



NCUA
National Credit Union Administration

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Regulatory and Examination Update

June 2021



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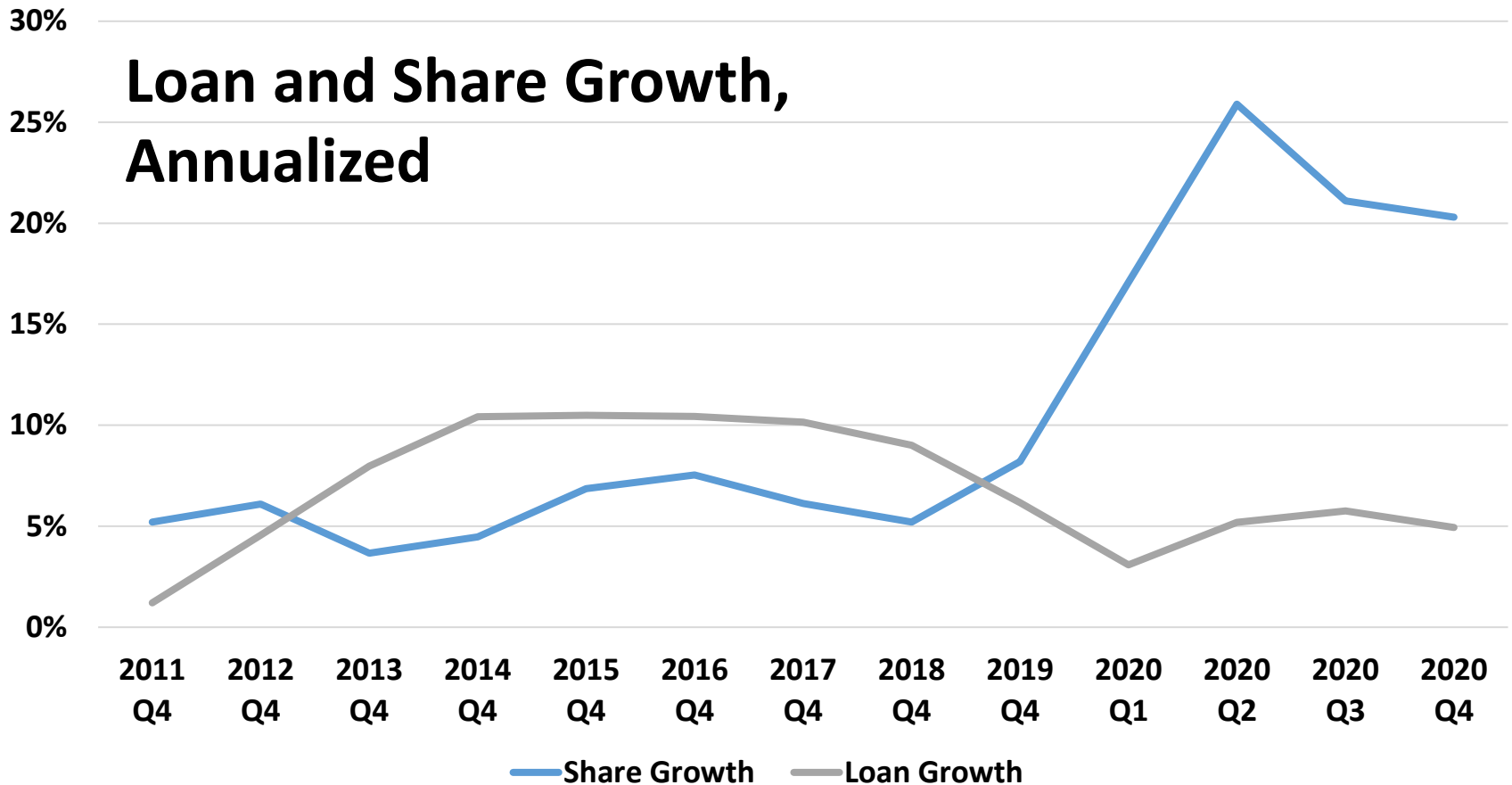
Any opinions expressed are my own views and do not necessarily reflect those of the National Credit Union Administration or the NCUA Board.

Agenda

- **State of the industry**
- **COVID-19 Response**
- **Supervisory Priorities**
- **Exam Modernization**
- **Regulatory Review**

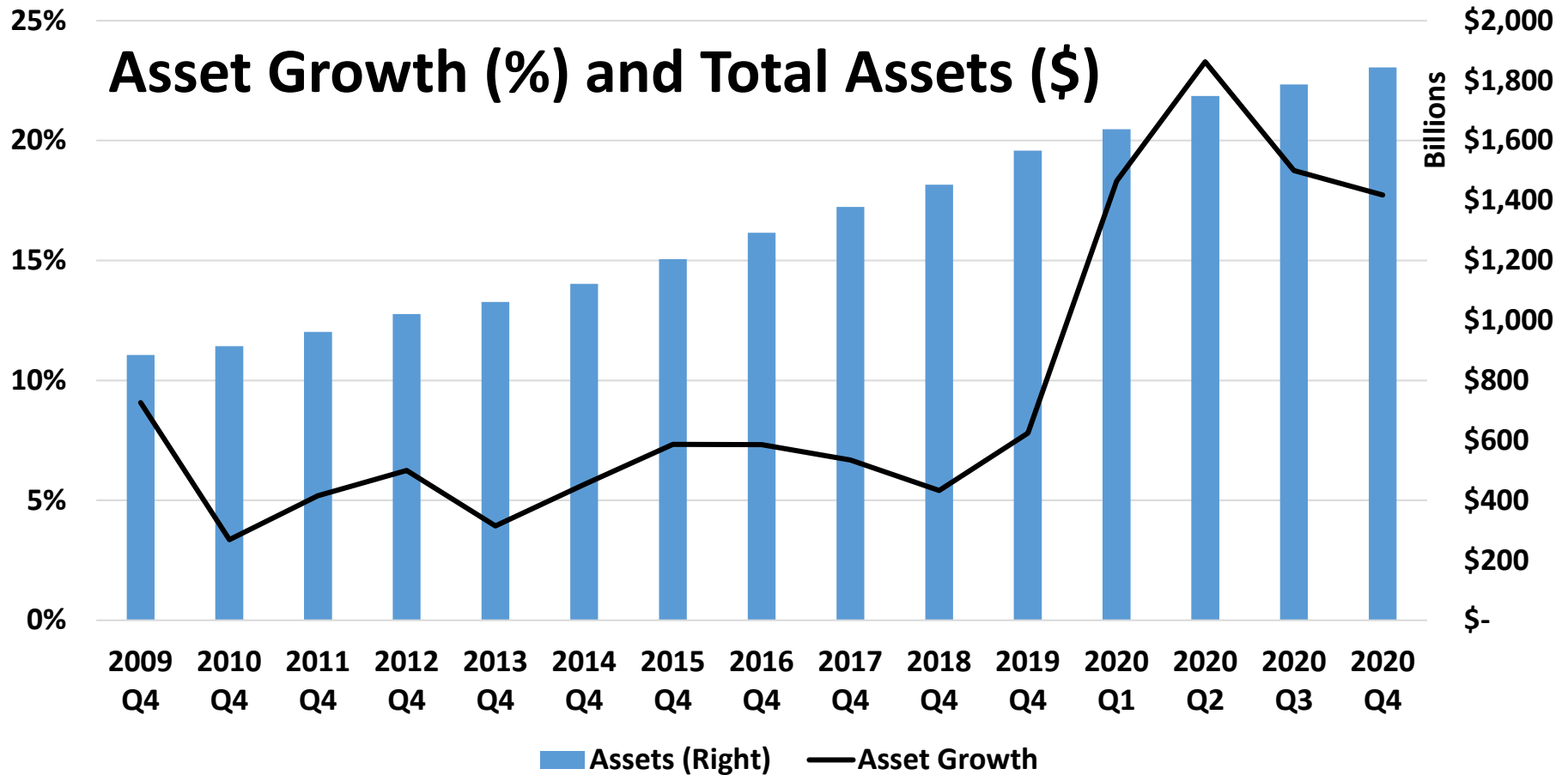


Credit Union System Trends



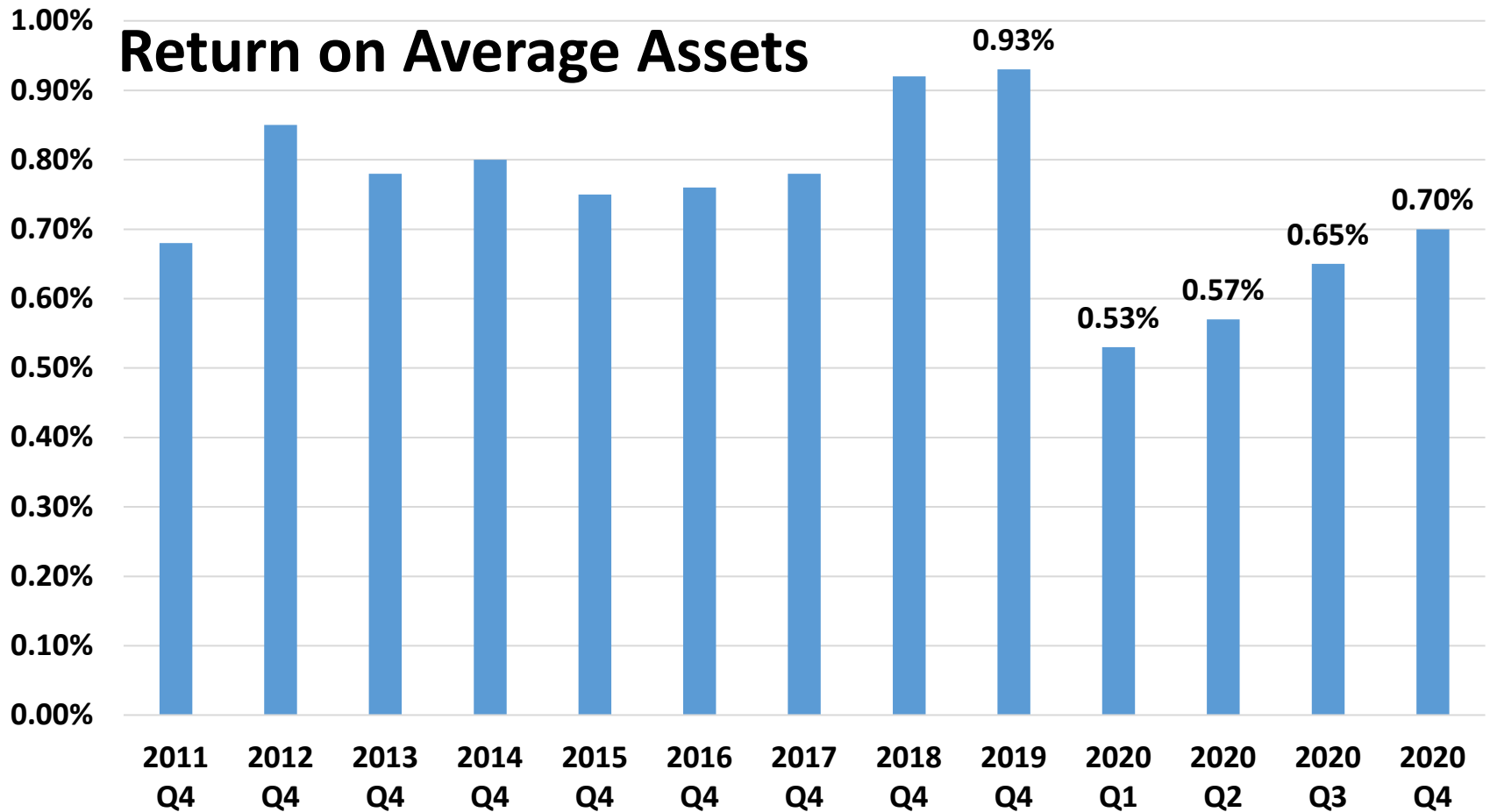
Source: NCUA Call Report Aggregate Financial Performance Report Data, www.ncua.gov

Credit Union System Trends



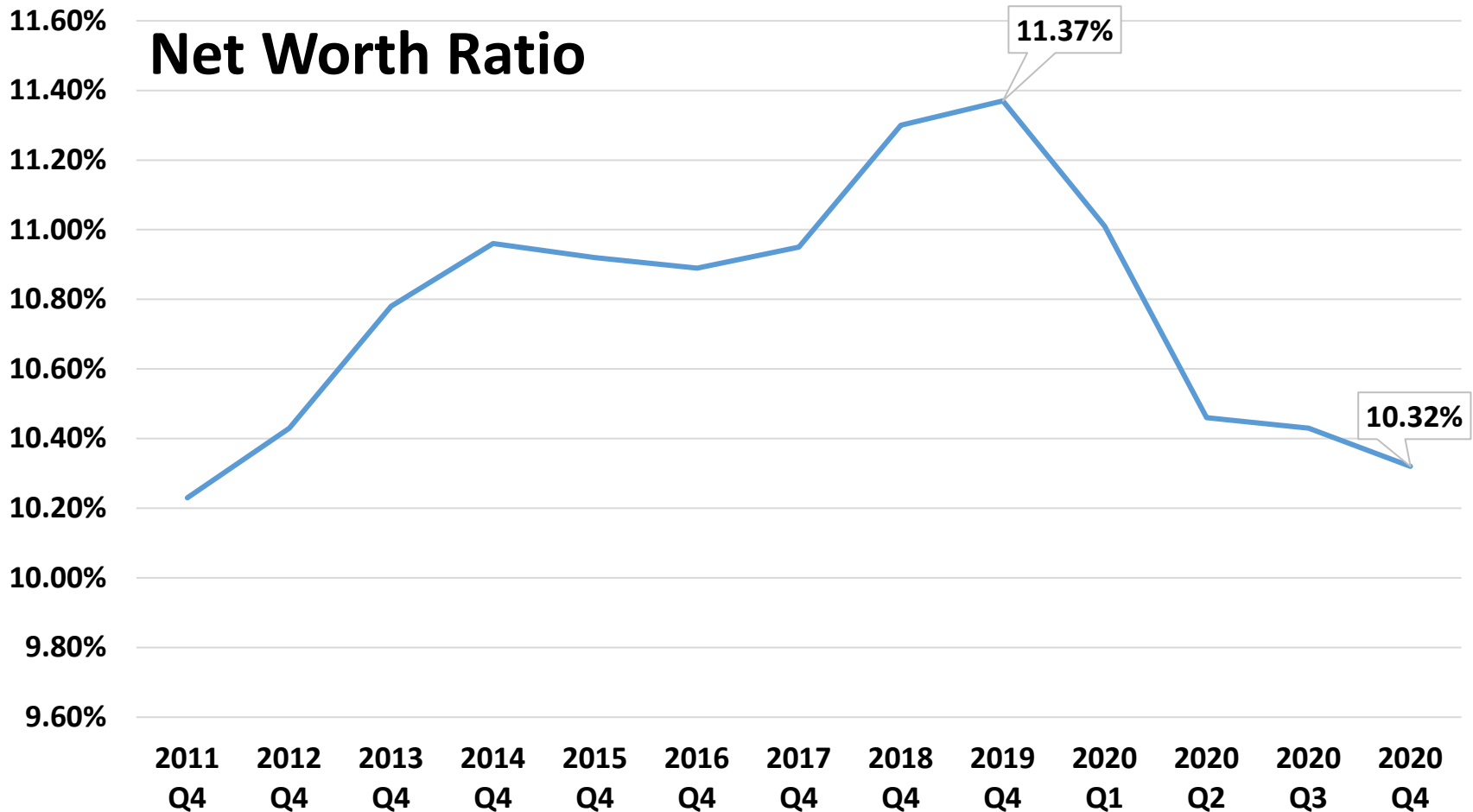
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Credit Union System Trends



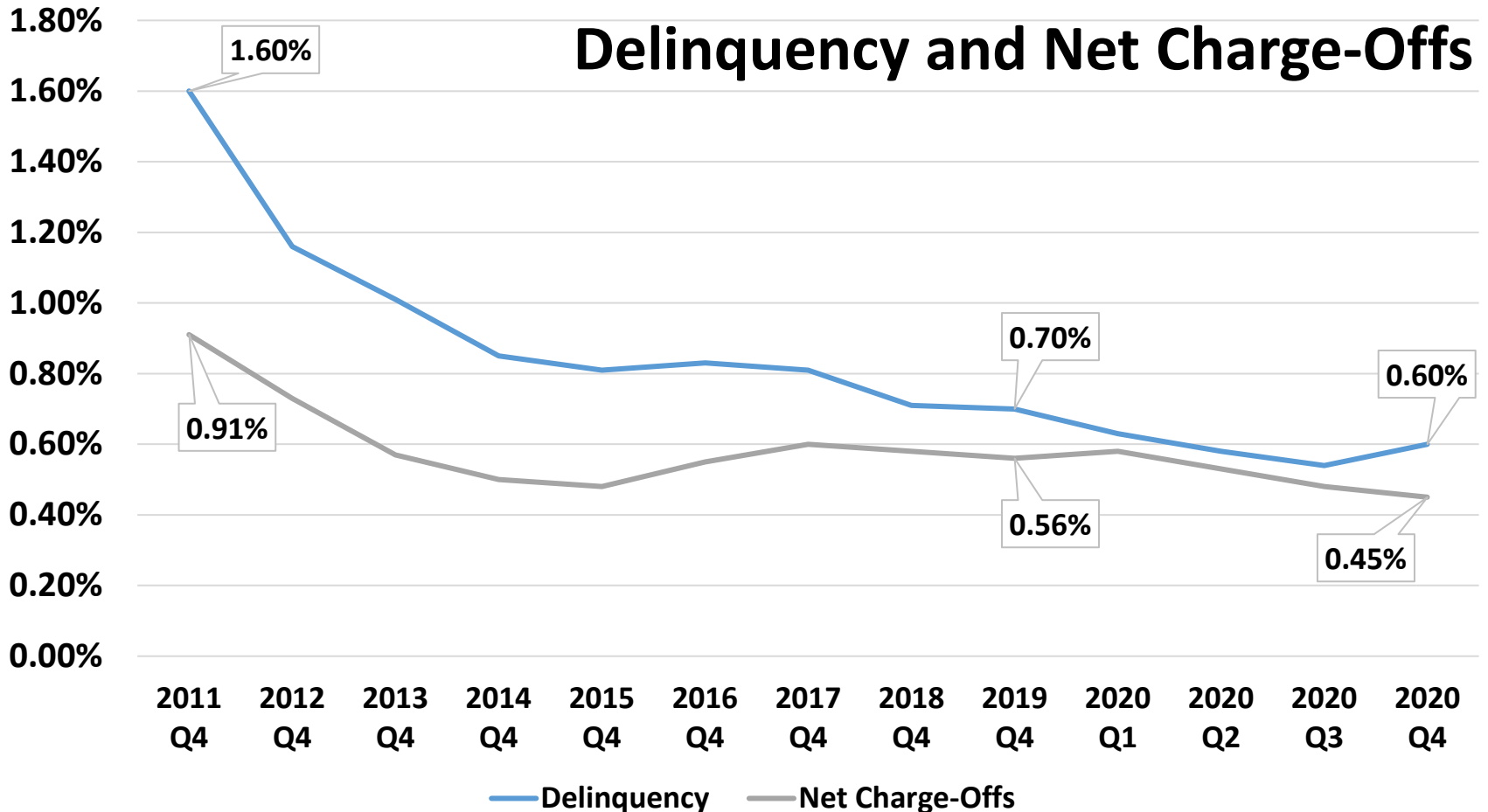
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NCUA Regulation Changes

COVID-19 Relief

Part	Topic
700, 702, 708a, 708b, and 790	Asset Thresholds Interim Final Rule
725	Central Liquidity Facility Interim Final Rule
702, 723	Regulatory Capital Rule; Paycheck Protection Program Lending Facility add PPP Loans Interim Final Rule
702	Temporary Regulatory Relief in Response to COVID-19—PCA Interim Final Rule
722	Real Estate Appraisals Final Rule
701	Regulatory Relief in Response to COVID-19 Pandemic (Final Rule and Temporary Final Rule extension)

- **22 Letters to CUs**
- **8 Webinars**
- **3 Regulatory Alerts**
- **2 Risk Alerts**

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2021 Supervisory Priorities

Coronavirus Aid,
Relief and
Economic Security
Act (CARES Act)

Consumer Financial
Protection

Credit Risk
Management

Allowance for Loan
and Lease Losses
(ALLL)

Bank Secrecy
Act/Anti-Money
Laundering
Compliance

Information
Systems and
Assurance
(Cybersecurity)

LIBOR Transition

Liquidity Risk

Serving Hemp-
Related Businesses

CARES Act

- **NCUA reviews compliance with CARES Act**
- **Provisions which directly affect credit unions include:**
 - Provide greater access to liquidity
 - Loan modifications related to COVID-19 and troubled debt restructurings (TDRs)
 - Change in reporting requirements for loan modifications related to COVID-19
 - Paycheck Protection Program
 - Prohibition on foreclosures
 - Mortgage loan forbearance

See NCUA Letter to Credit Unions, 20-CU-07, for more information.

Paycheck Protection Program

Per the May 16, 2021 SBA Report, 11.2 million PPP loans were approved by 5,470 lenders for a total of \$788 Billion in Net Dollars. In 2021, 6.0 million PPP loans were approved by 5,245 lenders for a total of \$265.9 Billion in Net Dollars.

2021 Credit Union PPP Loans

Credit Union Asset Size	# of Credit Unions	# of PPP Loans Approved	Net Dollars
< \$10 Billion	851	146,934	\$5.0 Billion
> \$10 Billion	8	14,797	\$434.3 Million
TOTALS	859	161,731	\$5.4 Billion

Source: SBA Paycheck Protection Program Report, May 16, 2021, www.sba.gov

Consumer Financial Protection

- **At every examination, NCUA reviews compliance with applicable consumer financial protection regulations**
 - Exam scope is largely risk-focused, and based on credit union's compliance record, products and services provided, and any new/emerging concerns
 - NCUA selects priorities by analyzing trends in violations
- **Areas of emphasis in 2021 include**
 - Fair lending
 - Areas related to COVID-19 pandemic (compliance with changes to Reg E, Reg Z)

ALLL

- **Shift in review priorities due to COVID-19 and subsequent regulatory and statutory changes to determine**
 - Actions taken by credit unions to assist borrowers facing financial hardship
 - Adequacy of the ALLL to address the pro-cyclical effects of economic downturns
 - New programs authorized through the CARES Act
 - Credit unions' evaluation of the impact of COVID-19 on their capital position and financial stability
- **NCUA will evaluate ALLL adequacy by reviewing**
 - ALLL policies and procedures
 - Documentation of methodology, including assumptions
 - Adherence to GAAP
 - Independent reviews of the methodology and documentation by the Supervisory Committee or an internal or external auditor
- **ALLL Q&E factors**

BSA / AML Compliance

- **Federal Credit Union Act requires NCUA to review BSA/AML compliance during every exam; agency emphasis is on:**
 - Customer due diligence and beneficial ownership requirements
 - Proper filing of Suspicious Activity Reports (SAR) and Currency Transaction Reports (CTR)
 - Bi-weekly 314(a) information requests
- **NCUA committed to strong BSA/AML and anti-fraud guidance and other safeguards**
 - Increasing collaboration, information-sharing with law enforcement, federal and state banking agencies, and other partners (FinCEN, OFAC, and Treasury)
 - Exam procedures that would be more likely to detect fraud, if it exists, are incorporated into the Small Credit Union Examination Program
- **FFIEC is updating BSA/AML Examination Manual (Phase II issued Feb. 25)**
 - Emphasize risk-focused BSA reviews
 - Incorporate recent interagency statements
 - Provide greater clarity

CECL

- **Change in accounting standard for measuring credit losses for financial instruments (including loans)**
 - Effective for federally insured credit unions Jan. 1, 2023 (credit unions can adopt earlier)
 - Regulatory reporting will begin with March 31, 2023 Call Report
 - NCUA will not assess credit unions' efforts to transition until further notice
- **May 2020 Interagency Policy Statement on Allowances for Credit Losses and guidance on credit risk review systems**
- **July 2020 proposed rule (NCUA)**
 - Rule for three-year phase-in of CECL's impact on net worth (July 2020)
 - Would exempt credit unions with less than \$10 million in assets from CECL, and would only require an allowance to cover known and probable losses if state regulation requires compliance with GAAP
 - NCUA reviewing interdependencies in relation to other rules

Cybersecurity

- **Transitioning from Automated Cybersecurity Examination Tool (ACET) to the Automated Cybersecurity Evaluation Tool (ACET)**
- **NCUA continues piloting the Information Technology Risk Examination for Credit Unions (InTREx-CU) program**
 - Designed to identify critical information security program deficiencies
 - Consistent with other banking agencies examination procedures
- **Emerging cyber-attacks are a persistent threat to the financial sector**
- **Likelihood of these threats adversely affecting credit unions and consumers continues to increase due to:**
 - Advances in financial technology
 - Increases in remote work
 - Growing adaptation of mobile technology for financial transactions

LIBOR Transition

- **March 5, 2021: London Interbank Offered Rate (LIBOR) administrator announced it will no longer publish the one-week and two-month LIBOR settings immediately following the Dec. 31, 2021 LIBOR publication**
 - Remaining LIBOR settings will cease immediately following LIBOR publication on June 30, 2023
 - Extended timeframe offers some legacy LIBOR contracts to mature naturally
- **May 2021: NCUA issued Letter to Credit Unions 21-CU-03, LIBOR Transition, encouraging credit unions to transition away from the U.S. dollar LIBOR as soon as possible, but no later than Dec. 31, 2021**
 - Letter references July 2020 FFIEC-issued Joint Statement on Managing LIBOR Transition
 - LCU accompanied by NCUA Supervisory Letter 21-01, Evaluating LIBOR Transition Plans, with guidance on how NCUA will evaluate such plans
 - New contracts entered into before and after Dec. 31, 2021, should use a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate
- **NCUA exposure and planning reviews related to LIBOR transition**
 - LIBOR Assessment Workbook

Liquidity Risk

- **NCUA reviews liquidity risk management and planning in all credit unions, with emphasis on:**
 - 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
 - Potential effects of low interest rates and the decline in credit quality on market value of assets, funding costs and borrowing capacity
 - Adequacy of contingency funding plans

Hemp-Related Businesses

- **Marijuana (cannabis) remains illegal at federal level**
 - More than 30 states have legalized its use for medical or recreational use
- **Safe Banking Act (proposed) would prevent asset forfeiture and remove criminality for banks and credit unions that provide services to legitimate cannabis-related businesses**
 - House passed bill in 2019 but did not pass senate vote; bill reintroduced in March 2021
- **NCUA continues to collect data through the examination process concerning types of services credit unions provide to hemp-related businesses**

Hemp-Related Businesses

- **NCUA approach is consistent with other federal banking agencies**
 - Decision to open, close, or decline relationship remains business decision of the financial institution
 - Examiners continue to follow FinCEN's 2014 guidance (FIN-2014-G001)
 - FinCEN continues to state that its guidance will remain as-is until federal law changes regarding the legality of cannabis or the legality of banking cannabis-related money
- **NCUA guidance**
 - Letter to Credit Unions, 20-CU-19, Additional Guidance Regarding Servicing Hemp-Related Businesses
 - NCUA Regulatory Alert, 19-RA-02, Serving Hemp Businesses
 - FinCEN June 29, 2020 guidance

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Modernization Update

- **Modern Examination and Risk Identification Tool (MERIT)**
 - Tool to manage examination process, including secure document transfer (AIRES replacement)
 - Challenges with COVID-19 resulted in delay of rollout, training and launch of MERIT
 - NCUA expanded MERIT pilot in third quarter of 2020
- **NCUA Exam Planning Questionnaire**
 - Questionnaire will provide NCUA examiners information on certain products, services, significant events, insider activities, and fraud awareness
 - Once completed, questionnaire will be incorporated into the exam planning process; examiners will provide it to credit unions in advance of a scheduled exam and use responses to refine exam scope, increase off-site monitoring capability, and improve exam efficiency
- **Analytics**
 - Integrate business intelligence technology and provide enhanced Call Report and Loan and Share data analytics to support the examination process
- **Data Exchange Application (DEXA)**
 - Enable NCUA employees, credit union employees, and examiners to upload loan and share information for further analysis
- **Admin Portal**
 - Delegate authority to credit unions and State Supervisory Authorities (SSA) to add and manage users for their organization
- **User Portal – NCUA Connect**
 - Common platform for secure access to mission-essential applications
 - Launch delayed, planned for second half of 2021; NCUA expanded pilot in third quarter 2020

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2021 NCUA Proposed Rulemaking

Part(s)	Topic
701	Overdraft Policy
701	Chartering and Field of Membership - Shared Facility Requirements
748	Bank Secrecy Act
712	Credit Union Service Organizations
702, 703	Simplification of Risk Based Capital Requirements
700, 701, 703, 704, 713	CAMELS Rating System
760	Loans in Areas Having Special Flood Hazards; Interagency Questions and Answers Regarding Private Flood Insurance

2020 NCUA Proposed Rulemaking

Part(s)	Topic
791	Role of Supervisory Guidance
741	Capitalization of Interest in Connection with Loan Workouts and Modifications
703, 721	Mortgage Servicing Rights

2021 NCUA Regulatory Review

Submit comments by August 16, 2021

Part	Topic
748	Security Program, Report of Suspected Crimes, Suspicious Transactions, Catastrophic Acts and Bank Secrecy Act Compliance
749	Records Preservation Program and Appendices – Record Retention Guidelines; Catastrophic Act Preparedness Guidelines
750	Golden Parachute and Indemnification Payments
760	Loans in Areas Having Special Flood Hazards
761	Registration of Residential Mortgage Loan Originators
790	Description of NCUA; Requests for Agency Action

Part	Topic
791	Rules of NCUA Board Procedure; Promulgation of NCUA Rules and Regulations; Public Observation of NCUA Board Meetings
792	Requests for Information under the Freedom of Information Act and Privacy Act, and by Subpoena; Security Procedures for Classified Information
793	Tort Claims Against the Government
794	Enforcement of Nondiscrimination on the Basis of Handicap in Programs or Activities Conducted by the National Credit Union Administration
796	Post-Employment Restrictions for Certain NCUA Examiners
797	Procedures for Debt Collection

Q&A



Questions / Comments

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