



## Governor's Advisory Board

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The regular meeting of the Governor's Board of Credit Union Advisors was called to order by Chairperson Clements at 11:00 AM on Thursday, November 14, 2013, in the Illinois Credit Union League Conference Center, 1807 West Diehl, Naperville, Illinois.

### **Present**

Chairperson Alice Clements, Vice Chair Brian McDaniel, Secretary Raymond Rogers, Member Keith Burton, Member Peter Paulson and Member Karen Woods.

### **Absent**

Member Helen Young

Chairperson Clements declared a Quorum with 6 out of 7 board member present.

### **Welcoming Remarks**

Chairperson Clements welcomed Mr. Manuel Flores (Secretary of IDFPR) and Mr. Francisco Menchaca (Director for the Division of Financial Institutions). Ms. Clements also thanked Illinois Credit Union League for hosting today's meeting and for their hospitality. Ms. Clements congratulated and formally welcomed Keith Burton and Peter Paulson for being newly appointed by the Governor into the Governor's Board of Credit Union Advisors. Ms. Clements asked participants at the meeting to briefly introduce themselves. Participants at this meeting were asked to briefly introduce themselves with their name, title or position, and the credit union affiliation.

### **Approval of Minutes**

Member Burton motioned that the minutes of the May 2, 2013 GAB meeting be approved as presented. Member McDaniel seconded the motion. AYE: 6, NAY: 0, ABSENT: 1, Motion Passes.

### **Introduction of Board Members**

Chairperson Clements introduced the Board Members present at the meeting.

### **Introduction of Special Guests**

Chairperson Clements introduced Manuel Flores (Secretary of IDFPR), Francisco Menchaca (Director for the Division of Financial Institutions), Dave Anderson (Supervisor of DFI Credit Union Section), Steve Olsen (ICUL), Brad Bergmooser (ICUL), Patrick Smith (ICUL), Ron Culen (ICUL), Vicki Ponzo (ICUL), Joni Senkpeil (ICUL), Will Wille (ICUL), and Joe Lyons (ICUL).



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#### **Financial Institutions Update**

Chairperson Clements welcomed Mr. Flores and Mr. Menchaca to present the Financial Institutions update. Mr. Menchaca warned about Pay Day loan along with other high cost and risk lending practices. He encouraged credit unions to promote Consumers Financial Literacy Programs.

Mr. Flores addressed that credit unions should promote integrity, foster openness in policy lending capital and resources, state robust outreach programs, and transparency with sound board that is well informed especially with regards to the credit union's economic conditions. He further stated the need for new meaningful regulation and for financial institutions to have greater levels of communications and share observations in the industry.

Mr. Menchaca and Mr. Flores both welcomed any inquiries from the Board, especially since many pending and approved Bills will impact the credit union industry. Chairperson Clements thanked Mr. Flores and Mr. Menchaca for their observations and insights.

#### **Credit Union Section Update**

Dave Anderson provided an extensive update on Illinois Credit Unions. CU Section personnel as of October 31, 2013 were as followed: 15 Examiners, 1 Review Examiner, Problem Case Officer Losch, Acting Supervisor Anderson, Office Administrator Stuart, and 2 Temps. Four new positions were posted with interview process in the near future: 2 Examiner Trainees (Chicago & Springfield), 1 Office Coordinator, and 1 Review Officer.

The total number of Credit Unions is 256 in October, down 7 CU's from 263 in May. However, there were 4 mergers in process. Examiners have determined that 22% of examinations yield a CAMEL 1 rating down from 23%, 42% at CAMEL 2 down from 43%, 29% at CAMEL 3 up from 28%, and 8% at CAMEL 4 up from 6%. There are no credit unions at CAMEL 5.

Illinois Credit Unions asset size was \$31.5 billion with growth up 4.08% annualized from first half of 2013. 81 credit unions lost money first half of 2013 as compared to 86 CUs in 2012. Net Income is \$95.7 million with annualized 10.7% improvement from 2012 earnings of \$172.9 million, which was up from \$165.8 million as of 12/31/2011. All CUs combined Net Worth / Assets was 10.08% (9 basis points increase from 12/31/12) with a positive trend from 9.73% at 12/31/09. 15 CUs had less than 7% Net Worth, which is up from 11 CUs having less than 7% Net Worth at 12/31/12. 2 CUs had less than 5% Net Worth as of 6/30/2012, but both CUs were above 5% at 9/30/2013.

Violations of rules and regulations are increasing mainly in the area of late call reports, audits, etc., which leads to complaints from CUs about late fees.

Delinquent loans were at 1.12%, 8 basis points decrease from 12/31/12. Net charge offs were at \$44.8 million during the first half of 2013, down over 19% annualized from 2012. Net charge off ratio approximated 0.50% annualized, 0.63% as of 12/31/12. Delinquency to Net Worth was at 6.29%, down from 6.89% at 12/31/11. Mr. Anderson noted that the Delinquency and Net Charge Offs ratios could be



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misleading due to amount of Loan Modifications and Trouble Debt Restructurings. Total loans were at \$17.8 billion (56.4%, down from 57.2% at 12/31/12).

Mr. Anderson further stated that 42 credit unions were on the Watch List totaling \$915,338,093. He commented that contacts have been or will be into all Watch List CUs from June 2013 to December 2013, except for 2 CUs which were last contacted in April 2013. Watch List CUs geographic breakout was as followed: 13 Downstate, 15 Metropolitan Chicago Area, 11 Chicago, 3 Upstate but not Metro Chicago or Chicago. Mr. Anderson commented that these CUs received a full exam with a follow up.

Credit Unions with assets of 100 million and up are doing quite well. Most of the problems have been caused by poor management, CEO controlling the board, and Supervisory committee not doing its job. Chairperson Clements thanked Mr. Anderson for the fantastically thorough report on the conditions of the Illinois State Chartered credit unions.

### **Legislative Update**

Steve Olson (EVP, General Counsel, COO of ICUL) & Patrick Smith (VP of Communications & Regulatory Affairs ICUL) from the Illinois Credit Union League provided an update on the Bill Status Report that was distributed in the meeting and Legislative issues that affect the credit unions today and in the near future. Mr. Olson stated that Illinois has the 2nd highest unemployment in the nation. He also summarized new or upcoming legislations: member business rule, department of aging exploitation rule that tellers and staff must attend necessary training to deal with the situations, regulatory burden act for small CUs, financial literacy in high school, low income segments Pay Day loan, reloadable prepaid card with disclosures of fees, etc. Mr. Smith informed about the IBA attacks on CUs, especially in the Metro East location. Mr. Smith gave an update on the "Don't Tax My CU" campaigns in Illinois. Chairperson Clements expressed deep gratitude to Mr. Olson and Mr. Smith for their comprehensive legislative report as well as in hosting the GAB meeting and providing for the lunch at the Illinois Credit Union League.

### **New Business**

Chairperson Clements asked Mr. Menchaca whether DFI has a Succession Planning Policy in place, especially with many staff members that are within retirement age. Mr. Menchaca stated that they were in the process of developing such a document.

Chairperson Clements asked Mr. Menchaca whether there is a need for more staff in the near future. Mr. Menchaca indicated that 1 problem case officer for Chicago, 1 designated information technology staff, and 1 designated merger/liquidation legal counsel are being considered and may be presented for the Governor's consideration, but the financial situation of the State will limit this possibility. Chairperson Clements further asked whether DFI has sufficient funds to support additional staff. Mr. Anderson and Mr. Menchaca confirmed that DFI has sufficient fund.

Some states have passed legislation to compensate board members of CUs. This could create a problem for our tax exempt status.



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#### **Old Business**

Chairperson Clements thanked all Board members for completing the annual ethics training as required by law, sending their OEIG Acknowledgement of Participation form to the appropriate office, and especially volunteering and serving on the Governor's Board of Credit Union Advisors.

#### **Attendees Questions or Comments**

Mr. McDaniel asked whether small credit unions need to merge in order to survive and whether credit unions need to act more like banks. Mr. Smith added that credit unions have increasing numbers of aging members. Mr. Anderson further commented that the credit unions have lower investment income whereas they used to have higher investment income. Joni Senkpeil remarked that credit unions have not recovered from 2008 recession; aging CEOs, demand for speed in service, and overburdensome complexity in regulations all contributed towards the alarming declines of credit unions. Mr. Olsen commented that small credit unions are more likely to merge with bigger credit unions due to increased cost of complying with increased volume of regulations. However, Mr. Menchaca added that if the credit union can find a specialized, specific market to meet members needs, the credit union would most likely survive. Mr. Flores mentioned that more CU's empirical data is needed especially for consolidations and factors of different business models.

Chairperson Clements announced that the Round Table Session will begin immediately after lunch, which is also provided by the Illinois Credit Union League. She reminded the guests that the next GAB meeting will be held in May 2014 at the Illinois Credit Union League in Springfield, Illinois. Chairperson Clements once again thanked all the guests for attending the meeting.

#### **Next Meeting Date**

Tentative date May 2014 at the Illinois Credit Union League in Springfield, Illinois.

#### **Adjournment**

Motion by Mr. McDaniel, Seconded by Mr. Burton. The motion was unanimously approved. The meeting adjourned at 1:03 P.M.