



NCUA Supervisory

Priorities

Updated for COVID-19

September 2020

WIPFLI

Your presenter(s)



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NCUA Supervisory Priorities

NCUA Letter 20-CU-22

- Published July 15, 2020; amends the Agency's supervisory priority letter published in January (20-CU-01) and shifts the focus of its priorities in response to the COVID-19 pandemic.
- Examiners will focus on many of the same areas with some twists:
 - ▶ Bank Secrecy Act Compliance/Anti-Money Laundering
 - ▶ Consumer financial protection
 - ▶ Credit Risk
 - ▶ Cybersecurity
 - ▶ LIBOR transition
 - ▶ Serving Hemp related members
- And have included the following:
 - ▶ Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

NCUA Letter 20-CU-22

- Bank Secrecy Act Compliance and Anti-Money Laundering
 - ▶ Continued focus on BSA/AML programs, with specific attention on customer due diligence and beneficial ownership requirements, proper filing of SARS and CTRS, and bi-weekly 314(a) information requests from FinCEN.
 - ▶ Impacts from COVID-19: changes in processes may have occurred considering the pandemic. Ensure any changes to controls or procedures are fully documented and adhere to BSA/AML.

NCUA Letter 20-CU-22

- Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
 - ▶ Several provisions applicable to Credit Unions, including:
 - Greater access to liquidity, to help general stability of member credit unions, through changes to the Central Liquidity Facility;
 - Suspended requirement to categorize troubled debt restructurings related to COVID-19;
 - Introduction of the Paycheck Protection Program;
 - Updated requirements for reporting loan modifications to credit reporting agencies;

NCUA Letter 20-CU-22

- Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
 - ▶ Several provisions applicable to Credit Unions, continued:
 - Prohibited foreclosures on all single family, federally-backed mortgage loans (3/18-5/17), with various extensions by FNMA, FHLMC, FHA, VA, and USDA;
 - 360-day forbearance for single family borrowers of federally-backed mortgage loans experiencing hardship related to COVID-19;
 - 90-day forbearance for multifamily homes with federally-backed mortgage loans experiencing hardship related to COVID-19.
 - ▶ Be prepared to demonstrate how your credit union responded to these provisions.

NCUA Letter 20-CU-22

■ Consumer Financial Protection

- ▶ Electronic Fund Transfer Act (Regulation E): Examiners will evaluate policies and procedures for initial account disclosures, error resolution procedures, and changes to the safe harbor threshold in the Remittance Transfer Rule (increase from 100 transfers to 500 transfers annually).
- ▶ Fair Credit Reporting Act (FCRA): Examiners will review credit reporting policies and procedures regarding accuracy of information reported to credit bureaus. As noted in CARES Act, procedures should reflect reporting requirement for COVID-19 related modifications.
- ▶ Gramm-Leach Bliley (GLBA): Examiners will continue to evaluate non-public personal information protection.

NCUA Letter 20-CU-22

■ Consumer Financial Protection

- ▶ Small Dollar Lending (including payday alternative loans [PALs]): Examiners will test for compliance with NCUA rules and CFPB requirements (for small-dollar loans not in scope of PAL).
- ▶ Truth in Lending Act (Regulation Z): Examiners will evaluate practices concerning annual percentage rates (APR) and late charges. Examiners will also focus on practices changed as a result of COVID-19, specifically Truth in Lending-Real Estate Settlement Procedures Act (TRID) and Regulation Z rules that permit members to waive the waiting periods under both rules.
- ▶ Military Lending Act (MLA) and Servicemembers Civil Relief Act (SCRA): Examiners have remained focused in this area, and if your credit union hasn't been examined yet for this, then expect it in your next exam.

NCUA Letter 20-CU-22

- Credit Risk Management and Allowance for Loan & Lease Losses (ALLL)
 - ▶ Examinations will focus on workout strategies, risk management practices, and how new strategies helped borrowers.
 - ▶ Particular focus on credit union's controls, reporting, and tracking of programs authorized through the CARES Act and other new strategies implemented by the credit union.
 - ▶ Current expected credit loss (CECL) standard not a focus due to the delay, NCUA does encourage credit unions to continue to move forward with transition.
 - ▶ Examiners will evaluate the adequacy of the ALLL by reviewing policies and procedures, documentation of the methodology and assumptions, adherence to generally accepted accounting principles, and any independent reviews of the methodology and documentation (whether by supervisory committee, internal audit, and/or external audit).

NCUA Letter 20-CU-22

■ Information Systems and Assurance (Cybersecurity)

- ▶ Emerging cyber-attacks and threats have increased as a result of advances in financial technology, increase in remote workforce, and increase use of mobile technology.
- ▶ Examiners are prioritizing the evaluation of critical security controls rather than performing Automated Cybersecurity Examination Tool (ACET) cybersecurity maturity assessments.
- ▶ Examiners are piloting a new tool called InTREx-CU, which is interagency procedures which will help ensure consistent approaches across community financial institutions.
- ▶ The new tool will help examiners and credit unions identify gaps in security safeguards, as well as identify program deficiencies in controls and practices.

NCUA Letter 20-CU-22

- LIBOR Transition

- ▶ Use of LIBOR ends late 2021.

- ▶ Contracts and/or products based on LIBOR require a transition plan to handle this change. The NCUA has published a [LIBOR Assessment Workbook](#) that will be used to conduct such reviews.

NCUA Letter 20-CU-22

■ Liquidity Risks

- ▶ As a result of COVID-19, additional stress on balance sheets may require more robust liquidity management over the coming years. Examiners will continue to focus on that liquidity risk management, with emphasis on the following:
 - Effects of loan payment forbearance, loan delinquencies, projected credit losses, and loan modifications on liquidity and cash flow forecasting.
 - Scenario analysis for changes in cash flow projections for an appropriate range of relevant factors.
 - Scenario analysis for liquidity risk modeling, including changes in share compositions and volume.
 - Potential effects of low interest rates and decline of credit quality on market value of assets, funding costs, and borrowing capacity.
 - Adequacy of contingency funding plans to address potential liquidity shortfalls.

NCUA Letter 20-CU-22

- Hemp-related businesses
 - ▶ NCUA previously issued letter 20-CU-19, which provides guidance on serving or considering serving hemp-related businesses.
 - ▶ Examiners will continue to collect data in upcoming exams to help the Agency better understand how to assist Credit Unions serving these businesses.

NCUA Letter 20-CU-22

- Modernization Updates
 - NCUA Connect and Modern Examination and Risk Identification Tool (MERIT) – Due to COVID-19, the Agency has delayed rollout of the Tool until second half of 2021.

Credit Union Update

► Wipfli Resources

- Four webinar series starting October 7, 2020 – Credit Union Forum – FREE <https://www.wipfli.com/events/fi-credit-union-challenges-forum-for-executives>
- Educational Webinars on topics including BSA, Cybersecurity, Accounting Issues, and Information Technology <https://www.wipfli.com/insights/webinars>
- Bank on Wipfli Blog <https://www.wipfli.com/insights/blogs/bank-on-wipfli>
- More Information at <https://www.wipfli.com/industries/financial-institutions>
- COVID-19 Resource Center <https://www.wipfli.com/covid-19-resource-center>

► NCUA also has many resources on COVID-19 here:

- NCUA FAQ on COVID-19: <https://www.ncua.gov/coronavirus/frequently-asked-questions-regarding-covid-19-ncua-and-credit-union-operations>

If you have any questions and would like to discuss any of the content presented here or require further guidance on considerations and impact of COVID-19 on your business, please feel free to contact me by phone or email.

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