

**Department of Insurance and Financial Services
Division of Credit Unions**

**PERFORMANCE
REPORT**

Performance Results Achieved for Fiscal Year 2023

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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 resources, recognize superior performance, and inform Iowans about their return from investment by the government.

This report contains information pertaining to agency goals and measures.

Executive Summary

Performance remained stable in all goals and measures. Iowa's 68 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 and conversions. The Division of Credit Unions performed 57 examinations during the year. The majority of examinations occurred in a hybrid remote and onsite posture. All credit unions are examined by the Division in accordance with the timeframes set out in Iowa code and national standards. Credit unions with higher risk levels are closely monitored in and outside of the examination process. Documents of Resolution and scheduled contacts are utilized in order to address examination findings. 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.

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

AGENCY OVERVIEW

Mission and Vision of the Division of Credit Unions

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 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 Division of Credit Unions is a division of the Department of Insurance and Financial Services. The Division is headed by the Superintendent of Credit Unions. The Superintendent 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. The Review Board 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 recommend administrative rules or other actions as it deems necessary or suitable to administer the Iowa Credit Union Act.

Employees of the Division of Credit Unions are non-contract, non-merit employees, pursuant to Iowa Code §20.4. The Division team includes ten Credit Union Examiners and one Credit Union Supervisory Examiner who 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, Analyst, 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 18 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 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 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 August and December. The Division of Credit Unions receives no funding from the state general fund.

The Division's spending authority for FY 2023 was set at \$2,553,593. Due to staff vacancies, actual expenditures for FY 2023 were \$2,327,744.

KEY RESULTS

Core function: CAMELS Ratings

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. State-chartered credit unions in 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.

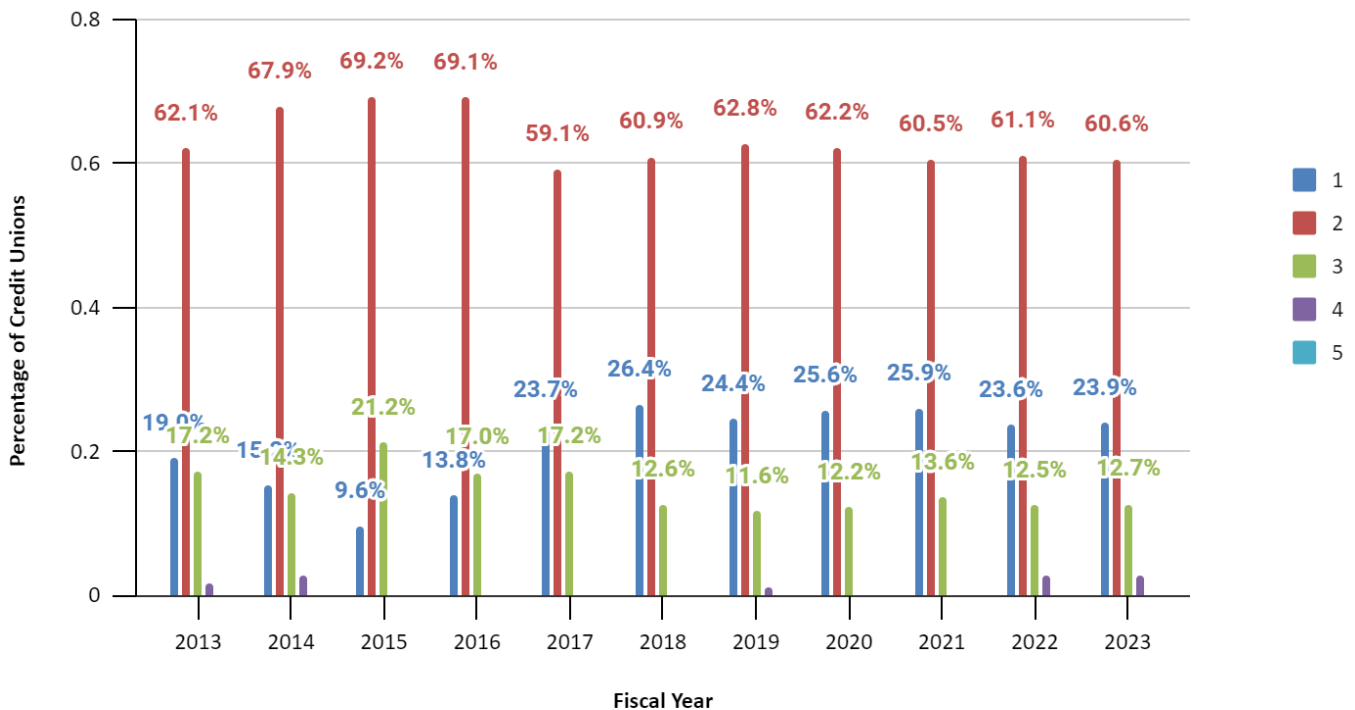
Composite 3 Rating - represents performance that is flawed to some degree and risk management practices may be less than satisfactory, credit unions require more than usual supervisory attention to address deficiencies.

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. The Division then 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.

Credit Union CAMEL Percentages



Performance Measure: Safe and sound credit unions in Iowa.

Performance Target: No credit unions with a composite 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 2023, there were 68 credit unions in the state; none of which had a composite 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

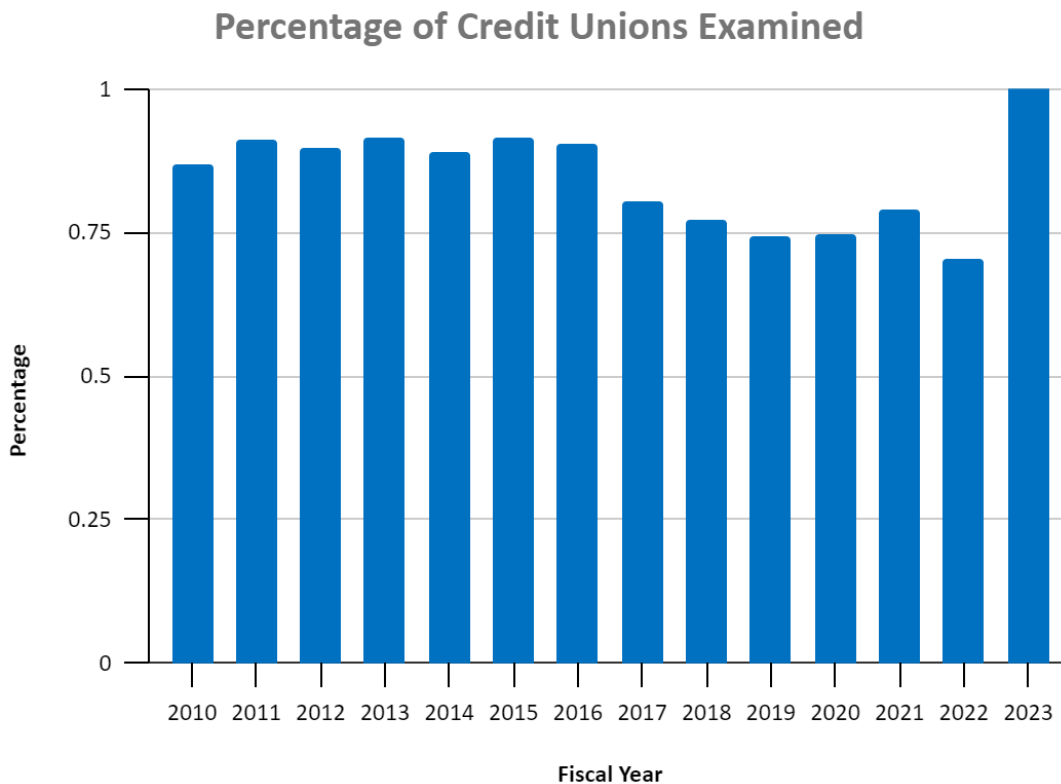
Services/products/activities: Examinations

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.



Performance Measure: Percent of Iowa credit unions examined annually.

Performance Target: Examine 100% of credit unions within regulatory timelines.

What was achieved: By making frequent contact with credit unions through examinations and related supervisory contact, potential problems can be caught earlier. Remedial efforts are more effective for the health of the credit union and the protection of credit union members. One hundred percent of all Iowa State-Chartered credit unions were examined with the regulatory requirements of a 24 month cycle in Fiscal Year 2023. This percentage number does not include additional contacts performed by the Division outside of the examination cycle.

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

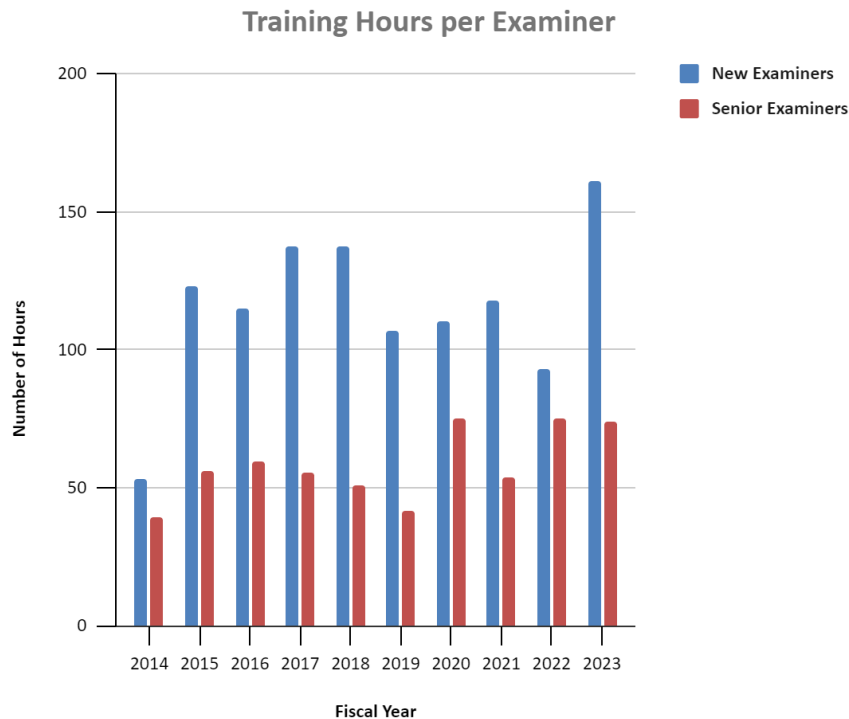
Services/products/activities: Examination Training

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: 90 hours training per new examiner per year and 50 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.

KEY RESULTS

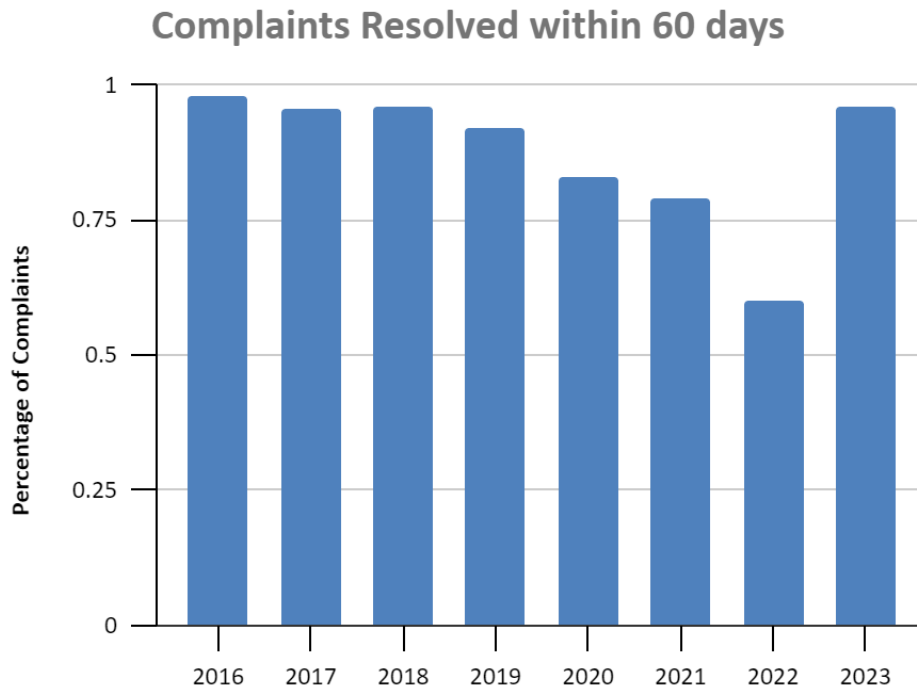
Services/ products/activities: Consumer Complaints

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 provide the Division of Credit Union’s response and may explain complex state/federal laws and regulations including an analysis of the complainant’s account activity.. 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. The total complaint volume and complexity continues to increase.. The Division specifically held identified complaints open for legal and examination investigation. In FY 2023, the Division resolved 96% of complaints within 60 days.

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 Revolving Fund.

KEY RESULTS

Services/products/activities: Regulatory Guidance

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 selected regulatory guidance documents during fiscal year 2023 and met this performance target. We continue to review our current guidance documents in order to keep our regulatory guidance relevant. The Division also updated all information regarding credit union mergers hosted on the Division website.

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.

DIVISION OF CREDIT UNIONS - PERFORMANCE PLAN RESULTS FY 2023

| Name of Agency: Department of Insurance and Financial Services – Division of Credit Unions | | | |
|---|-----------------------------|---------------------------|--|
| Agency Mission: To safeguard the interests of credit union depositors and stakeholders through the effective administration and execution of the laws relating to credit unions. | | | |
| Core Function: 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 | What Occurred: Iowa credit unions continue to operate in safe and sound condition. Data Source: Credit Union Division Examination Reporting System |
| Service, Product or Activity: Examinations | | | |
| Performance Measure | Performance Target | Performance Actual | Performance Comments & Analysis |
| 1. Percent of credit unions examined annually | 100% | 100% | What Occurred: Examinations did not meet targets due to staffing turnover and scheduling constraints related to extended staff leave. Data Source: Credit Union Division Examination Reporting System |
| 2. Examiner hours spent in training to increase ability to identify and supervise risk | 90 hours / new examiner; 50 | 161 hours/ new examiners; | What Occurred: Credit union examiners are being trained in specialized financial areas of knowledge. |

| | hours/ senior examiner | 74 hours/senior examiners | Data Source: Credit Union Division Training System |
|--|------------------------|---------------------------|--|
| Core Function: Consumer Protection | | | |
| Performance Measure | Performance Target | Performance Actual | Performance Comments & Analysis |
| 1. Complaints resolved within 60 days of receipt | 85% | 96% | <p>What Occurred: The majority of complaints were resolved within the targeted 60-day time frame. The Division required additional legal and examination review for several complaints. The Division modernized the complaint process in order to address the increased volume and complexity in FY 2023.</p> <p>Data Source: Credit Union Division Complaint Reporting System</p> |
| 2. Issue regulatory guidance | 1/year | 1 | <p>What Occurred: Issued 1 revised regulatory guidance document to credit unions. The Division revised all merger guidance.</p> <p>Data Source: Credit Union Division</p> |

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 2021 and 2022 the Division transitioned to a new national examination program and completed a full hands-on re-training of all Division examination staff. The Modern Examination and Risk Identification Tool (MERIT) is a national examination system utilized by the National Credit Union Administration and state supervisory agencies across the country. MERIT is a comprehensive, credit union specific, collaborative examination platform. The Division continues to operate a hybrid examination process in which not all examiners are on-site during each examination. However, the Examiner-in-Charge is generally expected to be on-site. Exam teams work both on-site and off-site utilizing the secure file transfer portal, examination program, and other technology to maximize resource allocation.

In 2022 the Division was authorized to add an additional FTE, bringing the total full time employees of the Division to 16. The Division developed the role of cyber-focused credit union examiner. This position is intended to focus on credit union cyber security and perform specific examination functions regarding the same. The Division filled this position with a cyber-focused credit union examiner in 2022. Through the state government alignment process, the Division of Credit Unions consolidated information technology responsibilities with the two other Department of Insurance and Financial Services divisions, Insurance and Banking. The Division will replace staff computers in FY 2024 in accordance with the internal technology schedules.

The Division continues to process changes from state alignment with the goal of increasing efficiencies and collaboration.

DIVISION CONTACTS

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