

**Department of Commerce – Credit Union Division**

# **PERFORMANCE REPORT**

**Performance Results Achieved for Fiscal Year 2019**

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# INTRODUCTION

## **Purpose and Scope**

This performance report is provided pursuant to Iowa Code §8E.210, which requires each agency to prepare an annual performance report stating the agency's progress in meeting performance targets and achieving its goals consistent with the enterprise strategic plan, its agency strategic plan, and its annual performance plan. The annual performance report shall also include a description of how the agency has reallocated human and material resources in the previous fiscal year. This reporting is used to improve performance, improve strategic planning and policy decision making, better allocate human and material resource, recognize superior performance, and inform Iowans about their return from investment of government.

This report contains information pertaining to agency goals and measures.

## **Executive Summary**

Performance remained stable in all goals and measures. Iowa's 86 credit unions are operating in a safe and sound manner, and are increasing in overall asset size and membership, even while the total number of credit unions has declined due to mergers. The Division of Credit Unions performed 65 examinations during the year. Credit unions at risk are closely monitored. Letters of Understanding and Agreement (LUA) are put in place between the credit union and the Division to correct problems identified before further regulatory action becomes necessary. Documents of Resolution and scheduled contacts are utilized in order to address examination findings.

The Division received an increased number of consumer complaints, with the majority of complaints were resolved within a 30-day period. Ninety percent of complaints were resolved within the 60-day target for resolution.

# AGENCY OVERVIEW

## **Mission and Vision of the Credit Union Division**

The primary purpose and mission of the Division of Credit Unions is to safeguard the interests of credit union depositors and shareholders through the effective administration and execution of the laws relating to credit unions.

Our guiding principles are customer focus, results orientation, long-range thinking, data based decisions, continuous improvement, collaborative leadership, and employee participation.

Our vision is to provide for a regulatory environment in which Iowa credit unions can prosper, operate in a safe & sound manner, and meet the financial service needs of their members.

## **Organizational Structure**

The Superintendent of Credit Unions is appointed by and serves at the pleasure of the Governor, subject to confirmation by the Iowa Senate. The Superintendent is charged with the supervision of state-chartered credit unions, and control and enforcement of the laws, bylaws, rules and regulations pertaining to the organization and operation of Iowa state-chartered credit unions.

The Credit Union Review Board meets quarterly pursuant to Iowa Code §533.107. It consists of 7 members, 5 of whom have been members of a credit union for at least the previous 5 years. The Credit Union Review Board members are appointed by the Governor and confirmed by the Senate. They serve staggered terms of 3 years. The review board may adopt administrative rules or take other action as it deems necessary or suitable to administer the Iowa Credit Union Act.

Employees of the Division of Credit Unions are noncontract, non-merit employees, pursuant to Iowa Code §20.4. Ten Credit Union Examiners and one Credit Union Supervisory Examiner work in the field and are responsible for performing credit union examinations throughout the state. Senior examiners are assigned supervision of the larger and more complex credit unions. The Des Moines office consists of the Superintendent, Executive Officer, Information Technology Specialist, and Administrator.

## **Core Functions/SPAs**

The Division's core functions include regulation, compliance, and resource management.

Regulation and compliance tasks consist of a risk-focused supervision and examination process, which identifies, measures, monitors, and controls unacceptable levels of risk. The Division utilizes a red flag system, subject matter specialists, and specialized training to manage the risk in credit union operations.

Iowa Code §533.113(1)(a) provides that examinations will be made whenever necessary or advisable, but in no event less frequently than once during each twenty-four month period. Most credit unions are examined within a 12 to 15 month cycle. The Division aims to identify, measure, monitor, and control levels of risk through our risk-focused supervision and examination program, in order to assure that all credit unions are operating in a safe and sound manner.

Resource management aims to improve communication and accessibility of information with the goal of enhancing internal and external communication in the areas of administration and legislation. The Division office staff is responsible for the accounting, budgeting, human resources, rules and regulation, planning, consumer complaint response, and information technology functions. The Division of Credit Unions provides timely and accurate services to Division employees, credit union management and members, other state agencies, Legislators, and the public.

### **Budget**

The Division's funding is administered by the Administration and Regulation Appropriations Subcommittee of the Iowa Legislature, which annually approves the Division's spending authority from the Department of Commerce Revolving Fund, pursuant to Iowa Code §546.12. The actual expenses of the Division are paid by state-chartered credit unions through fees, assessed according to institutional asset size. Fees are paid annually in two installments; in December and the following August. The Division of Credit Unions receives no funding from the state general fund.

The Division's spending authority for FY 2019 was set at \$2,208,781. Due to staff vacancies, actual expenditures for FY 2019 were \$2,154,685.

# KEY RESULTS

## CORE FUNCTION

**Name:** Regulation and Compliance.

**Description:** Requires a percentage of state-chartered credit unions deemed to be operated in a safe and sound manner and in compliance with applicable laws and regulations. Credit unions within the State of Iowa continue to operate in a safe and sound manner.

**Why we are doing this:** The Superintendent of Credit Unions is given the authority to regulate state-chartered credit unions under Iowa Code Chapter 533. The Superintendent is authorized to take various administrative actions under the Code for the protection of Iowa credit union members in the event any credit union is operating in an unsafe or unsound manner.

Composite CAMELS ratings are based on examinations, including a careful evaluation of an institution's managerial, operational, financial, and compliance performance. The six key components used to assess an institution's financial condition and operations are: capital adequacy, asset quality, management capability, earnings quantity and quality, the adequacy of liquidity, and sensitivity to market risk. The rating scale ranges from 1 to 5, with a rating of 1 indicating: the strongest performance and risk management practices relative to the institution's size, complexity, and risk profile; and the level of least supervisory concern. A 5 rating indicates: the most critically deficient level of performance; inadequate risk management practices relative to the institution's size, complexity, and risk profile; and the greatest supervisory concern. The composite ratings are defined below.

### **CAMELS Ratings**

Composite 1 Rating - indicates strong performance and risk management practices, and any weaknesses are minor and can be handled in a routine manner. These credit unions give no cause for supervisory concern.

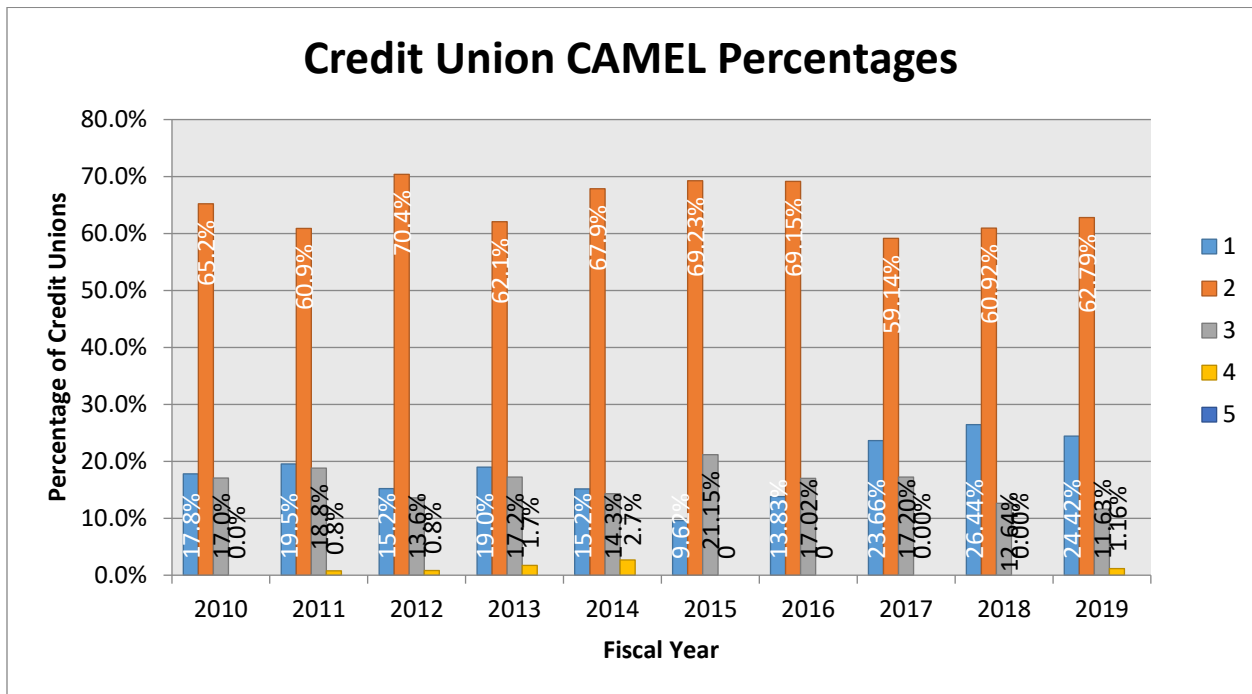
Composite 2 Rating - reflects satisfactory performance and risk management practices, areas of weakness may be present but are considered minor and if left unchecked could develop into greater concern. These credit unions have minor supervisory contact.

Composite 3 Rating - represents performance that is flawed to some degree and risk management practices may be less than satisfactory, credit unions require more than usual supervisory attention to address deficiencies.

Composite 4 Rating - refers to poor performance of serious supervisory concern that, if left unchecked, would be expected to lead to conditions that could threaten the viability of the credit union, and weaknesses and problems are not being satisfactorily resolved.

Composite 5 Rating - considered unsatisfactory performance that is critically deficient and in need of immediate remedial attention, weaknesses and severity of problems are beyond management's ability or willingness to control or correct, and these conditions directly threaten the viability of the credit union. These credit unions have a high probability of failure, are under continuous supervisory scrutiny and involvement, and will likely require emergency assistance, liquidation, merger, or acquisition.

**What we are doing to achieve results:** The Division of Credit Unions works to identify, measure, monitor, and control unacceptable levels of risk through a risk-focused supervision and examination program, which works to manage the risk presented by credit union operations. Administrative Action by the Division is instituted as needed, including additional supervisory contact with a credit union, Documents of Resolution, Letters of Understanding and Agreement, Cease and Desist Orders, and, in rare instances, management of a credit union and dissolution.



**Performance Measure:** Safe and sound credit unions in Iowa.

**Performance Target:** No credit unions with a CAMELS 5 rating.



**What was achieved:** Our vision is to provide for a regulatory environment in which Iowa's credit unions can prosper, operate in a safe and sound manner, and meet the financial service needs of their members. By providing a safe and sound regulatory environment, we safeguard the interests of credit union depositors and shareholders. As of the end of FY 2019, there were 86 credit unions in the state; none of which had a CAMELS rating of 5.

**Data Sources:** Credit Union Division Examination Reporting System.

**Resources:** Iowa State-Chartered credit unions fully fund the costs of operating the Division, including supervision and examination of state credit unions, through fees paid in August and December of each year, which are deposited in the Commerce Department Revolving Fund.

# KEY RESULTS

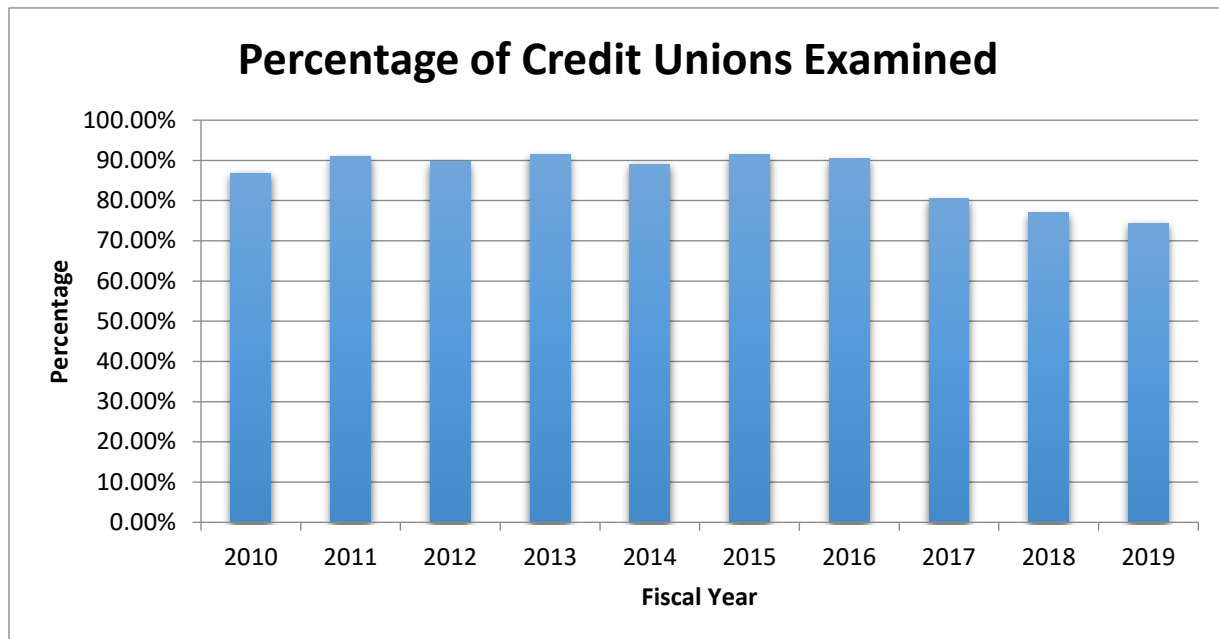
## SERVICES/ PRODUCTS/ACTIVITIES

**Name:** Examinations.

**Description:** Iowa Code §533.113(1)(a) requires that examinations of credit unions be made whenever necessary, but in no event less frequently than once in each twenty-four-month period.

**Why we are doing this:** As part of our strategic goal to identify, measure, monitor, and control unacceptable levels of risk in Iowa credit unions, frequent examination and supervisory contact is necessary.

**What we are doing to achieve results:** The Division strives for regular contact and examination of all Iowa State-Chartered credit unions. As some credit unions have grown in size and complexity, additional resources are needed for some credit union exams. All credit unions are examined on a 15 month cycle.



**Performance Measure:** Percent of Iowa credit unions examined annually.

**Performance Target:** Examine 81% of credit unions.

**What was achieved:** By making frequent contact with credit unions through examinations and related supervisory contact, potential problems can be caught earlier, when remedial efforts are more effective for the health of the credit union and the protection of credit union members. Approximately 75% of all Iowa State-Chartered credit unions were examined in Fiscal Year 2019.

**Data Sources:** Credit Union Division Examination Reporting System.

**Resources:** Iowa credit unions fully fund the costs of operating the Division of Credit Unions, including examination, through fees paid in August and December of each year, which are deposited in the Commerce Department Revolving Fund.

# Key Result

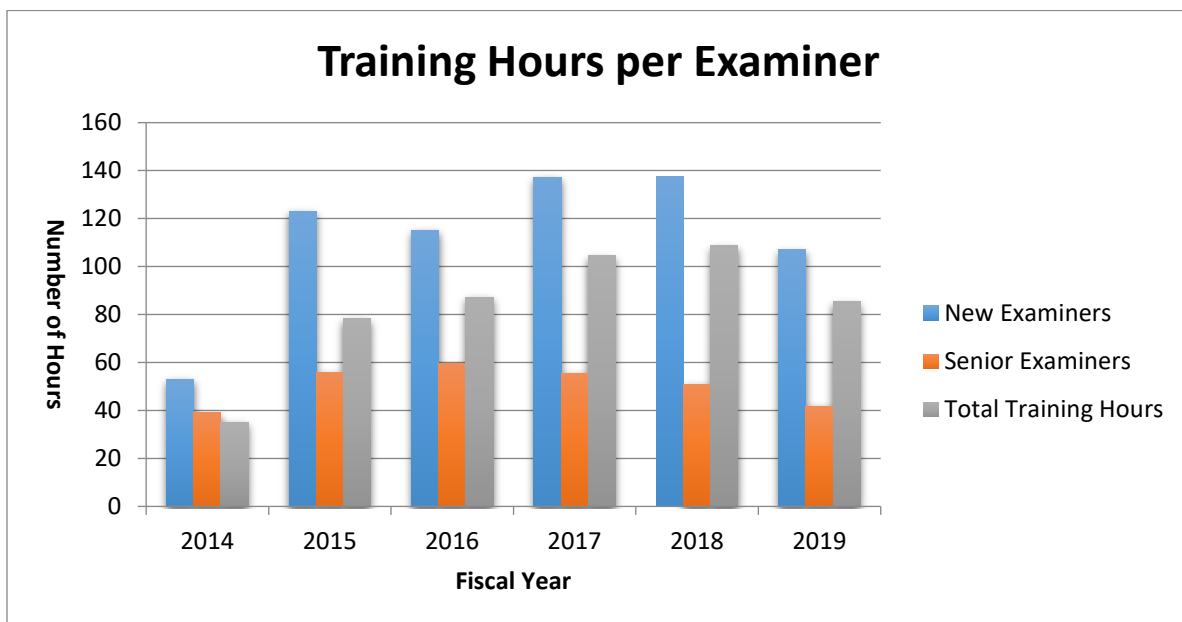
## SERVICES/PRODUCTS/ACTIVITIES

**Name:** Examination Training.

**Description:** Examiners spend many hours in training each year as part of their duty to remain knowledgeable regarding risks in the industry, learn and apply evolving regulations and laws, as well as develop specialties in certain areas of loan supervision and examination.

**Why we are doing this:** We believe examiner training is key to the risk-focused supervision and examination program. We actively look for new training opportunities each year that will enrich each examiner’s educational experience in combination with their field experience and enhance their abilities to analyze risk on a day-to-day basis.

**What we are doing to achieve results:** The Division of Credit Unions works to identify, measure, monitor, and control unacceptable levels of risk through a risk-focused supervision and examination program. The training provided to examiners must support this program. All examiners participate in classes, webinars, and online courses throughout their career in order to maintain their expertise in current and emerging topics within the industry.



**Performance Measure:** Examiner hours spent in training to increase ability to identify and supervise risk.

**Performance Target:** 40 hours training per new examiner per year and 32 hours training per senior examiner per year.

**What was achieved:** As the graph indicates, the average training per examiner continues to exceed the minimum expectations for training. Our examiners must be adequately trained to analyze risk in an ever-changing and complex industry. Regular examiner training is essential to our vision of providing a regulatory environment in which Iowa's credit unions can prosper, operate in a safe and sound manner and meet the financial service needs of their members.

**Data Sources:** Credit Union Division Training System.

**Resources:** The National Credit Union Administration partners with the State of Iowa to provide federally funded training to Iowa credit union examiners. Iowa credit unions fully fund the costs of operating the Division of Credit Unions, including supervision and examination of state-chartered credit unions, through fees paid in August and December of each year, which are deposited in the Commerce Department Revolving Fund.

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# KEY RESULTS

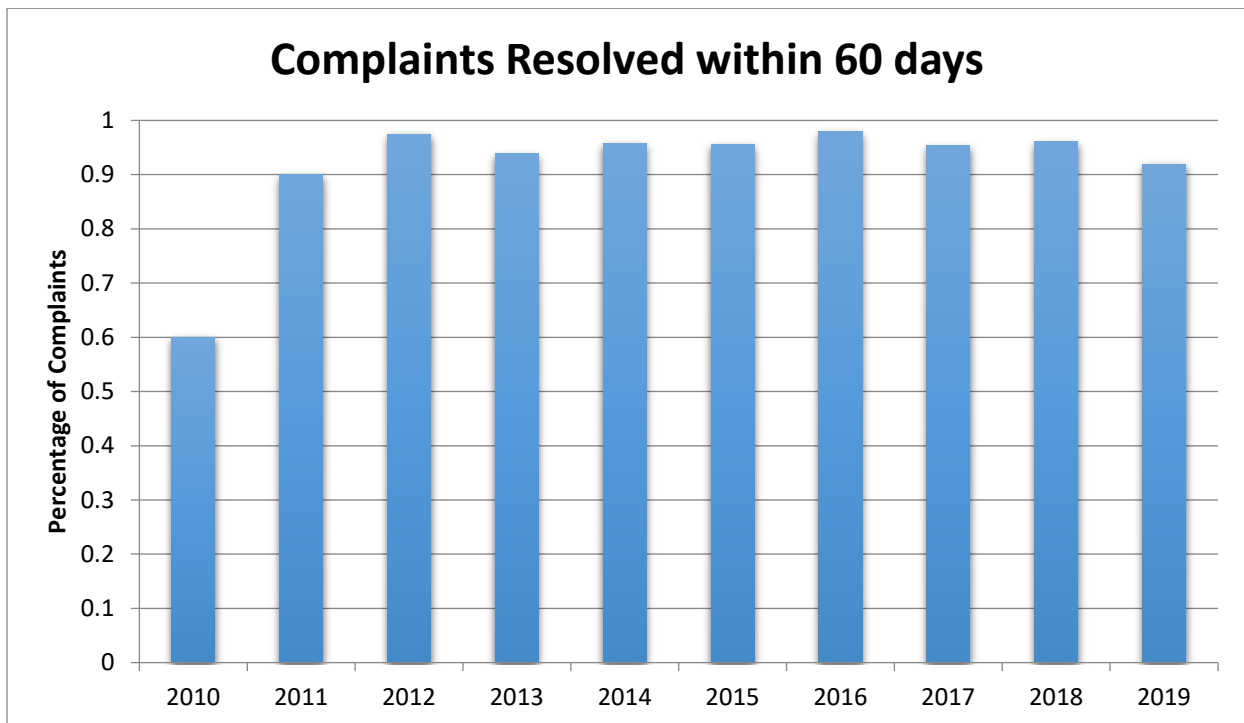
## SERVICES/ PRODUCTS/ACTIVITIES

**Name:** Consumer Protection.

**Description:** Iowa Code §533.501(3) provides for a process for resolving consumer complaints filed regarding credit union activity. Our goal is to resolve the majority of complaints within 60 days of receipt.

**Why we are doing this:** To improve communication and accessibility of information, the Division of Credit Unions aims to enhance internal and external communications in areas of administration and legislation. Prompt and timely resolution of member complaints helps to provide effective administration and execution of the laws relating to credit unions.

**What we are doing to achieve results:** The Division of Credit Unions has expanded the complaint resolution process; evaluating new complaints for legal issues, which may require additional research. Complaint responses may explain complex state/federal laws and regulations include an analysis of the complainant’s account activity, and provide the Division of Credit Union’s response. Guidance or instructions may also be provided to a credit union as a result of a specific complaint.



**Performance Measure:** Complaints resolution times.

**Performance Target:** 85% within 60 days.

**What was achieved:** Complaints are typically resolved within 45 days. While most complaints are resolved within 60 days, some complaints require extended investigations and/or additional communication and correspondence with the parties involved or other state or federal agencies.

**Data Sources:** Credit Union Division Complaint Reporting System.

**Resources:** Iowa credit unions fully fund the costs of operating the Division of Credit Unions, including the complaint resolution process, through fees paid in August and December of each year, which are deposited in the Commerce Department Revolving Fund.

# KEY RESULTS

## SERVICES/ PRODUCTS/ACTIVITIES

**Name:** Consumer Protection.

**Description:** Issue regulatory guidance.

**Why we are doing this:** The Division of Credit Unions issues regulatory guidance to credit unions and the public regarding how the Division will interpret certain legal issues.

**What we are doing to achieve results:** Topics chosen as the subjects for regulatory guidance are important topics with widespread interest or impact, new issues or complex areas of compliance.

**Performance Measure:** Issue regulatory guidance.

**Performance Target:** 1 per year.

**What was achieved:** The Division of Credit Unions updated or drafted two regulatory guidance documents during fiscal year 2019. We continue to review our current guidance documents in order to keep our regulatory guidance current.

**Resources:** Iowa credit unions fully fund the costs of operating the Division of Credit Unions, through fees paid in August and December of each year, which are deposited in the Commerce Department Revolving Fund.



## CREDIT UNION DIVISION - PERFORMANCE PLAN RESULTS FY 2019

<b>Name of Agency:</b> Department of Commerce – Credit Union Division			
<b>Agency Mission:</b> To safeguard the interests of credit union depositors and stakeholders through the effective administration and execution of the laws relating to credit unions.			
<b>Core Function:</b> Regulation and Compliance			
Performance Measure (Outcome)	Performance Target	Performance Actual	Performance Comments & Analysis
1. Percent of credit unions in safe and sound status	No CAMELS 5 ratings	No CAMELS 5 ratings	<b>What Occurred:</b> Iowa credit unions continue to operate in safe and sound condition.  <b>Data Source:</b> Credit Union Division Examination Reporting System
<b>Service, Product or Activity:</b> Examinations			
Performance Measure	Performance Target	Performance Actual	Performance Comments & Analysis
1. Percent of credit unions examined annually	81%	75%	<b>What Occurred:</b> Examinations did not meet targets due to limited staffing.  <b>Data Source:</b> Credit Union Division Examination Reporting System
2. Examiner hours spent in training to increase ability to identify and supervise risk	40 hours / new examiner; 32 hours/ senior examiner	118.00 hours/ new examiners; 81 hours/senior examiners	<b>What Occurred:</b> Credit union examiners are being trained in specialized financial areas of knowledge.  <b>Data Source:</b> Credit Union Division Training System
<b>Core Function:</b> Consumer Protection			
Performance Measure	Performance Target	Performance Actual	Performance Comments & Analysis
1. Complaints resolved within 60 days of receipt	85%	90%	<b>What Occurred:</b> The majority of complaints were resolved within the targeted 60-days timeframe.  <b>Data Source:</b> Credit Union Division Complaint Reporting System
2. Issue regulatory guidance	1/year	200%	<b>What Occurred:</b> Issued 1 revised and 1 new regulatory guidance documents to credit unions.  <b>Data Source:</b> Credit Union Division

## RESOURCE REALLOCATIONS

During FY 2014, the Division of Credit Unions experienced difficulty recruiting applicants for entry level positions and received approval from the Department of Administrative Services and the Department of Management for an Advanced Hiring Rate for a two-year period. This affected the Division in FY 2015 by improving the quality of applicants and new hires. In FY 2016, the Division's Advanced Hiring Rate was re-approved. The Division also conducted a Salary Study that was approved in FY 2017 and obtained authorization for a career path salary program for new examination staff. The Division continues to utilize the career path program developed in the course of the Salary Study.

In FY 2018, the Iowa Legislature authorized a three-year appropriation increase for a technology update and enhancement. The technology project is necessary to prevent data breaches and to resolve vulnerabilities due to the age of the system itself. The enhancements will allow examination staff to work more efficiently and potentially reduce costs to the Division of Credit Unions.

In FY 2018, the Iowa Legislature authorized the addition of one FTE: Examiner. The additional examination staff member allows for increased examination work to be completed and for increased focus on analysis.

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