

**MINUTES OF THE MEETING**  
**OF THE STATE CREDIT UNION BOARD**

November 17, 2005

**First item in order of business:** Commissioner Thompson called the Credit Union Board meeting to order at 9:00 a.m. pursuant to the agenda which was posted for public display prior to 9:00 a.m. on November 16, 2005. Notice of the meeting was also made available to the Secretary of State pursuant to Title 25 O.S. §311 (the Open Meeting Act). The meeting was held in the conference room of the Oklahoma State Banking Department, Oklahoma City, Oklahoma.

**Second item:** Roll call - the following members were present:

Floyd Atha  
Richard Forshee  
Steve Rasmussen  
Mick Thompson, Chairman

Les Rector was absent.

The Chairman declared a quorum present.

Also present from the Department: Dudley Gilbert, Legal Counsel; Kandace Natale and Terry Slagle Credit Union Examiners; and Debbie Moore, Secretary.

**Third item:** Approval of the Minutes of the meeting held August 16, 2005.

Chairman Thompson: Asked for any changes or additions to the minutes from the Board.

Member Atha: Made a motion to accept the minutes as written.

Member Rasmussen: Seconded the motion.

Minutes were approved as follows:

Member Atha - voted yes  
Member Forshee - voted yes  
Member Rasmussen - voted yes  
Chairman Thompson - voted yes

#### **Fourth item:** Commissioner's Reports

##### Department Status

Chairman Thompson: Explained the new Skill Based Adjustment program implemented by the Department in which the Examiners receive monetary compensation annually for extra training and experience. There are several levels of compensation which can be attained by the Examiners as they complete certification.

This week Tony Reel, Education Director, is presenting our model of the Skill Based Adjustment Program to the Conference of State Bank Supervisors "Examiner Forum" in Washington D.C.

Commissioner Thompson: Explained the notice that was sent out recently requesting a list of credit union branches was for record keeping purposes only.

##### Examination Report

Examinations commencing during October, 2005 included one Federal Reserve member bank, five non-member banks, two credit unions, three cemeteries, and two trust departments.

Examinations in process as of October 21, 2005 included five banks, five credit unions, two cemeteries, and two trust departments.

##### The Legislative Report

Commissioner Thompson: Board members should let the Department know by mid December if there is a request for legislation to be filed.

Richard Del Sesto: Explained that a change in bankruptcy laws may result in a bill being filed by the Credit Union League to coordinate state lien-filing with the new bankruptcy laws.

**Fifth Item:** Consideration of the request by US Employees O.C. Federal Credit Union for approval to convert from a federal credit union to a state-chartered credit union, pursuant to 6 O.S. § 2021 and O.A.C. 180:10-3-3.

The Credit Union was represented by Mike Walton, President and CEO and by Don Sheets, Chairman of the Board.

Commissioner Thompson: Referred to a memo prepared by Dudley Gilbert, outlining the steps involved in a conversion application. NCUA approval was initially denied, then approval later granted, which brings us to this formal application presented to the Board.

Floyd Atha: Does staff have a recommendation?

Commissioner Thompson: Yes, said he would comment after the discussion.

Floyd Atha: Asked if there had been a vote of credit union membership to support the conversion application.

Mike Walton: Replied that the vote was on June 15.

Richard Forshee: Noted there seem to be several areas on the report where corrections were recommended and were ignored for some time. Is there a response from senior management as to why the changes took so long?

Mike Walton: Replied it was due to staff changes and a major computer conversion. The conversion took about a year and required a lot of time and resources. Since the last state exam they had addressed all the changes requested.

Commissioner Thompson: Asked what had been done since August 9<sup>th</sup>.

Mike Walton: The examiner's major concern was their lack of ALM which has now been covered by having quarterly reports written by Southwest Corporate, an investment advisory service. Also, they have a new compliance officer and centralization of the review of SARs. Previously, branch offices were receiving SAR's and the reports were not being reviewed by one specific person.

Commissioner Thompson: Asked how long Mr. Walton had been with the credit union.

Mike Walton: Replied he had been there nearly three years.

Commissioner Thompson: You were there when the process started?

Mike Walton: Actually when I started, we withdrew our first application. With a new CEO coming on board, we thought we needed time to make some changes. So in 2002 we actually withdrew our application, then reapplied in 2004.

Commissioner Thompson: "If you could complete the information in the last 45-60 days, then why didn't you do it in the first year and a half?" "The examination report continuously reads that changes were only partially completed. How did you do this in the last month and a half when you could not do it in a year and a half?"

Mike Walton: Replied again they were going through the computer change over and various staff changes.

Commissioner Thompson: Questioned the items that are still partially incomplete on the credit union examination.

Mike Walton: Agreed there were some items not yet completed.

Floyd Atha: Asked if the state Examiners had been in once this year.

Mike Walton: Replied yes. They wanted to comply, but the lack of a compliance officer was a hindrance for awhile.

Commissioner Thompson: "We want you to be a state charter also, but we do not want to take on your problems either. My concern is that you withdrew the application once and you had conversion problems and compliance problems. Why would you re-submit your application until you had it all corrected?"

Mike Walton: Replied they had started the application process about the time all the changes were taking place.

Floyd Atha: Questioned the key ratios shown in the report.

Mike Walton: Replied they are only 45% loaned out and so rely heavily on investment income. Yes, the ratio is high primarily because gross income went down, not because expenses went up. The net worth has gone up each of the last four years.

Floyd Atha: Asked if this was because the net worth grew or because the assets have shrunk.

Mike Walton: Both, but primarily because of a shrinkage in assets.

Floyd Atha: Asked if they had shown a loss in any year.

Mike Walton: Said they had not shown a loss at calendar end in the last four years.

Floyd Atha: Asked that within their organization which operating expenses were the highest

Mike Walton: Replied that health insurance for employees was the highest expense, but also followed by the expense of computer maintenance. He referred to the computer conversion that was quite expensive in 2004.

Floyd Atha: Asked what the ratio of full-time employees to member is.

Mike Walton: Replied that the ratio is 362 as of June.

Steve Rasmussen: Asked what the loan share ration is now.

Mike Walton: Replied that it is 52%.

Floyd Atha: Asked if the internal operation of the credit union is set up to make loans and if they have to go through a credit committee with every loan decision.

Mike Walton: Replied that one change they are implementing is to have loan officers at every branch. He said they needed to centralize to help with expenses. They need the decisions to be made at the main office only.

Steve Rasmussen: Noted there had been an issue with the safekeeping of investments. He asked if that been taken care of now.

Mike Walton: Yes, the information is kept at one specified location now. That change had been made before the latest examination.

Steve Rasmussen: Mentioned that the issue of safekeeping had been noted on examinations for a couple of years.

Mike Walton: Said the safekeeping standards were acceptable under state law, but not with the NCUA. So it was permissible under a state charter, but not under federal charter.

Commissioner Thompson: Summarized that the concerns are that there is a pattern that goes back to almost all of the exams, whether federal or state. He quoted from a report by the regional director stating a "repeated lack of actions on items you have agreed to address" and there is a weakness which could hinder conversion to a large community charter. The state exam report states management failed to implement a satisfactory ALM program and provide satisfactory corrective action to outstanding DOR items. The necessary changes were only partially completed when you filed the application, so why would they not be entirely completed by the time you pursued a conversion. Another concern, is that with all these problems we have found, how are you going to grow, if you cannot make the necessary corrections on the current problems found during examinations. If you have been there three years these should have all been taken care of.

Commissioner Thompson: Said that based on that information, he made a motion to reject the request of US Employees O.C. Federal Credit Union to convert to a state chartered credit union.

Richard Forshee: Seconded the motion.

Floyd Atha: Added the comment in defense of the credit union, they do have adequate reserves.

Richard Forshee: Said he certainly would like to have this credit union convert to a state charter, but was concerned about all of these problems that could have been corrected and have not been corrected. What he would like to see is the improvement made and then come back when that has been done and re-apply for this. He said there is a lot of work involved in this whole process, and he is concerned about bringing a credit union in that is

going to require additional supervisory activity on the Department's part. This is a situation, as the Commissioner noted, where these things could have been corrected before they brought in the application. So he would like to see significant progress made before they vote to approve the conversion.

Steve Rasmussen: Agreed with the comments.

Commissioner Thompson: Asked for the vote on the motion to reject the proposal to convert to a state chartered credit union.

Richard Forshee - voted yes  
Steve Rasmussen - voted yes  
Floyd Atha - voted no  
Commissioner Thompson - voted yes

Motion to reject passed.

**Sixth item:** Consideration and prescription of the rate of credit union assessments for Oklahoma chartered credit unions existing as of December 31, 2005, calculated on institution assets as of December 31, 2005, pursuant to title 6 O.S. § 2001.2 and O.A.C. 180:10-1-14.

Commissioner Thompson: Referred the board members to information in their board packets. He explained Department quarterly reports relating to expenses, then moved on to the Department projections.

Floyd Atha: Asked if emergencies come up can a "special assessment" be levied.

Commissioner Thompson: Yes, but he feels the reserves are high enough that will not be necessary.

Richard Forshee: Asked what the actual assessment rate is.

Commissioner Thompson: It is 15 cents per thousand if their assets are under 35 million and 19 cents per thousand if their assets are over 35 million.

Commissioner Thompson: Recommended not to change the assessment rate.

Floyd Atha: Moved that the rate of credit union assessments be set at an amount equal to 15 cents per \$1000 of assets for those credit unions with total assets of \$35 million or less,

and an amount of 19 cents per \$1000 of assets for those credit unions with total assets greater than \$35 million.

Richard Forshee: Seconded the motion.

Richard Forshee - voted yes  
Steve Rasmussen - voted yes  
Floyd Atha - voted yes  
Commissioner Thompson - voted yes

Motion passed.

**Seventh item: New Business**

There was no new business brought before the Credit Union Board.

**Eighth Item: Adjournment**

Member Rasmussen: Moved to adjourn.

Member Forshee: Seconded the motion.

Member Forshee - voted yes  
Member Rasmussen - voted yes  
Member Atha - voted yes  
Chairman Thompson - voted yes

The meeting was adjourned at 9:55 a.m.

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Richard Forshee

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Steve Rasmussen

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Floyd Atha

