

Credit Union Division



CONSUMER ADVISORY BY ATTORNEY GENERAL TOM MILLER ASK FOR YOUR FREE CREDIT REPORTS

As of March 1, Iowans can obtain a FREE copy of their credit reports compiled by each of the three national credit reporting bureaus. A new law entitles you to one free copy every twelve months. This is a great opportunity—and it can help stop identity theft.

The credit reporting companies collect information about you—important information such as if you pay your bills on time, account balances owing, and whether you’ve filed for bankruptcy or been sued or arrested. And the companies sell your information to creditors, insurers, employers, landlords, and other businesses

who want to evaluate your credit.

Three national agencies compile credit reports—Equifax, Experian and Trans Union, and now it’s free and very easy to get your reports. (The FTC required the agencies to set up a joint clearinghouse for consumer requests.) Just go to www.AnnualCreditReport.com

Why should you obtain and examine your credit report?

First of all, it is yours, and you probably should see what lenders or others are reading about you. More reasons:

- **Review your credit reports to be sure no one has stolen your identity.**

“Identity theft” usually means someone uses your personal information to open new accounts under your name without you knowing it. So, examine your report, and look for unfamiliar credit card accounts or other suspicious activity, such as incorrect addresses or indications of delinquent payments.

- **Check your credit reports to see if there are any errors—and then get them corrected.**

Millions of credit reports are sold every day, and research shows about one in four credit reports contains an error.

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ILLINOIS CREDIT UNION MERGES WITH AN IOWA CREDIT UNION

Stockton Employees Credit Union, formerly located in Stockton, Illinois merged with Dupaco Community Credit Union, located in Dubuque, Iowa has been completed. The effective date of the merger was December 22, 2004.

The Stockton Employees Credit Union field of membership served the employees of the Dura Company, a company that manufactures auto parts such as framing for seat attachments. The members and employees of Stockton Employees transferred to the

Dupaco Community Credit Union field of membership on the effective merger date.

Among reasons cited for the merger were expanded services and enhanced access to member funds.

TWO MERGERS APPROVED

Iowa Northland Credit Union, Esterville, Iowa merged with Citizens Community Credit Union, Fort Dodge on January 1, 2005.

Iowa Northland Credit Union filed their Articles of Incorporation in Emmet County June 12, 1963, under the name Emmet County Public Employees. Their original bylaw membership consisted of "employees of Emmet County, city employees in

Emmet County, employees of schools in Emmet County, federal employees in Emmet County and members of the immediate family of such persons."

A merger with Dickinson County Credit Union in 1997 expanded the membership.

On May 7, 1980, the credit union amended its Articles of Incorporation and became known as EMCO Credit Union

until January 1, 1998, when they again changed their name to Iowa Northland Credit Union. The final membership at the time of merger being "persons residing in or working for a business located in Emmet or Dickinson County."

With the transfer of membership there was no change to Citizens Community Credit (continued on page 3)



IOWA HOSTS REGULATORS

As part of a national regional meeting series, the National Association of State Credit Union Supervisors (NASCUS) met with state regulators at the Iowa Credit Union Division on February 22, 2005.

Participants were Mary Martha Fortney, NASCUS CEO and Presi-

dent, Roger Little (MI), NASCUS Chairman, John Smith (MO), Suzanne Cowan (WI), Timothy Karsky (ND), and Iowa host regulator James Forney.

Discussion topics included the FACT Act, UBIT, FASB issues and BSA.

REGULATORY ADVISORY

INDIRECT LENDING

In February 2005, the Division issued a Regulatory Advisory to Credit Union Boards of Directors on indirect lending activities. The following article summarizes the advisory:

In an effort to boost loan volume and profitability,

a growing number of Iowa state-chartered credit unions are engaging in Indirect Lending programs. Properly managed and administered, an indirect lending program can be beneficial in achieving these two goals. Based on data submitted in the

December 31, 2004 call reports, of Iowa's 167 state-chartered credit unions, twenty-three or 13.8% are now engaging in this type of program. The total of the outstanding indirect loans is more than \$523 million. If the program is not (continued on page 6)



**TWO MERGERS APPROVED
(CONTINUED FROM PAGE 2)**

Union charter. Iowa Northland's field of membership was already part of Citizens Community's field of membership.

Citizens Community Credit Union will continue to serve members at the existing offices in Estherville and Spirit Lake.

Another recent merger that was effective November 30, 2004, was between Bantam Employees Credit Union in Waverly, and the Cedar Falls

Community Credit Union in Cedar Falls. The Cedar Falls Community Credit Union being the continuing credit union.

Bantam Employees Credit Union filed their Articles of Incorporation with the Bremer County Recorder on September 26, 1952. The credit union served the employees of the Schield Bantam Company which manufactured power cranes and shovels.

The Cedar Falls Community Credit Union will continue to serve their

members at the 2000 Heritage Way location in Waverly.

To find out more about the services and different locations the Cedar Falls Community Credit Union offers go to their website at www.cfccu.org, or call directly to the main office on 123 West 4th Street in Cedar Falls at (319)266-7531.

**ASK FOR YOUR FREE CREDIT REPORTS
(CONTINUED FROM PAGE 1)**

Errors might cause you to pay higher interest rates, or be denied a home loan, credit card, or even a new job. Federal law and FTC rules give you very specific rights to dispute and correct your credit reports.

So, go to www.AnnualCreditReport.com or go to www.FTC.gov (the

Federal Trade Commission web sit) for even more information on how, why, where and when to get your free credit report, how to dispute errors, and what to do if you are a victim of identity theft.

You also can get to this information by going to www.IowaAttorneyGeneral.org.

If you have complaints or questions, call us at 515-281-5926 or toll-free at 1-888-777-4590. Or write to the Attorney General's Consumer Protection Division, Des Moines, Iowa 50319.

Errors might cause you to pay higher interest rates, or be denied a home loan, credit card, or even a new job.

**2005 GOVERNORS
RECOGNITION OF
PERFORMANCE EXCELLENCE**

The Governors Recognition of Performance Excellence is in honor of the achievement of organizations that participated in the 2004 Iowa Recognition for Performance Excellence (IRPE) process.

The Credit Union Division conducted the 2004 Iowa Excellence Self-Assessment, which reflects the Division's commit-

ment and initiative to improve the operations of state government, and received recognition for participation at the IRPE celebration.

The IRPE celebration was held on March 1st, at the Sheraton Inn in West Des Moines. Other Divisions in the Commerce Department recognized were the Division of Banking, Divi-

sion of Insurance, and the Utilities Board.

The employees of the Credit Union Division invested significant time and energy in examining the Division's operations and procedures.



Credit Union Division receives certificate for completing the Iowa Excellence Self Assessment.

HIGHLIGHTS FROM IOWA ADMINISTRATIVE CODE CHAPTER 17 "INVESTMENT AND DEPOSIT ACTIVITIES FOR CREDIT UNIONS"

Effective December 29, 2004, Iowa Administrative Code Chapter 17 "Investment and Deposit Activities for Credit Unions" was amended.

The amendment mirrors the National Credit Union Administration's rule on Investment Powers that governs federally chartered credit unions.

The rules allow Iowa state-chartered credit unions the

same authority as federally chartered credit unions on investment powers.

The benefit of the rule is it expands the investment authority for Iowa state-chartered credit unions and it provides guidance on investment powers.

The following are important points to be aware of in the amended chapter.

- **17.2 Definitions**

"*custodial agreement*" means a contract in which one party agrees to hold securities in safekeeping for others. "*Ordinary care*" means the degree of care that an ordinarily prudent and competent person engaged in the same line of business or endeavor should exercise under similar circumstances. (con't. page 5)



Iowa's Nonfarm Employment
1,456,900

Iowa's Manufacturing
Employment
220,700

Iowa's Unemployment
Benefit Payments
\$29.5 million

IOWA ECONOMIC SNAPSHOT FROM THE DEPARTMENT OF MANAGEMENT

GENERAL FUND RECEIPTS

Year-to-date growth is at 6.8 percent.

While this is still ahead of projections, it should be noted that receipts for the month of February did slow down. The annual estimate of 2.7 percent will be reviewed when the Revenue Estimating Conference meets on April 8.

IOWA'S UNEMPLOYMENT RATE

The State's seasonally adjusted unemployment rate declined slightly to 4.7% in December from a revised November rate of 4.8%. One year ago the State's jobless rate was reported at 4.6%

2004 ANNUAL REPORT OF THE SUPERINTENDENT

The Credit Union Division's 2004 Annual Report of the Superintendent is now available.

To access the report go to the Credit Union Division's website at www.iacudiv.state.ia.us.

Select "Reports and Publications" and select "2004 Annual Report".

The Annual Report of the Superintendent is the report on the condition of Iowa's credit unions. The information is

compiled from year-end call reports filed with this office and with the National Credit Union Administration.



HIGHLIGHTS FROM IOWA ADMINISTRATIVE CODE CHAPTER 17 “INVESTMENT AND DEPOSIT ACTIVITIES FOR CREDIT UNIONS”

17.3 Investment Policies. A state-chartered credit union’s board of directors must establish written investment policies.

Written investment policies must address, at a minimum, the following:

- **17.3(1)** The purposes and objectives of the credit union’s investment activities;
- **17.3(2)** The characteristics of the investments the credit union may make, including the issuer, maturity, index, cap, floor, coupon rate, coupon formula, call provision, average life, and interest rate risk;
- **17.3(3)** How the credit union will manage interest rate risk;
- **17.3(4)** How the credit union will manage liquidity risk;
- **17.3(5)** How the credit union will manage credit risk including specifically listing institutions, issuers, and counterparties that may be used, or criteria for the credit union’s selection, and limits on the amounts that may be invested with each;
- **17.3(6)** How the credit union will manage concentration risk, which can result from dealing with a single issuer or related issuers, lack of geographic distribution, holding obligations with similar characteristics like maturities and indexes, holding bonds having the same trustee, and holding securitized loans having the same originator, packager, or guarantor;
- **17.3(7)** Who has investment authority and the extent of that authority. Those with authority must be qualified by education or ex-

perience to assess the risk characteristics of investments and investment transactions. Only officials or employees of the credit union may be voting members of an investment related committee;

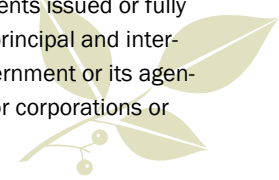
- **17.3(8)** The name of the broker-dealer(s) the credit union may use;
- **17.3(9)** The name of the safekeeper(s) the credit union may use
- **17.3(10)** How the credit union will handle an investment that, after purchase, is outside of board policy or fails a requirement of these rules;

17.4 Record keeping and documentation requirements:

- **17.4(1)** All state-chartered credit unions must comply with generally accepted accounting principles (GAAP) applicable to reports or statements required to be filed with the superintendent.
- **17.4(2)** A credit union must maintain documentation for each investment transaction for as long as it holds the investment and until the documentation has been audited in accordance with Iowa Code section 533.11;
- **17.4(3)** A credit union must maintain documentation that its board of directors used to approve a broker-dealer or a safekeeper for as long as the broker-dealer or safekeeper is approved and until the documentation has been audited in accordance with Iowa Code section 533.11 or NCUA rules and regulations;

- **17.4(4)** a Credit union must obtain an individual confirmation statement from each broker-dealer for each investment purchased or sold.

17.6 Credit analysis A credit union must conduct and document a credit analysis on an investment and the issuing entity before purchasing it, except for investments issued or fully guaranteed as to principal and interest by the U.S government or its agencies, enterprises, or corporations or fully insured.



17.8 Broker-dealers

- **17.8(1)** A credit union may purchase and sell investments through a broker-dealer as long as the broker-dealer is registered as a broker-dealer with the Securities Exchange Commission under the Securities Exchange Act of 1934 (15U.S.C.78a, et seq.) or is a depository institution whose broker-dealer activities are regulated by a federal or state regulatory agency.
- **17.8(2)** Before purchasing an investment through a broker-dealer, a credit union must analyze and annually update the following:
 - a. The background of any sales representative with whom the credit union is doing business;
 - b. Information available from state or federal securities regulators and securities industry self-regulatory organizations, such as the National Association of Securities Dealers and the North American Securities Administrators Association, about any enforcement actions against the broker-dealer, its affiliates, or associated personnel; (con’t. page 7)

REGULATORY ADVISORY **PAGE 6**
INDIRECT LENDING

administered and monitored properly, delinquency, vehicle repossessions, and ultimately loan charge offs can easily climb. If the charge offs become excessive, a material lessening of the credit union's net worth may result. Due to the increased activity in this area and the pitfalls that can occur, the Credit Union Division has reviewed and updated the guidance provided to examiners to ensure it adequately explores pertinent issues and concerns involving indirect lending programs.

Indirect lending programs require special oversight and controls that differentiate them from the typical new or used auto programs. The credit union should have specific lending and collection policies for the indirect program. Some of the areas that the policies should cover include: staff approval and limitations; charge back and repossession guidelines; internal control structure; monitoring program; reports to management and the Board of Directors; and, all aspects of the collection process.

A large number of credit unions will underwrite the indirect loans using the same guidelines for underwriting their in-house loans. A credit union must have in place a strong internal control program that safeguards against dealers and contracts which may take advantage of members and the quality of the loans purchased. A rapid growth in these portfolios can cause quality issues – the strong internal control program must be in place prior to any loans being purchased.

A very important process credit unions need to perform is the monitoring of the indirect lending program. Failing to properly oversee the program is, or could become, a safety and soundness concern for regulatory officials. A lack of sufficient oversight demonstrates that management is not meeting its responsibilities to plan, direct and control the credit unions operations.

Monthly management reports should include the following for each individual dealer:

- Applications submitted, approved, conditioned, and denied;
- Total loans outstanding;
- Delinquency;
- Extensions;
- First payment defaults;
- Repossessions;
- Charge-offs;
- Average loan to value;
- Average loan term;
- Average credit score.

Reports should be segregated by dealer to identify poor performing relationships. This will assist the credit union in determining the amount of dealer reserve(s) to maintain, which dealers are in non-compliance with agreements, and possibly which relationships should be terminated. These reports enable the credit union to determine the concentration of loans, which dealers are responsible for the highest percentage of approvals/denials, and which relationships are bringing the credit union business. The board must be kept abreast of the indirect lending programs performance to determine how it is impacting the credit unions financial condition. The materiality of the program to the credit unions operations and financial statements should dictate the frequency of reporting. For credit unions with new programs, rapidly growing portfolio or a portfolio that is a high percentage of Net Worth, monthly reports on the program are prudent.

The Division's examination staff will be more closely reviewing credit union indirect lending programs. To increase awareness and understanding of the Credit Union Division's approach to indirect lending, management is urged to review the National Credit Union Administration's Letter to Credit Union number 04-CU-13.

Included in the letter are the questionnaires examiners will be using to assess the credit unions indirect program. The NCUA Letter 04-CU-13 and attached questionnaires can be referenced at www.ncua.gov/.



REGULATORY ADVISORY
INDIRECT LENDING
(CONTINUED FROM PAGE 5)

17.9 Safekeeping of investments

- **17.9(2)** Any safekeeper used by a credit union must be regulated and supervised by either the Securities and Exchange Commission, a federal or state depository institution regulatory agency, or a state trust company regulatory agency.
- **17.9(4)** Annually, the credit union must analyze the ability of the safekeeper to fulfill the safekeeper's custodial responsibilities, as evidenced by capital strength, liquidity, and operating results.

17.10 Monitoring nonsecurity investments.

- **17.10(1)** At least quarterly, a credit union must prepare a written report listing all of its shares and deposits in banks, credit unions, and other depository institutions,

that have one or more of the following features:

- a. Embedded options;
- b. Remaining maturities greater than three years; or
- c. Coupon formulas that are related to more than one index or are inversely related to, or are multiples of, an index.

17.11 Valuing securities

- **17.11(1)** Before purchasing or selling a security, a credit union must obtain either price quotations on the security from at least two broker-dealers or a price quotation on the security from an industry-recognized information provider.

To view Chapter 17 in its entirety, visit the Division website at www.iacudiv.state.ia.us, on the home page.

STATE OF IOWA COMPREHENSIVE ANNUAL
FINANCIAL REPORT

The State of Iowa Comprehensive Annual Report (CAFR) for the fiscal year ending June 30, 2004 has been issued. The report is prepared in accordance with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board.

The document is available either on line at: http://www.das.sae.iowa.gov/financial_reports/index or on a CD. To obtain a CD version contact:
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