

# Regulatory Update for Supervisory Committees

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# Annual Audit

- ▶ Must cover period elapsed since prior annual audit.
- ▶ Must be performed at least once a year, but does not have to be done at the same time every year.
- ▶ Can cover more than a one year period in some cases.

# Member Account Verification

- ▶ Verification must be performed at least once every two years.
- ▶ Supervisory Committee or designee performs the member account verification.
- ▶ Excellent control to detect errors and prevent fraud.
- ▶ The verification must be a controlled process.
- ▶ The SC or outside auditor must have direct contact with the members.

# Handling Member Complaints

- ▶ Supervisory Committee is the member's representative
- ▶ SC must handle each case in a fair, prompt, and impartial manner
- ▶ The Supervisory Community must be independent

# Other Duties As Assigned

Depending on the Size of the credit union

- ▶ New Account Verification
- ▶ Closed Account Review
- ▶ Audit of Cash items, including travelers checks
- ▶ Review Insider loans

# NCUA 701.4 – Authorities and Duties of Federal CU Boards

- ▶ Took effect on January 27, 2011.
- ▶ Purpose: To clarify and document the important duties of boards of directors of federal credit unions.
- ▶ Letter 11-FCU-02 provides general information about directors' duties, specifically focusing on the financial skills requirements effective July 27, 2011.

# Six Key Provisions

- ▶ The board of directors is responsible for the general direction and control of a federal credit union. The board may delegate operational functions to management, but not the responsibility for the credit union's direction.
- ▶ A director must carry out his or her duties in good faith, in a manner reasonably believed to be in the best interests of the membership, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.
- ▶ A director must administer the affairs of the credit union fairly and impartially and without discrimination in favor of or against any particular member.

# Six Key Provisions

- ▶ A director must have at least a working familiarity with basic finance and accounting practices, including
  - the ability to read and understand the credit union's balance sheet and income statement
  - the ability to ask, as appropriate, substantive questions of management and auditors.
- ▶ A director must direct the operations of the federal credit union in conformity with the Federal Credit Union Act, NCUA's Rules and Regulations, other applicable laws, and sound business practices.
- ▶ A director may rely on information prepared or presented by employees or consultants the director reasonably believes to be reliable and competent and who merit confidence in the particular functions performed.

# Strategic Risk

- ▶ Effective Strategic Planning
- ▶ Solid Budgeting
- ▶ Forecasting (depending on size)
- ▶ Costs associated with Corporate Stabilization Program
- ▶ Strain on Earnings
- ▶ Internal Enterprise Risk Assessment
- ▶ Shrinking net worth ratios

# Interest Rate and Liquidity Risks

- ▶ Exposure to long term fixed rate real estate
- ▶ High Operating Expenses
- ▶ Growth in rate sensitive share accounts
- ▶ Changes in investment activities

# Credit Risk

- ▶ Loan Modifications
- ▶ Declining Real Estate Values
- ▶ Foreclosures
- ▶ Real Estate loan concentrations
- ▶ Participation loans
- ▶ Indirect lending
- ▶ Troubled Debt Restructuring
- ▶ High delinquency and charge offs
  
- ▶ Allowance for loan and lease loss methodology

# Transaction Risk

- ▶ Increase in fraudulent activities
- ▶ Lack of adequate due diligence over products and services
- ▶ Internal Controls

# References:

- ▶ Website
  - NCUA.GOV
- ▶ Supervisory Committee Guide for Federal Credit Unions
- ▶ Letters to Credit Unions
- ▶ Questionnaires included in exam program – AIREs