
Credit Union Department



NEWSLETTER

No. 12-10

www.tcu.state.tx.us

December 31, 2010

Purchase of Loan Participations

A credit union may invest money not used in loans to members in participation loans with another credit union, corporation, credit organization, or financial organization. Federally insured credit unions are reminded, however, that NCUA must approve purchases from any entity other than another federally insured credit union (Part 741.8 of NCUA Rules and Regulations). Therefore, purchases of loan participations from any other type of financial institution, a privately insured credit union, or a CUSO must have prior approval of the NCUA regional director.

Multi-Featured Open-End Lending Programs

As a result of the Federal Reserve Board's changes to Regulation Z, effective on July 1, 2010, credit unions using a multi-featured open-end lending product, such as CUNA Mutual's LOANLINER program, should review their policies and procedures to ensure they are in compliance with the revisions. Although open-end lending products are still permissible, the amendments emphasize that lenders' policies, procedures, and data processing systems must treat the plans as truly open-end and indicate that there is no underwriting following plan opening. While NCUA has enforcement authority only for federal credit unions (the Federal Trade Commission enforces Regulation Z Truth in Lending for state credit unions), its recent letter to federal credit unions, [10-FCU-02](#), provides relevant information and guidance to state credit unions as well.

Residential Rental Property Loan Term

The Department recently received an inquiry regarding the maximum permissible term for a loan secured by residential rental property. Commission Rule 91.704 specifies a maximum term of 30 years for a loan secured by improved residential property that is not owner occupied. However, the term "improved residential property" is further defined in Section 91.101 as property occupied by the owner on a full-time or seasonal basis. As a result, unless an owner occupies the property on at least a seasonal basis, a loan secured by

improved residential rental property is subject to the All Other Loans limit of 15 years included in Section 91.704.

Reporting NCUA Assessments

Credit unions will notice a change in the reporting instructions for both the NCUSIF Premium Assessment to fund losses in Natural Person Credit Unions, and the Temporary Corporate Credit Union Stabilization Fund Assessments on the December 31, 2010 Call Report. As noted on pages 31 and 32 of the Call Report instructions, credit unions will report the assessments for 2010 on the year-end Call Report as follows:

- The NCUSIF Premium Assessment of 0.1242% of insured shares, which was approved by the NCUA Board in the third quarter of 2010 will be reported as **“NCUSIF Premium Expense” on page 5, line 26a**. This assessment was previously reported as Members Insurance expense on page 5, line 26 on the September 30, 2010 Call Report.
- The Corporate Credit Union Assessment of 0.134% of insured shares, which was approved by the NCUA Board in the second quarter of 2010 will be reported as **“Temporary Corporate CU Stabilization Fund Assessment” on page 5, line 26b**. This amount was previously reported as Temporary Corporate CU Stabilization expense on page 5, line 31 on the September 30, 2010 Call Report.
- Also, credit unions that continue to pay for other members’ insurance expense, including life savings insurance, borrowers’ protection, excess share insurance coverage and/or other members’ insurance products, will report those expenses on page **5, line 26c as Other Member Insurance Expense**.

Credit Union Online Profile

Credit unions are required to update their online profile information each quarter. The Regulatory section of the profile displays the credit unions’ regulatory requirements including: annual meetings, financial statement audits, member account verifications and disaster recovery testing. When updating the regulatory section, credit unions are encouraged to use the “add” link to record the new dates and not “edit” the existing dates in the profile. The system is designed to display a history of all dates entered. Additionally, whenever changes are made to a credit union’s online profile, the profile must be certified. If the profile is not certified, any updates or changes made to the profile will not be saved. Please contact Isabel Velasquez at (512) 837-9236 if you have any questions.

First Quarter Financials

Credit unions can view the Department’s financial statement for the first three months of fiscal year 2011 on the agency website under Reports [\(Click Here\)](#). Personnel expenses have increased as a result of filling three examiner vacancies in July and August, but remain below projected amounts. The Department continues to look for cost savings to comply with the spirit of Governor Perry’s recent letter to state agencies requesting an additional 2.5% cut in expenses for the remainder of the fiscal year.

ALLL in a Challenging Economy

Calculating an appropriate amount for the Allowance for Loan and Lease Losses (ALLL) has never been a precise process. However, in these times of high unemployment, increasing delinquencies, and unprecedented loan losses it becomes even more critical. The accounting profession has adopted several statements (FAS 5, 15, and 114) that guide the process, and it is expected that credit unions will follow the accounting literature as they evaluate loans and make provisions for the ALLL. An ALLL that is “under provisioned” means that earnings and net worth are both overstated. Such a condition is not acceptable and will likely require exam adjustments, corrections to the credit union’s books, and 5300 call report corrections to properly comply with the accounting guidance and regulatory requirements.

Publishing Notice of Applications in the Texas Register

In order to meet the submission deadlines for the applicable issues of the Texas Register, it is necessary for the Department to establish the schedule included below. Completed applications received after the deadline for the month cannot be published until the following month.

<u>Published In</u>	<u>Deadline for Receipt</u>
January, 2011	Friday, January 14
February, 2011	Friday, February 11

Applications Approved

Applications approved since November 30, 2010 include:

<u>Credit Union</u>	<u>Changes or Groups Added</u>
Field of Membership Change Withdrawn:	
GECU (El Paso)	See Newsletter No. 09-10
Field of Membership Change – Vacated Order:	
Texas Dow Employees Credit Union (#2) (Lake Jackson)	See Newsletter No. 08-08
Texas Dow Employees Credit Union (#6) (Lake Jackson)	See Newsletter No. 08-08

Applications Received

The following applications were received and published in the December 31, 2010 issue of the *Texas Register*:

Field of Membership Expansion(s):

Right Choice Credit Union (Houston) – To permit employees of Erwin McGowan State Farm Insurance Agency located at 1315 Lockwood Drive, Houston, Texas 77020, to be eligible for membership in the credit union.

Comments or a request for a meeting by any interested party relating to an application must be submitted in writing within 30 days from the date of this publication. Credit unions that wish to comment on any application must also complete a Notice of Protest form. The form may be obtained by contacting the Department at (512) 837-9236 or downloading the form at <http://www.tcred.state.tx.us/applications.html>. Any written comments must provide all information that the interested party wishes the Department to consider in evaluating the application. All information received will be weighed during consideration of the merits of an application. Comments or a request for a meeting should be addressed to the Credit Union Department, 914 East Anderson Lane, Austin, Texas 78752-1699.

The following applications were received and will be published in the January 7, 2011 issue of the *Texas Register*:

Merger or Consolidation:

An application was received from **Corner Stone Credit Union** (Lancaster) seeking approval to merge with **Dallas Cotton Belt Employees Credit Union** (Mesquite). Corner Stone Credit Union will be the surviving credit union.

Foreign Credit Union to Operate a Branch Office:

An application was received from **Alliant Credit Union**, Chicago, Illinois to operate three Foreign (out-of-state) Branch Offices at 900 Grand Plaza, Houston, Texas 77067; 500 Jefferson Ave., Suite 250, Houston, Texas 77002; and George Bush Intercontinental Airport – IAH, 3500 N. Terminal Rd. IAH, Terminal C Between Gate C45/E1, Houston, Texas 77032.

Comments or a request for a meeting by any interested party relating to an application must be submitted in writing within 30 days from the date of this publication. Any written comments must provide all information that the interested party wishes the Department to consider in evaluating the application. All information received will be weighed during consideration of the merits of an application. Comments or a request for a meeting should be addressed to the Texas Credit Union Department, 914 East Anderson Lane, Austin, Texas 78752-1699.

2011 Meeting Schedule **Austin, Texas**

Commission Meetings

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| <p>➤ Friday, February 18, 2011</p> <p>➤ Friday, June 17, 2011</p> <p>➤ Friday, October 21, 2011</p> | <p>Credit Union Department Office</p> <p>Credit Union Department Office</p> <p>Credit Union Department Office</p> |
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Meetings begin at 8:00 a.m. unless notified differently

Rules Committee Meetings

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| <p>➤ Thursday, February 17, 2011</p> <p>➤ Thursday, June 16, 2011</p> <p>➤ Thursday, October 20, 2011</p> | <p>Credit Union Department Office</p> <p>Credit Union Department Office</p> <p>Credit Union Department Office</p> |
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Meetings begin at 1:00 p.m. unless notified differently

Holiday Schedule For TCUD

The Department's office will be closed on **January 17, 2011** in observance of Martin Luther King, Jr., Day.

A HAPPY
NEW YEAR

The Credit Union Commission and the Staff of the Department would like to extend our best wishes for a New Year of health, happiness, and prosperity

This newsletter is produced monthly as a part of the Department's continued communication outreach with the credit unions it regulates. Delivery is generally provided by electronic notification of its availability on the Department's website at <http://www.t cud.state.tx.us>.

Suggestions and comments concerning the newsletter or its content should be sent to the Department at 914 East Anderson Lane, Austin, Texas 78752-1699 or via email to info@t cud.state.tx.us.