration (NCUA), the National Association of State Credit Union Supervisors (NASCUS), and other professional organizations. In 2012, OCU conducted its second annual Industry Day as a forum for regulated credit unions and all OCU staff members to jointly discuss issues relevant to the industry, including the examination process.

The MCUA requires Michigan credit unions to be federally insured. The OCU works with the NCUA, which administers the National Credit Union Share Insurance Fund (NCUSIF), to manage NCUSIF risk. NCUA places substantial reliance on the office's examination and supervisory activities, and NCUA and OCU management meet as necessary to discuss emerging issues, institutions requiring more than normal supervision, and other matters of mutual interest.

## **ACTIVITY SUMMARY**

### Examination and Supervision

The office uses a "risk-based" examination process, focusing on material areas of risk unique to each credit union. Credit unions are monitored between examinations using financial reports and other information filed by each institution.

During 2012, staff completed 244 safety and soundness reports on 169 state-chartered credit unions (including Central Corporate Credit Union.) Reports included 175 examination and 69 follow-up visitations at credit unions requiring additional supervision. Sixty examinations and 40 follow-ups were conducted jointly with the NCUA. OCU staff also performed information technology examination reports at 57 credit unions and several third-party service providers during the year.

Corporate applications submitted in calendar year 2012 increased from previous years. Five applications requesting to convert from a federal charter to a Michigan state-chartered credit union were received with two conversions finalized during the year. OCU accepted for filing eight merger applications and seven were finalized. Twenty-eight field of membership applications were received with 23 finalized. Other corporate applications for bylaw changes and/or certificate of organization amendments completed during year totaled 58.

OCU maintained NASCUS Accreditation of its regulatory program. Michigan was the first state accredited under the program in 1989, and has maintained that status every consecutive year.

## **INDUSTRY TRENDS**

The number of Michigan state-chartered credit unions declined from 194 to 192 during 2012, primarily due to mergers between institutions.

While generally market driven, mergers also occur because of serious operational or safety and soundness concerns. Larger, well-run credit unions can absorb troubled institutions with minimal negative impact and often provide a higher level of financial services for the members of the merged credit union.

Overall, Michigan's state-chartered credit unions remained in sound financial and operational condition during 2012. Although the number of Michigan credit unions declined, total assets (excluding Central Corporate Credit Union) increased 8.15% or \$2.4 billion to \$32.1 billion.

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Industry Associations

OCU senior staff members were featured speakers on various topics for meetings of the Michigan Credit Union League, Credit Union National Association, the Michigan Association of Certified Public Accountants and other organizations.

Assistant Director Leanne O'Brien is involved as an Educational Committee member with NASCUS, working to enhance educational opportunities for examiners and the credit union industry.

During 2012, OCU Director John J. Kolhoff served on the NASCUS Board and continued his activity as a member of the following committees: Education Committee; Education Certification Subcommittee and Legislative and Regulatory Committee. Kolhoff sits as a trustee on the National Institute of Credit Union Examination (NISCUE), a group responsible for supporting examination education initiatives for state examiners through funding provided by regulated institutions. Kolhoff is also a state liaison member of the Information Sharing Task Force of the Federal Financial Institutions Examination Council, working to ensure data integrity between the financial institution regulators.

Director Kolhoff and other OCU staff members are also actively involved in several NCUA Task Forces.

Sincerely,

A handwritten signature in black ink that reads "John J. Kolhoff". The signature is written in a cursive style with a large, sweeping initial "J".

John J. Kolhoff  
Director  
Office of Credit Unions