2017 Exam & Compliance Focus

Insight Into the Division of Credit Union's Examination Process

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Agenda

- Introduction
- Exam Program Information
- 2017 Examination Focus
- Compliance Exams

The nine most terrifying words in the English language are:

'I'm from the government and I'm here to help.'

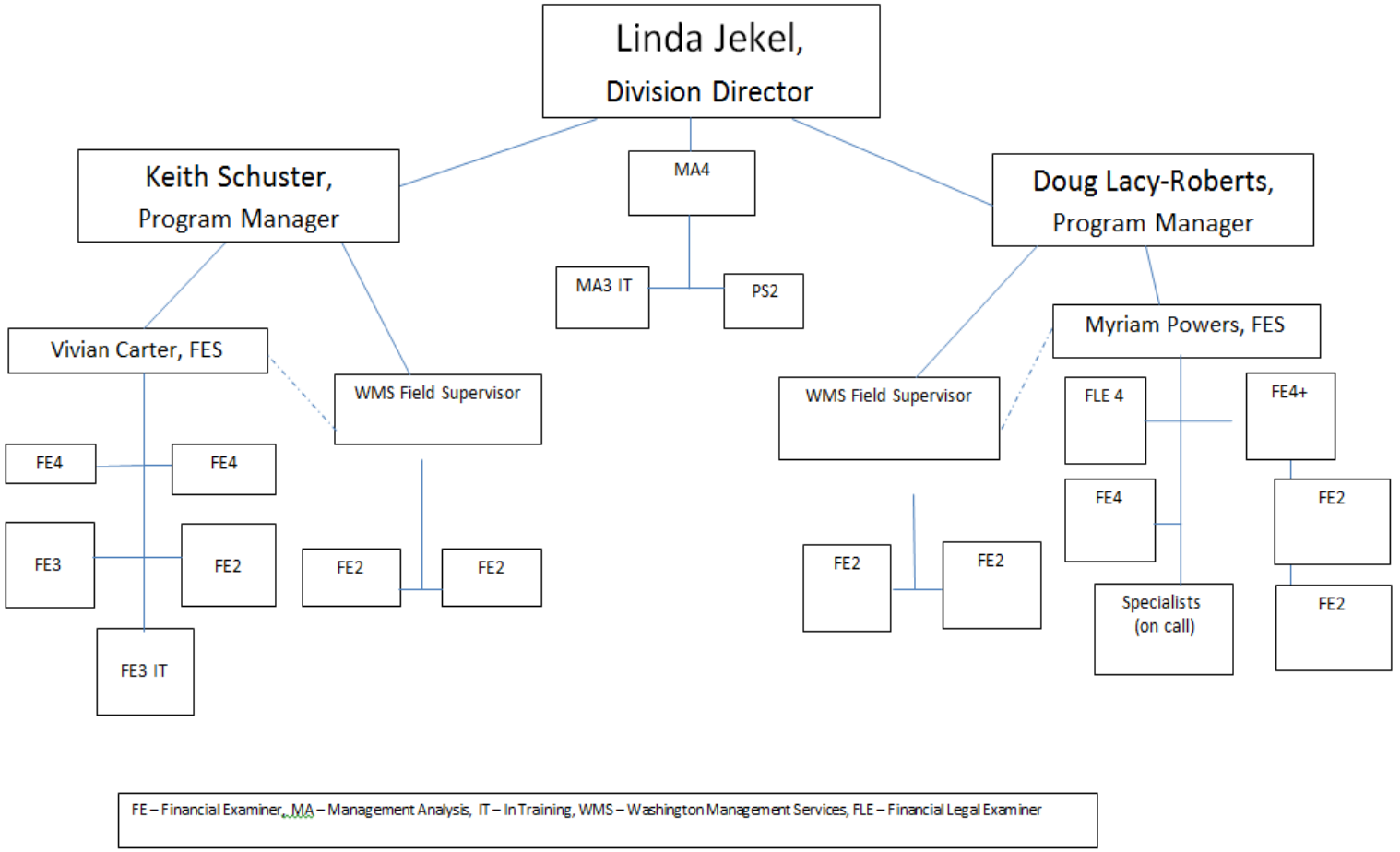
President Ronald Reagan

Mission

DFI regulates financial services to protect and educate the public and promote economic vitality

- Protect
- Educate
- Promote

DCU Examination Organizational Chart



About DCU

- Primary Regulator for 55 CUs - $36 billion in total assets & growing
- Performed 87 Exams in 2016
  - 55 Full Scope
  - 24 Follow-up
  - 7 Compliance Exams
- 22 Employees – 15 Examiners

Facts About Washington State Charters

- Statewide FOM is Allowed
- Separate State MBL Rule
- Eight Low Income Designated CUs
- Board Compensation
- 92% of CU Total Assets in WA

The Examination Program

- Statutory Requirement – CUs must be examined at least once every 18 months
- DCU/NCUA Joint Agreement – CUs over $1 billion in assets – joint exam each calendar year
- CAMEL 3 CUs examined every 6 months
- CAMEL 4 CUs examined every 4 months

Types of Examinations

- Risk focused/full scope Safety & Soundness
- Follow-up (Supervisory Agreement)
- Follow-up (non-SA – limited scope)
- Separate compliance (CUs $500+ million)
- IT exams are usually concurrent with the regular S&S exams

How to Ensure a Smooth & Productive Exam

- Ensure all of the pre-exam info completed
- Establish good and open lines of communication with examiners
- Satisfactorily address previous exam concerns and recommendations
- Don't wait until the end of the exam to present info to examiners
- Be transparent

How Total Onsite Exam Hours are Determined by DCU

- Financial performance
- Previous CAMELS rating
- Size and complexity of the CU
- Satisfactorily addressing previous exam issues and findings
- Emerging risks & adequate controls over new products & services
- Local economic conditions
- Management

Board Responsibilities

Board has 4 basic responsibilities:

- Selection of qualified management & evaluate management's performance
- Establish, regularly review, revise as necessary business goals, standards & policies
- Review operating results & performance of new & existing activities
- Ensure compliance w/applicable laws & CU's policies & procedures

What Examiners are Looking for from the Board

- Clear expectations
- Policies
- Allocate resources
- Obtain reports
- Documentation of board decisions

Communication is Key

- Communicate early and often
- Be specific and clear
- No surprises
- Understand each others roles & responsibilities
- Meetings should be productive
- Examination Issues & Examiner's Findings should be appropriate for the CU

DCU Exam Focus for 2017

- DCU Bulletin B-17-01 lists the focus areas for 2017
- The Exam focus areas for your CU may be different
- Examiners will risk focus each individual exam to better utilize our limited exam resources

Examination Focus for 2017
1 - Cybersecurity

- Cybersecurity threats represent a significant concern to all financial institutions
- Cybersecurity will be the primary IT exam focus
- Examiners will continue to stress the importance of each credit union completing the FFIEC cybersecurity self-assessment tool or a similar assessment tool

2 – Member Business Loans (MBL)

- Member business lending has grown to approximately 8% of total assets for all Washington state chartered credit unions & growing
- Currently regulated in Chapter 208-460 WAC, the board of directors must adopt specific member business loan policies and review them at least annually
- Must have qualified people, processes, and policies to ensure the safety and soundness of its program

3 – Interest Rate Risk

- Analyze compliance with 12 C.F.R. 741.3(b)(5)
- High long-term asset concentrations which are funded primarily by short-term deposits will be exposed to low margins and decreased profitability as interest rates rise
- Current and projected levels of net income and net worth

4 – Consumer Protection Law Compliance

- Consumer protection compliance has become more complex with newly created federal rules
- Evaluate program's ability to detect and self-correct problems
- Compliance w/TILA- RESPA integrated disclosure requirements, the Servicemembers Civil Relief Act, and other specific consumer compliance regulations.

5 – Importance of Strong Management and Credit Union Success

- Biggest determinant of a credit union's success is the quality of its management (including the board of directors and supervisory committee)
- Examiners will continue to evaluate whether a credit union has strong management to develop and implement programs and products that prudently manage risks while keeping the credit union productive, profitable, and competitive

DCU Compliance Exams

- DCU Bulletin B-17-04 provides information re: Compliance Exams
- Strong Compliance Management Systems (CMS) are the foundation to effectively managing the compliance risks
- Unfair, Deceptive, or Abusive Acts and Practices (UDAAP)

DCU Compliance Exams

Other Consumer Protection Compliance Area Reviews

The Division will also focus its exams on the following specific compliance areas:

- **Equal Credit Opportunity Act/Regulation B –** The timely issuance of adverse action notices & record retention

- **Home Mortgage Disclosure Act HMDA) Regulation C –** Accuracy of the HMDA Loan Application Register (LAR) systems

- **Real Estate Settlement Procedures Act (RESPA) Regulation X, Truth in Lending Act (TILA) Regulation Z –** Lending Disclosures

- **Servicemembers Civil Relief Act (SCRA)**

- **FFIEC Compliance Exam Rating System**

Questions?

$$e^x = 1 + \frac{x}{1!} + \frac{x^2}{2!} + \frac{x^3}{3!} + \cdots,$$

$$-\infty < x < \infty$$

Point of Contact

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