



National Credit  
Union Administration

# Preparing for Virtual Examinations



# National Credit Union Administration

- Why The Offsite Posture?
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## Why the offsite posture?

- In response to the COVID-19 pandemic, the NCUA mandated a strict offsite policy for all employees and contracted support staff as of March 16, 2020. All NCUA examinations will take place offsite through May 1, 2020, and this offsite policy will remain in effect until further notice.
- Our top priority is the safety of agency staff, credit union employees, and members. During this time, the NCUA will limit the burden imposed on credit unions so that they can focus on providing uninterrupted service to their members. This letter outlines the NCUA's approach to our examination and supervision program for the duration of the COVID-19 pandemic.
- The NCUA will continue to reevaluate our offsite posture through the duration of the COVID-19 pandemic and as national, state, and local guidance is updated. We will notify credit unions of changes to procedures or examination expectations as our examination and supervision approach continues to evolve.



## FLEX Exam Pilot Program: Overview

- The pilot was one of NCUA's Examination Modernization Initiatives
- The pilot was developed to assess examiners working remotely on elements of examinations of well-run credit unions that have the technology and platforms to securely provide electronic data.
- From mid-2016 through August 2018, 58 participants completed 87 FLEX pilot exams.
- Credit unions in the pilot ranged from \$5.9 million in assets to \$10.3 billion.



## FLEX Exam Pilot Program: What we learned

- The pilot identified the need for the NCUA to have a secure file transfer portal to support much of this work being done offsite efficiently.
- Effective communication is critical. There had to be frequent, clear, and concise communication between examiners and credit union management.
- It took longer and required more resources for credit union personnel to upload documentation
- Webcasts and teleconferences are vital tools for the success of offsite examinations
- Offsite examinations are more difficult to administer for smaller credit unions that do not appropriate technology



## FLEX Exam Pilot Program: What we learned

The pilot noted the following areas could be effectively performed offsite, provided the credit union was able to provide the documentation in a secure electronic format:

- Planning and Scoping
- Writing Exam Report
- Compiling and completing Questionnaires
- AIREX Set Up & Loan Selection
- Board Minutes
- Policies
- Strategic/Business Plans
- Budget Reports & Analysis
- Allowance for Loan Loss Methodology and Reports
- File Maintenance Reports
- Some BSA Reports (SAR/CTR)
- IT Risk Assessments
- Annual Audit/Workpapers
- Disaster Recovery Test Results
- Internal Audit Plans and Reports
- ALCO Minutes
- Consumer Loans (only if CU has proper technology)
- Credit Risk Monitoring Report
- Investment Report
- Due Diligence/Third Party Vendor
- Risk Reports
- ALM reports
- Surety Bond
- Third Party Loan Reports
- Risk Ratings Reports for MBLs
- Other Risk/Analytic Reports
- Completing Confidential Section/Upload



## FLEX Exam Pilot Program: What we learned

The pilot noted the following areas could not be effectively performed offsite:

- MBL loan reviews and some real estate loan review
- Bank statements and reconcilements
- Complex investment portfolios
- GL and Call Report analysis
- SCUEP workbook procedures
- Insider accounts
- Observing the AIREs download on SCUEP exams
- Cash/Internal controls
- Collections and delinquency controls
- 314a reports
- Official checks
- Employee transactions
- Repossessed autos and OREOs
- Prior DOR items



## Poll Question 1

Which review area did the Flex Exam Pilot determine could be effectively conducted offsite?

A: 314a Reports

B: Complex investment portfolios

C: Board Minutes

D: None of the above





## Information Transfer & Security:

To facilitate offsite examinations, the pilot determined that we needed to develop technology to securely transfer information. As a result, NCUA developed and deployed a Secure File Transfer Portal (SFTP). The SFTP provides a means for examiners and credit union management to securely and efficiently exchange information. Below are some key features and functions of the portal:

- The portal allows examiners to create a workspace that can be shared with credit union personnel
- Once a workspace is shared with credit union personnel, they can be given permission to upload documentation
- Documentation uploaded to the portal is encrypted and purged after 75 days
- The portal uses multifactor authentication for all users
- The portal has a 5 minute lock out period



## Poll Question 2

What is the lockout period for the SFTP?

A: 10 minutes

B: 30 seconds

C: 15 minutes

D: 5 minutes



## Communication:

Offsite examinations create challenges for effective communication, such as:

- Lack of face-to-face communication can be challenging and may take more time to accomplish the communication task;
- Information is unavailable that would normally be gained through casual conversations with staff, observing credit union employees going about their daily routines, and listening to staff interact with each other;
- Misunderstandings are more frequent with email conversations.



## Communication:

As a result, we have or will be implementing several initiatives to mitigate these challenges:

- While working offsite, EICs will need to communicate with credit union management and team members more frequently; deliberately scheduling meetings to increase communication flow.
- The use of webcasts and teleconferences with screen sharing capabilities will enhance effective communication.
- Additional training relating to non-face-to-face communication will be implemented going forward.



### Poll Question 3

Which option below is a challenge to effective communication when conducting an offsite exam?

A: Lack of face-to-face communication can be challenging and may take more time to accomplish the communication task;

B: Information is unavailable that would normally be gained through casual conversations with staff, observing credit union employees going about their daily routines, and listening to staff interact with each other;

C: Misunderstandings are more frequent with email conversations

D: All of the above

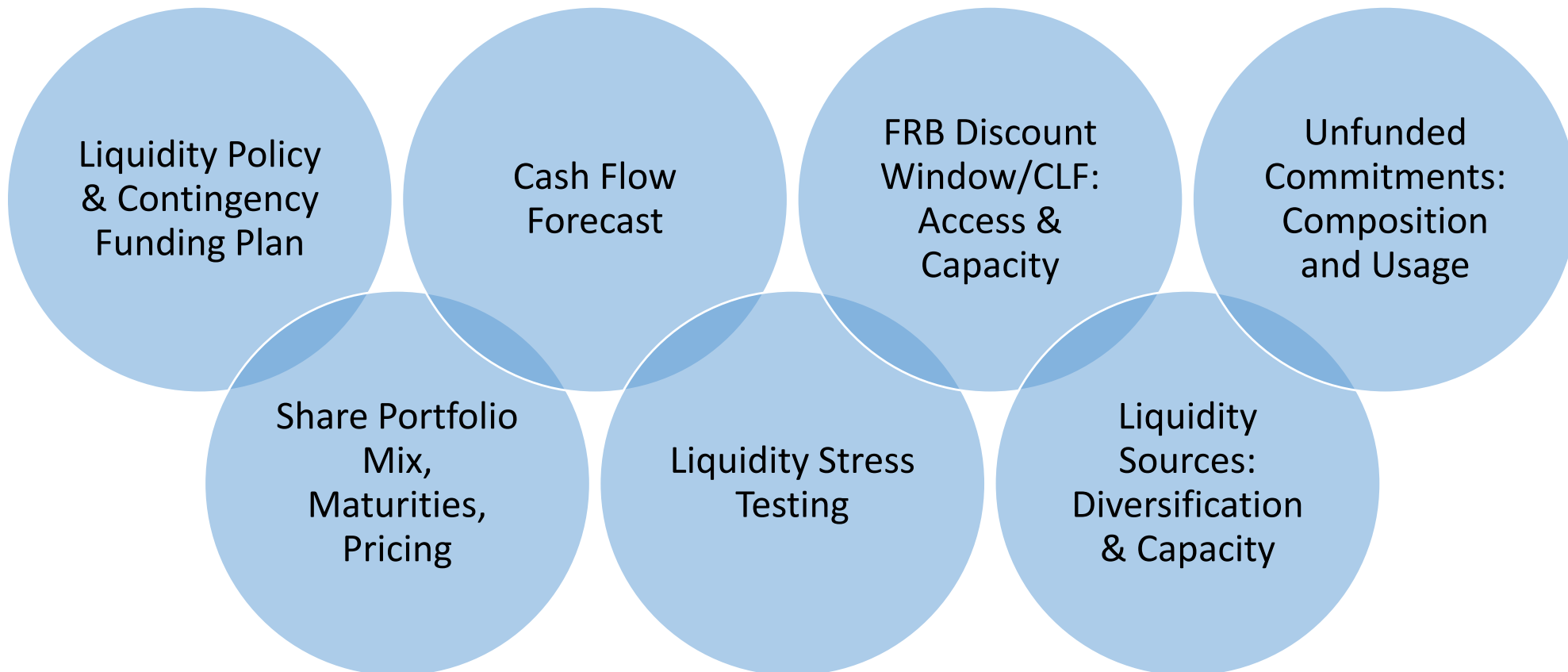


## Examination Scope:

- The examination scope requirements has not been materially impacted by the offsite posture.
- Areas that cannot be reviewed, are documented by the examiner and will be reviewed at the next contact when we can resume onsite contacts.
- If the examiner deems the review area to be a material risk to the insurance fund, the Regional Director can make a decision to approve an onsite review.
- However, there will be a increased emphasis on the impact of the COVID-19 pandemic on the seven key risk areas



## Examination Scope: Liquidity Risk





## Examination Scope: Liquidity Risk

- Examiners will be assessing if the credit union's liquidity position is sufficient to manage forbearance relief provided to federally backed loans.
- Examiners will be evaluating the credit union's liquidity management under stressed economic conditions
- Examiners will be assessing if the credit union's liquidity position is sufficient to manage forbearance relief provided to federally backed loans.





## Examination Scope: Liquidity Risk

- Examiners will be assessing if the credit union is monitoring its standard sources of secondary funding to determine if a contingent source from a backup provider may be necessary? If so, is the credit union familiar with how such access works?
- Examiner's will be assessing the adequacy of projected liquidity (e.g., cash flow forecast) and the effect of relief efforts on liquidity.

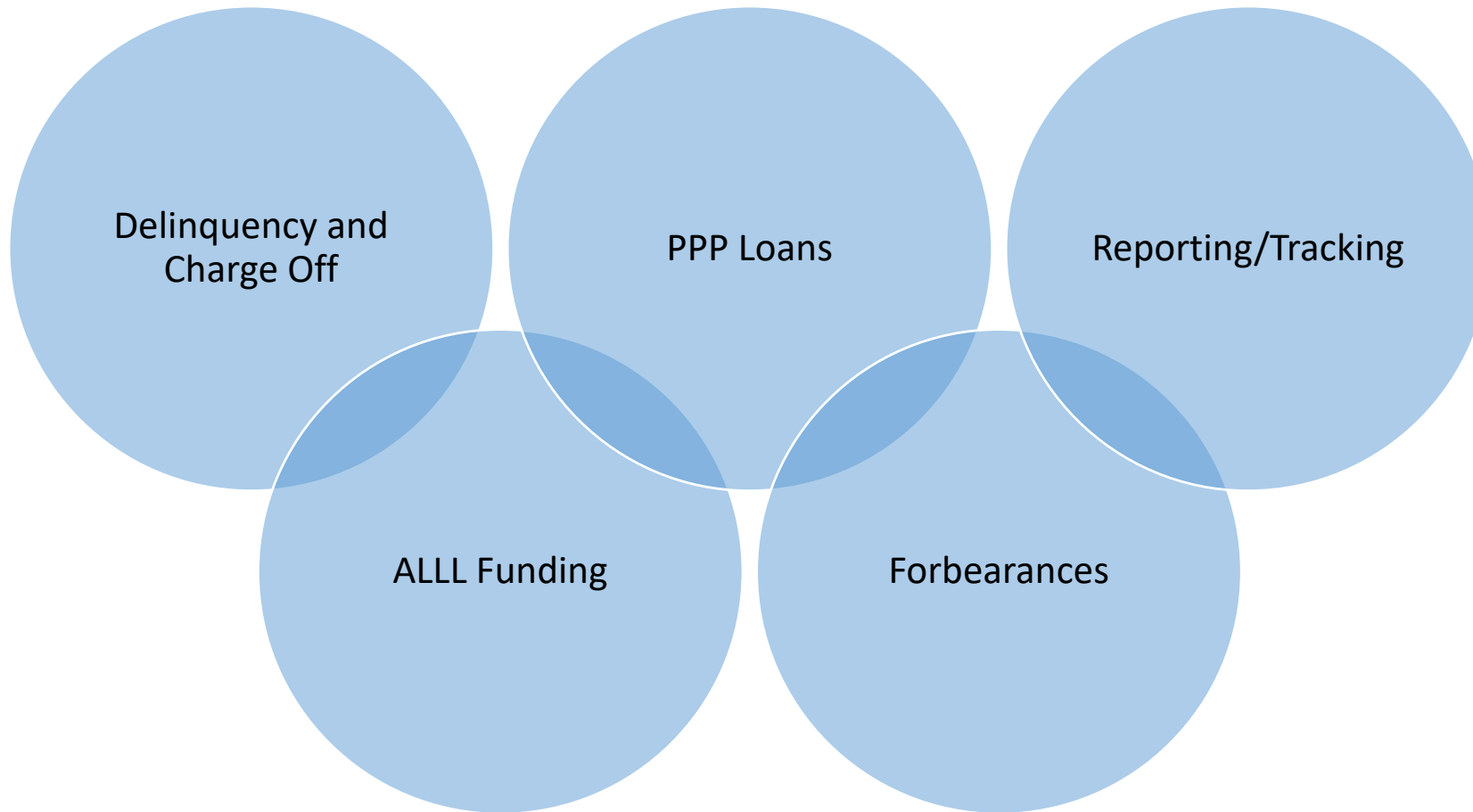


## Examination Scope: Liquidity Risk

- To assist in our review of the unique challenges that the pandemic poses to Liquidity risk, the agency will be introducing the Liquidity Coverage Analysis Tool (LCAT)
- The LCAT is designed to be an early warning indicator for liquidity issues that already exist or may arise at a credit union
- The LCAT looks at liquidity information from the call report, applies risk ratings to each metric, and then assigns a final risk rating.



## Examination Scope: Credit Risk





## Examination Scope: Credit Risk

- Examiners will be reviewing delinquency and charge off trends and risk management practices
- Examiners will be reviewing the ALLL to assess whether it is funded adequately, with consideration to the pandemic
- Examiners will reviewing forbearance activity, tracking, and board reporting
- Examiner's will review PPP lending activity for those credit union's that participated in the program.



## Examination Scope: Strategic Risk

- Examiners will be reviewing how lower market rates may be impacting earnings.
- Examiners will be reviewing how forbearances may be impacting earnings.
- Examiners will be reviewing fee waivers may be impacting earnings.



## Examination Scope: Interest Rate Risk

- Examiners will be reviewing management's strategy to utilize excess liquidity while managing IRR.
- Examiners will be assessing how assets repricing to lower market rates will impact the credit union's net interest margin

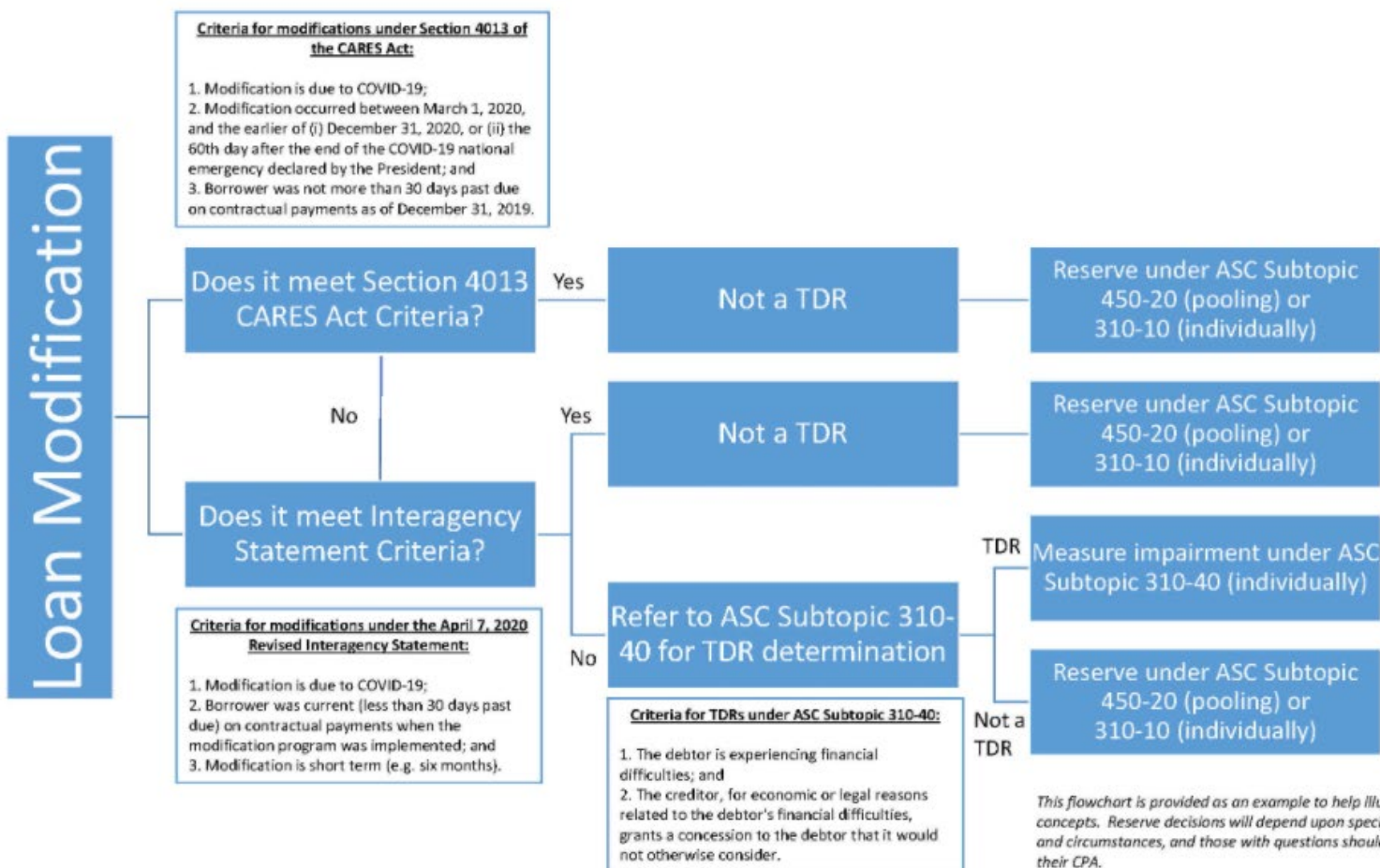


## Examination Scope: Transaction Risk

- Examiner's will be assessing if credit unions are reporting COVID-19 related forbearances accurately.
- COVID-19 related forbearances should be reported on Page 6, line 1 of the call report
- Loans that have received a COVID-19 related forbearance generally are not required to put on non-accrual status



## Examination Scope: Transaction Risk



*This flowchart is provided as an example to help illustrate key concepts. Reserve decisions will depend upon specific facts and circumstances, and those with questions should contact their CPA.*





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## Examination Scope: Compliance Risk

- Examiners may review the credit union's compliance with the CARES Act credit reporting requirements.
- Examiners may review the credit union's compliance with Regulation Z disclosure requirements for modified loans.



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## Examination Scope: Reputation Risk

- Examiners will be reviewing how the credit union's response to the pandemic could impact its reputation risk.



## Report Delivery:

- After a brief moratorium on the delivery of reports at the start of the pandemic, report delivery has resumed.
- A new preliminary secondary review (PSR) process was implemented in 2019 to improve the quality and accuracy of reports.
- All reports are required to go through the PSR process prior to being delivered to the credit union; in some cases this could extend the time that it takes for you to receive your report.

Second level reviewer	Additional reviewer	Assets	CAMEL
Field Supervisor PSR-SE or PSR-SE-SCUEP		< \$250M (Region will determine asset size for PSR-SE or PSR-SE-SCUEP)	1,2,3
DOS*		\$250M-<\$1B	1,2,3
DOS*	ARD**	\$1B - \$10B	1,2,3
DOS*	ARD**	All	4,5
<b>*Regional Management retains the right to require a DOS review of any report prior to release.</b>			
<b>**RD will determine review level, including code 22/23 contacts.</b>			



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## Poll Question 4

What does PSR stand for?

A: Post Supervisory Review

B: Pre Supervisory Review

C: Preliminary Supervisory Review

D: Preliminary Secondary Review



## Takeaways for a successful offsite exam: What to expect from examiners

- Examiner's will be reaching out earlier (6-8 weeks prior to the start of the exam) to provide you with Examination Notification and Items Requested lists and to discuss the logistics of the exam.
- Examiner's will be in more frequent communication with you and providing updates throughout the exam to keep you up to date on its progress
- Examiner's will make greater use of webcasts and teleconferences to conduct meetings during examinations



## Takeaways for a successful offsite exam: Things that you can do

- Ensure requested documentation is uploaded to the portal by the start of the exam
- Label uploaded documentation as it is labelled in the Examination Notification and Items Requested lists
- Notify examiners of planned absences of key personnel during the examination
- Ensure availability for meetings throughout the examination for questions and additional documentation requests
- Timely responses to examiner's questions that may come via email



## References

- 20-CU-17: Update to Offsite Examination and Supervision Approach
- 20-CU-05: Offsite Examination and Supervision Approach
- 20-CU-01, 2020 Supervisory Priorities
- 20-CU-22: Update to NCUA's 2020 Supervisory Priorities
- Secure File Transfer Portal FAQs: <https://www.ncua.gov/pages/secure-file-transfer-faq.aspx>