

TO: THE CHIEF EXECUTIVE OR MANAGING OFFICER OF ALL
LOUISIANA STATE-CHARTERED CREDIT UNIONS

FROM: SID SEYMOUR, CHIEF EXAMINER

DATE: September 16, 2011

RE: LOUISIANA OFFICE OF FINANCIAL INSTITUTIONS (OFI) UPDATE

FINANCIAL PERFORMANCE

Overall Financial Condition – As of 6-30-11, there were 45 state-chartered credit unions, or approximately 21 percent of the 218 credit unions domiciled in the State of Louisiana. For state-chartered credit unions, the net worth ratio decreased to 12.66%, from 12.91% as of 6-30-10, but remains significantly above the 10.14% reported on a nationwide basis. Net income was significantly above the same period in 2010, with the ROAA reported at 0.59% at 6-30-11 versus 0.17%, at 6-30-10. The increase was primarily the result of a decrease in interest expense, loan loss provisions, and losses on investments (including write-downs of membership capital in corporate credit unions). The net interest margin has increased slightly on a year-over-year basis as the decline in cost of funds has mostly offset continued declines in yields on loans and investment securities.

State-chartered credit unions reported a decrease in their delinquency ratio to 1.28%, down from 1.36% reported as of 6-30-10, primarily because of an increase in total loans since delinquent loans increased slightly. Loans delinquent less than six months continue to comprise the majority of total delinquent loans. In addition, the volume of more serious delinquent loans decreased modestly on a year-over-year basis. As of 6-30-11, the dollar volume of net charge-offs increased on a year-over-year basis. However, the ratio of net charge-offs to average loans decreased minimally to 0.80%, from 0.81% reported as of 6-30-10, because of loan growth in a year. However, the delinquency and net charge-offs ratios are below those reported on a nationwide basis of 1.58% and 0.95%, respectively. Total loans and total shares both increased on a year-over-year basis; however, because loan growth exceeded share growth, the ratio of total loans to total shares increased to 74.66%, from 72.34% as of 6-30-10.

As noted previously, shares increased on a year-over-year basis with growth in excess of \$40 million or approximately 3.98%. Borrowed money decreased by approximately \$1 million over the year, or by more than 60% from the prior year. While loans increased over this same period, investments (including deposits in commercial banks, savings and loan associations, savings banks) and cash and equivalents also increased modestly, with growth of less than \$300 thousand or approximately 0.08%. Investments in corporate credit unions showed a significant decline during this period. In general, state-chartered credit unions have more than sufficient liquidity to fund membership loan demand at this time. As of 6-30-11, 16 state-chartered credit unions reported a net loss year-to-date, compared to 24 state-chartered credit unions as of 6-30-10. In addition, 10 of the 16 credit unions reporting a net loss reduced the loss from a year ago with the remaining 6 credit unions reporting a larger net loss than a year ago. Of the 29 credit unions reporting net income, only 3 of those credit unions reported a reduction in net income from a year ago. As of 6-30-11, 43 Louisiana-domiciled federally-chartered credit unions reported a net loss year-to-date, compared to 95 reporting net losses as of 6-30-10. In addition, 20 of the 43 credit unions reporting a net loss reduced the loss from a year ago, 15 reporting a larger net loss than a year ago, and the remaining 8 reporting a net loss compared to net income a year ago. Of the 130 credit unions reporting net income, 20 of those credit unions reported a reduction in net income from a year ago.

Note: Net income used for the above comparison does not remove the impact of any corporate stabilization expenses and NCUSIF premiums.

The **accompanying chart** illustrates the level of delinquent loans to total loans for state-chartered credit unions in Louisiana, all Louisiana-domiciled credit unions, and all credit unions nationwide for each quarter from 12-31-08 through 6-30-11. As the chart shows, the ratio for Louisiana-domiciled credit unions has remained below the national average.

Date	Delinquent Loan Ratio			Diff (LA vs NW)
	State-Chartered	All LA-Domiciled	Nationwide	
6/30/2011	1.28%	1.19%	1.58%	-0.39%
3/31/2011	1.29%	1.21%	1.62%	-0.41%
12/31/2010	1.49%	1.40%	1.75%	-0.35%
9/30/2010	1.33%	1.32%	1.75%	-0.43%
6/30/2010	1.36%	1.32%	1.73%	-0.41%
3/31/2010	1.39%	1.34%	1.76%	-0.42%
12/31/2009	1.56%	1.50%	1.83%	-0.33%
9/30/2009	1.21%	1.36%	1.69%	-0.33%
6/30/2009	1.19%	1.22%	1.60%	-0.38%
3/31/2009	1.06%	1.13%	1.46%	-0.33%
12/31/2008	1.21%	1.24%	1.38%	-0.14%

The **accompanying chart** illustrates the level of net charge-offs to average loans for state-chartered credit unions in Louisiana, all Louisiana-domiciled credit unions, and all credit unions nationwide for each quarter from 12-31-08 through 6-30-11. As the chart shows, the ratio for Louisiana-domiciled credit unions has remained below the national average.

Date	Net Charge-Offs Ratio			Diff (LA vs NW)
	State-Chartered	All LA-Domiciled	Nationwide	
6/30/2011	0.80%	0.63%	0.95%	-0.32%
3/31/2011	0.77%	0.66%	1.00%	-0.34%
12/31/2010	0.82%	0.75%	1.13%	-0.38%
9/30/2010	0.89%	0.72%	1.13%	-0.41%
6/30/2010	0.81%	0.68%	1.16%	-0.48%
3/31/2010	0.96%	0.72%	1.18%	-0.46%
12/31/2009	0.76%	0.76%	1.21%	-0.45%
9/30/2009	0.68%	0.69%	1.17%	-0.48%
6/30/2009	0.59%	0.64%	1.15%	-0.51%
3/31/2009	0.60%	0.60%	1.10%	-0.50%
12/31/2008	0.67%	0.59%	0.85%	-0.26%

OTHER ISSUES AND/OR TOPICS OF INTEREST

LEGISLATION

The two bills sponsored by OFI during the 2011 Legislative Fiscal Session were signed by Governor Jindal and became effective on 8-15-11. **Act No. 136** (previously SB 87) authorizes the Commissioner to disclose records concerning any person subject to the jurisdiction of this Office when such records are requested by another state or federal agency having authority to license or investigate such entity or person. **Act No. 10** (previously HB 144) authorizes the Commissioner to take any action that he deems necessary and appropriate regarding the utilization of an electronic database licensing system with respect to persons subject to licensure by this Office. This definition excludes financial institutions as defined in LSA - R. S. 6:2(8). These new Acts can be found at the Legislatures website at: www.legis.la.gov. Please contact General Counsel Sue Rouprich at 225/922-1028 or srouprich@ofi.la.gov with any questions.

THE SECURE AND FAIR ENFORCEMENT FOR MORTGAGE LICENSING (SAFE) ACT

As addressed within the NCUA Rules regarding the SAFE Act, the initial registration period for mortgage loan originators (MLO) at all federally-regulated institutions ended July 29, 2011. As the Rules state, the credit union must prohibit any employee who is subject to the registration requirements from acting as an MLO until they complete all of the registration requirements. The Rules define the annual renewal period for registered MLOs as between November 1st through December 31st of each year. The following is contained in the National Mortgage Licensing System (NMLS) Resource Center FAQs at <http://mortgage.nationwidelicencingsystem.org/fedreg/Pages/FedRegFAQ.aspx>:

“All initial registrations completed before July 1 must be renewed by the end of 2011, whereas initial registrations completed on or after July 1 are not required to be renewed by the end of 2011. All registrations must be renewed on an annual basis in years following, regardless of the initial registration date. The exact process for renewing registrations has not been finalized. Information regarding the renewal process will be posted to the Resource Center as it becomes available.” On 8-2-11, CSBS issued the following Press Release in this regard:

<http://csbs.informz.net/csbs/data/images/communications/finalnmlsconsumeraccesspressrelease.pdf>

If you have any questions, please contact Review Examiner Tim Robichaux at 225-922-0878 or trobichaux@ofi.la.gov.

HURRICANE PREPAREDNESS

Since the 2011 hurricane season is already well under way, we are again linking [OFI's Emergency Preparedness Guide](#) and [regulator script](#). Each year, prior to the start of hurricane season, we send out a request for primary and secondary emergency contact information for your disaster recovery team that will only be used in the event that we have to deal with an emergency event. The disaster recovery team is expected to maintain emergency contact information for the board and senior management. On 5-5-11, we faxed each credit union a request to update their contact information. If you have not already done so, please return the updates at your earliest convenience. If you have any questions, please contact Executive Staff Officer Donna Montagnino at 225/922-2627 or by email to dmontagnino@ofi.la.gov.

In 2010, the Louisiana Business Emergency Operations Center (LABEOC) opened here in Baton Rouge. Business leaders from Louisiana's financial services, communication, oil and gas, restaurant, retail and utility industries have been invited to participate in the LABEOC, representing a massive public-private partnership designed to make the state more self-sufficient during emergencies. We would again encourage all credit unions to consider registering with the Louisiana Business Emergency Operations Center (LABEOC). In order for the LABEOC to have a significant impact in supporting the private sector, all businesses are urged to register in order to begin participating in the state's preparedness, response, and recovery efforts. For more information about the LABEOC, please visit their website at www.LABEOC.org.

NCUA BEGINS DISCLOSING CAMEL RATINGS

Effective August 2011 - The National Credit Union Administration (NCUA) implemented an examination policy change for federally insured state-chartered credit unions (FISCUs). The NCUA will now disclose its CAMEL ratings to FISCUs during all insurance reviews and supervision contacts in which NCUA examiners are on-site. NCUA examiners will communicate the CAMEL ratings during the final meeting at the credit union, along with sufficient information supporting the basis for the assignment of individual component and composite ratings.

The NCUA discussed the new policy with NASCUS and state regulators prior to instituting the policy. It was determined that when the State Supervisory Authority (SSA) and NCUA disagree on CAMEL ratings on joint contacts, they will discuss the differences in an attempt to resolve them. If differences cannot be resolved, NCUA examiners will proceed to disclose NCUA's CAMEL simultaneously and on schedule with the SSA, but no later than the final meeting with credit union management and officials. The current CAMEL component and composite ratings guidance are detailed in the Letter to Credit Unions No. 07-CU-12 dated December 2007.

REMINDER TO FILE IRS FORM 990 ON AN ANNUAL BASIS

Management is reminded that individual credit unions are responsible for filing Internal Revenue Service (IRS) Form 990 tax return each year -- due to the IRS by May 15th of the following year. Similar to other states, and due to various reasons, the OFI discontinued filing the Group Form 990 a number of years ago. As a result, we understand that credit unions in other states are getting notices from the IRS regarding the loss of its "tax-exemption" for failure to meet the annual Form 990 filing requirement. Since we have repeatedly made you aware of this filing requirement, we have not

been contacted by any of our credit unions regarding receipt of such a notice from the IRS. Non-profit entities (such as credit unions) are allowed to file for an automatic 3-month extension with the completion and submission of a Form 8868 to the IRS prior to the due date. The Form 990 is an informational return for non-profit entities and is different from the Form 990-T which is utilized to report Unrelated Business Income Tax (UBIT). While the OFI is not prepared to provide accounting or legal advice regarding UBIT, you may contact Deputy Chief Examiner Fields at (225) 922-0633 or by email at jfields@ofi.louisiana.gov with questions regarding filing the IRS Form 990.

MULTI-FEATURED OPEN END LENDING (MFOEL) PROGRAMS

As mentioned in my previous CEO Letter, the NCUA issued a letter to federal credit unions in September 2010, No. 10-FCU-02, discussing Federal Reserve Board (FRB) changes to Regulation Z and the effects of those changes on credit union MFOEL programs. While the FRB has the authority to implement Regulation Z under the Truth in Lending Act, NCUA has enforcement authority for federal credit unions. For state-chartered credit unions, Regulation Z under the Truth in Lending Act is enforced by the Federal Trade Commission (FTC). However, the issues discussed for federal credit unions in NCUA's letter would be similar for state-chartered credit unions. MFOELs, like CUNA Mutual's LOANLINER program, are single accounts with separate sub-accounts for different loan products such as share overdrafts, unsecured lines of credit, share-secured lines of credit, vehicles, and home equity lines of credit. In February 2010, the FRB published changes to Regulation Z that affect the management of open-end lending.

The changes to Regulation Z clarify that underwriting must take place only at the opening of a MFOEL plan. Creditors using MFOEL plans are permitted to verify a person's creditworthiness to ensure it has not deteriorated (and revise credit limits and terms accordingly), but they must not perform underwriting because a person has requested an advance. As a result, credit union must ensure that their open-end lending policies and procedures distinguish between underwriting at the inception of the open-end lending relationship and verification that may take place during the duration of the relationship: including when the member applies for an additional draw on the pre-approved line of credit. In addition, credit unions must ensure that the proper (open-end lending) disclosures are given in conjunction with MFOELs. NCUA's guidance to FCUs also contains a list of best practices. LCU No. 10-FCU-02 Link: (<http://www.ncua.gov/letters/2010/FCU/10-FCU-02.pdf>)

NCUA CORPORATE STABILIZATION EFFORTS

NCUA Corporate Stabilization Fund Assessment Prepayment — On August 2, 2011, NCUA announced that it did not receive sufficient pledges from credit unions to meet the minimum threshold for triggering the voluntary prepayment of the Corporate Stabilization Fund Assessment. Of the nation's nearly 7,300 federally insured credit unions, 799 pledged \$369.9 million to voluntarily prepay assessments, which was short of the required \$500 million threshold. Therefore, NCUA will not debit any voluntarily pledged amount from any credit union.

2011 Assessments Set — On August 29, 2011, the NCUA Board set the 2011 Stabilization Fund assessment at 25 basis points for a total of \$1.96 billion. The Board based the 2011 assessment of 25 basis points on projected fixed, near-term net cash flow needs with the expectation that future assessments would be considerably lower. Additionally, there is no anticipated 2011 Share Insurance Fund premium. Funds generated from the 2011 assessment, along with borrowed funds from the U.S. Treasury, will pay the principal and interest on maturing Medium Term Notes issued by corporate credit unions and guaranteed by the Stabilization Fund, and the guaranteed notes issued to the bridge corporate credit unions. As required by law, the Board took into consideration the potential negative impact of this assessment on credit union earnings by annualizing June 30 Call Report figures. NCUA will distribute invoices with the 2011 assessment due by Sept. 27. Credit unions should expense the assessment in September and report the full expense on their Sept. 30 Call Reports. Credit unions should review their 2011 budget and make the appropriate adjustments

2012 Outlook — Near-term projected cash needs prior to 2013 have fallen from \$2.94 billion to \$2.7 billion. After the 2011 assessment pays the majority of this obligation, the projected requirement for 2012 cash needs will be around 9 basis points of June 30 insured shares, or approximately \$700 million.

Management is urged to periodically review NCUA's Letters to Credit Unions for updates or notices regarding upcoming Stabilization Fund Assessments. The purpose of the Corporate Stabilization Fund is to repay the Treasury over multiple years for borrowings necessary to stabilize the corporate credit union system, which is essential to maintain liquidity; investment services; and provide payment systems for thousands of natural-person credit unions. NCUA must repay the Treasury borrowings through assessments to credit unions during the seven-year life of the Corporate Stabilization Fund, which currently has six years remaining

Additional resources regarding the corporate credit unions are part of a new “toolbox” of information on the NCUA website. Valuable information can be accessed using the following link:
<http://www.ncua.gov/Resources/CorporateCU/CSRMain.aspx>.

INFORMATION ON THE NASCUS WEBSITE

You are encouraged to periodically check the NASCUS website at <http://www.nascus.org> for information and updates on the most current matters affecting state-chartered credit unions. The Regulatory Resources Section (<http://www.nascus.org/regulatory-resources/index.php>) contains details on proposed rules and requests for comments that may affect state-chartered credit unions. The Legislative Affairs Section (<http://www.nascus.org/legislative-affairs/index.php>) provides information and NASCUS’ commentary on proposed federal legislation that may affect state-chartered credit unions. Generally, NASCUS comments only on federal legislation that may affect the dual chartering system, state-chartered credit unions, share insurance requirements, or infringe upon state regulatory authority.

5300 CALL REPORT AND REPORT OF OFFICIALS SUBMISSIONS

Managers and Call Report preparers are asked to pay close attention to the NCUA’s deadlines for the submission of Call Reports. Submission deadlines have periodically changed since the transfer to NCUA’s online system. The online system login page is located at <https://cuonline.ncua.gov/CreditUnionOnline/Login.aspx>.

ADDITIONAL INFORMATION REQUIRED FOR CREDIT UNION’S ONLINE PROFILE

Periodically, NCUA has been adding new items under the Regulatory tab or the IS&T tab of the credit union online profile. Please pay close attention to the NCUA’s announcement of the addition of new profile items in order to submit the new requested information. Profile items completed after submitting your call report will not flow into the system until the credit union submits a new call report or resubmits an existing call report.

FinCEN E-FILING

FinCEN has recently released the technical E-filing specifications for the new CTR and SAR and is offering an informational webinar on Thursday, September 29, 2011, to discuss further. If you are not filing CTRs and SARs electronically, you should considering doing so. The system will alert you to any obvious omissions as an extra precaution to inadvertently sending incomplete forms. Information concerning the new specifications and the webinar may be found at http://www.fincen.gov/news_room/nr/html/20110902.html. You may also register for FinCEN updates at <https://public.govdelivery.com/accounts/USFINCEN/subscriber/new?>

CLOSING COMMENTS

Again, we are always looking for recommendations to improve the manner in which we conduct examinations. If you have any questions/comments regarding the contents of this CEO Letter, please contact me directly at 225/925-4675 or by email at sseymour@ofi.la.gov or Deputy Chief Examiner John Fields at 225/ 922-0633 or by email at jfields@ofi.la.gov.