

Governor's Advisory Board

The regular meeting of the Governor's Board of Credit Union Advisors was called to order by Chairperson Clements at 10:30 A.M. on Wednesday, April 30, 2014 in the conference room at Credit Union 1, 225 S. College Ave, Springfield, Illinois.

Present

Chairperson Alice Clements, Member Raymond Rogers, Member Keith Burton, Member Peter Paulson, and Member Karen Woods

Absent

Member Helen Young, Vice Chair Brian McDaniel

Chairperson Clements declared a Quorum with 5 out of 7 board members present.

Election of Board Secretary

Chairperson Clements stated that the statute requires the Board to elect a Secretary.

Member Woods made a motion to elect Mr. Peter Paulson as Secretary. Member Burton seconded the motion. Aye: 5, Nay: 0, Absent: 2. *The motion was unanimously approved.*

Welcoming Remarks

Chairperson Clements asked for a moment of silence in remembrance of Member Helen Young who passed on January 3, 2014.

Ms. Clements also thanked Credit Union 1 for hosting today's meeting and for their hospitality.

Introduction of Board Members

Chairperson Clements introduced the Board Members present at the meeting.

Introduction of Special Guests

Chairperson Clements introduced Francisco Menchaca (Director for the Division of Financial Institutions), Dave Anderson (Supervisor of DFI Credit Union Section), Colleen Stuart (Administrative staff for the Credit Union Section).

Chairperson Clements also welcomed Sean Hession (ICUL), Keith Sias (ICUL), Patrick Smith (ICUL), Brad Bergmooser (ICUL), Ashley Niebur (ICUL), Ron Culen (ICUL), Joni Senkpeil (ICUL), Will Wille (ICUL).

Chairperson Clements asked participants at the meeting to briefly introduce themselves with their name, title or position, and their credit union affiliation.

Approval of Minutes

Member Rogers moved that the minutes of the November 14, 2013 GAB meeting be approved as presented. Member Burton seconded the motion. Aye: 5, Nay: 0, Absent: 2 The motion passed.

Financial Institutions Update

Chairperson Clements welcomed Mr. Menchaca to present the Financial Institutions update. Mr. Menchaca noted that he has served in his role for 18 months.

Mr. Menchaca stated there are currently 13 examiners including 2 review examiners. Turnaround time to complete exam reports has improved.

Mr. Menchaca stated that credit unions that find their niche can be successful regardless of size. Credit unions that focus on the best interests of their members will succeed.

Credit Union Section Update

Mr. Anderson reported that there are 2 new examiners, and they are in the process of hiring 1 or 2 additional examiners. 3 examiners left the Credit Union Section (1 as a result of retirement and 2 as a result of transfers to another department). Staffing includes 13 examiners, 1 Acting Supervisor, 2 Review Examiners, 1 Problem Case Officer, 1 Office Administrator, and 2 temporary employees. They are in the process of hiring an Office Associate in Springfield.

As of April 30, 2014 there are 252 credit unions in Illinois, which has declined from 263 in May 2013. 8 mergers are in process and 2 others are coming soon.

Financial Statistics:

- Total assets are \$31.3 billion versus \$30.9 billion in December 2012

- 79 (31%) Credit Unions lost money in 2013 versus 86 in 2012
- Net Income is \$182.6 million; a 6% improvement from December 2012
- Net Worth / Assets is 10.42%; a 43 bp increase from December 2012 (Net Worth has increased from 9.73% in 2009)
- 9 Credit Unions have less than 7% Net Worth
- 1 Credit Union has less than 5% Net Worth

Loan Statistics as of December 2013

- Delinquency is 0.90%; 30 bp decrease from December 2012
- Net Charge Off ratio approximates 0.48% vs 0.63% in December 2012
- Provision for Loan Loss to Avg. Assets is 0.26% versus 0.39% in 2012.
- Delinquency to Net Worth is 5.24%; down from 6.91% in December 2012
- *Note: Delinquency & Net Charge Off ratios could be misleading due to amount of loan mods and TDRs.*
- Loan growth was 7.7% in 2013; 5.2% in 2012; 2.7% in 2011
- Loans to Assets was 60.9% in 2013; 57.2% in 2012 and 2011

Current Issues:

- Interest Rate Risk – Net Long-Term Asset ratio increased from 27.7% at December 2012 to 30.5% at December 2013.
- Cybersecurity
- Compliance
- Difficult Economies of Scale – High Operating Expense to Gross Income Ratios – 39 Credit Unions had Operating Expense to Gross Income ratios greater than 100%, 84 Credit Unions were above 90%
 - Credit Unions that have poor management often have one or more of the following problems:
 - Lack of Board oversight
 - President/CEO often controls board
 - Inactive/Ineffective Supervisory Committees
 - Unwillingness to change credit union culture in new economic times.
 - Weak/non-existent internal controls opening CU up to inappropriate activities
 - Lack of basic accounting skills

Watch List Summary:

- 39 Watch List CU's .
- Net Worth/Assets Ratio < 6% (2 Credit Unions)
- Net Worth/Assets Ratio 6% to 7% (8 Credit Unions)

Legislative Update

Keith Sias reported on the Key Federal Legislative Issues:

- Preserve the Credit Union Tax Status
- Improve Data Security Standards to Protect Credit Unions & Their Members
- Reduce Credit Union Regulatory Burden to Allow Credit Unions to More Fully Serve Their Members
- Reform the Housing Finance System to Ensure Continued Credit Union Access to the Secondary Market
- Enact Enhancements to the Federal Credit Union Charter

Mr. Sias also reported on:

- NCUA Board member Nominee McWaters confirmation
- Markup of Johnson / Crapo GSE reform bill

Ashley Niebur reported that the General Assembly had just returned from a break. Bills have now swapped houses. In May, there will be budget work and last minute hearings.

Brad Bergmooser reported that there were between 5,000 and 6,000 bills since January 2013. He provided an update on the following bills:

- HB 5342 – Credit Union Act Amendment
- HB 5622 – Payroll Debit Cards
- SB 2664 – Condo Association Assessment Cap
- SB 2730 – Illinois Foreclosure Law Amendment
- SB 2985 – Small Estates Affidavit
- SB 799 – Elder Abuse Reporting

New Business

Chairperson Clements reported on:

- Cyber thieves and the Heartbleed (Open SSL) Attack
- ATM skimming devices and the ease of gaining access to online plans to create such devices
- Revolutionary payment systems such as Square, Bitcoin, and the “Coin” card

Chairperson Clements also discussed the need for dedicated legal counsel.

Chairperson Clements also expressed the urgent need for an Assistant Supervisor. There is also a need for additional examiners.

Old Business

Chairperson Clements reminded all Board members of the annual training requirements and the Statement of Economic Interest as required by law. She also thanked the Board members for volunteering and serving on the Governor's Board of Credit Union Advisors.

Attendees Questions or Comments

Patrick Smith reported that there is a real concern of the possibility of taxation at the state level. The ICUL is monitoring the situation and will issue an Action Alert if necessary. Mr. Smith recommended communications on taxation follow the message of "cooperative structure".

Mr. Menchaca reminded attendees to remain vigilant against cyber theft. He acknowledged that it is hard to manage as there are many threats. He encouraged everyone to use available resources to address threats and to work with vendors.

Announcements

Chairperson Clements reminded the attendees of the Round Table Session to be held immediately following lunch.

Next Meeting Date

Tentative date: November 6, 2014 at the Illinois Credit Union League in Naperville, Illinois.

Adjournment

It was moved by Mr. Burton, seconded by Mr. Paulson, to adjourn the meeting. The motion was unanimously approved. The meeting adjourned at 11:40 A.M.