



DCU BULLETIN

Division of Credit Unions

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July 26, 2002

No. B-02-15

DCU Incorporates Review of Growth Strategy Into Examination Process

The Division's long-standing policy has been to allow well-managed and well-capitalized credit unions to define their own membership criteria within the limits of state law. To further that policy, DCU revised its Field of Membership (FOM) rules to allow CAMEL 1- and 2-rated credit unions to expand their FOM via a streamlined process, providing that each addition to the FOM meets one of the requirements of a "qualified group" as defined in Chapter 208-472-015 WAC. Since the new rule took effect on March 8, 2002, many credit unions have taken advantage of the streamlined process to significantly re-define their FOM.

Concerns About Rapid Growth

The new rule allows Camel 1- and 2-rated credit unions to make their own business decisions about membership criteria in accordance with overall business and strategic plans. It also allows credit unions to provide competitive financial services to underserved communities. However, too rapid and inadequately managed growth may significantly increase the credit union's transaction, strategic, liquidity, credit, or interest rate risk. An expansion to a credit union's FOM is not of itself a threat to credit union safety and soundness. Rather, DCU's particular concern is whether a credit union has sufficient capital, management systems, business planning, long-term strategic planning, and budgeting processes to handle that increased risk.

Reviewing Growth Strategies

The Division does not intend to discourage growth. Instead it hopes to encourage planned and well-managed growth. Therefore, as part of its on-going examination and off-site monitoring processes, DCU needs to identify and monitor growth in each credit union's new and existing service markets. For examinations beginning in September 2002, DCU will ask each credit union to provide the following additional information in its Questionnaire for Directors and Officers in preparation for scheduled exams:

1. A description of the credit union's overall growth strategy for the near future, including where and how the credit union intends:
 - For the bulk of its membership growth to occur,
 - To provide the majority of its services and products,
 - To target its marketing efforts,
2. A general description of the credit union's planned new product and service offerings, and
3. A list of relevant documents (such as business plans, branch and technology plans, budget, strategic goals, mission statements, etc.) that detail the credit union's future growth plans.

DCU will also continue to monitor share growth, earnings, net worth, delinquency, charge-offs and other financial performance indicators for early signs of inadequate management of expansion and growth.

Summary

Solid business planning and growth management must accompany credit union growth. In addition to managing growth of membership, assets, and products and service offerings, management must evaluate and provide for the additional risks of operating in new and more geographically diverse markets.

As part of its efforts to shift to a risk-focused exam, DCU will be looking more closely at the implementation and management of credit union plans for expansion and growth. These conditions are reviewed during the normal examination, but credit unions with unsatisfactory performance indicators or trends may be asked to provide additional information outside of the regular exam cycle. Credit unions with a significant weakness in any of the areas of capital, assets, management, earnings or liability management will fall under particularly close scrutiny.

If you have questions or concerns regarding this Bulletin, please contact Linda Jekel at (360) 902-8753.