


**NCUA**  
National Credit Union Administration

Victoria Nahrwold, Associate Director  
Office of Examination & Insurance

# Regulatory and Examination Update

June 2022

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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.*

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# Agenda

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

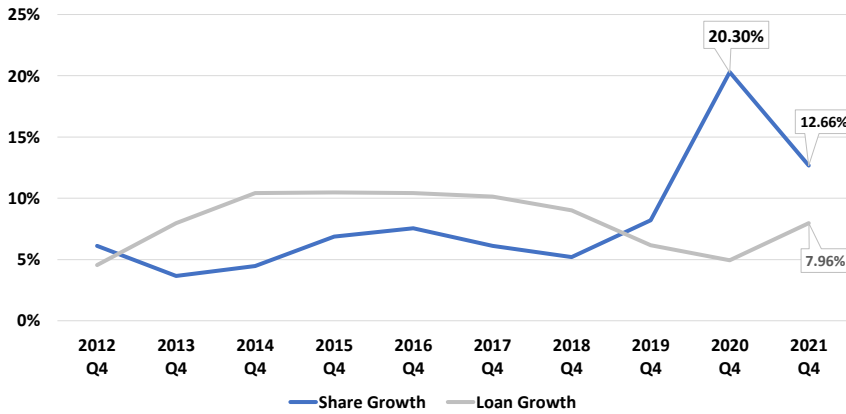


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# Credit Union System Trends

## Loan and Share Growth, Annualized

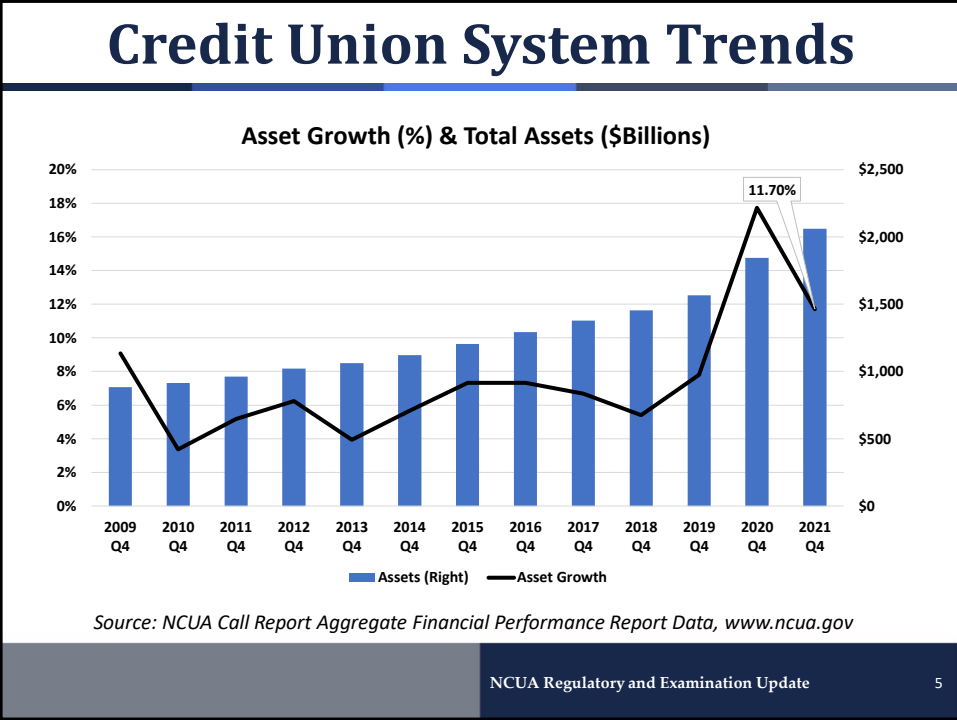


Year	Share Growth	Loan Growth
2012 Q4	~6%	~5%
2013 Q4	~4%	~8%
2014 Q4	~5%	~10%
2015 Q4	~7%	~10%
2016 Q4	~7%	~10%
2017 Q4	~6%	~10%
2018 Q4	~5%	~9%
2019 Q4	~8%	~6%
2020 Q4	20.30%	~5%
2021 Q4	12.66%	7.96%

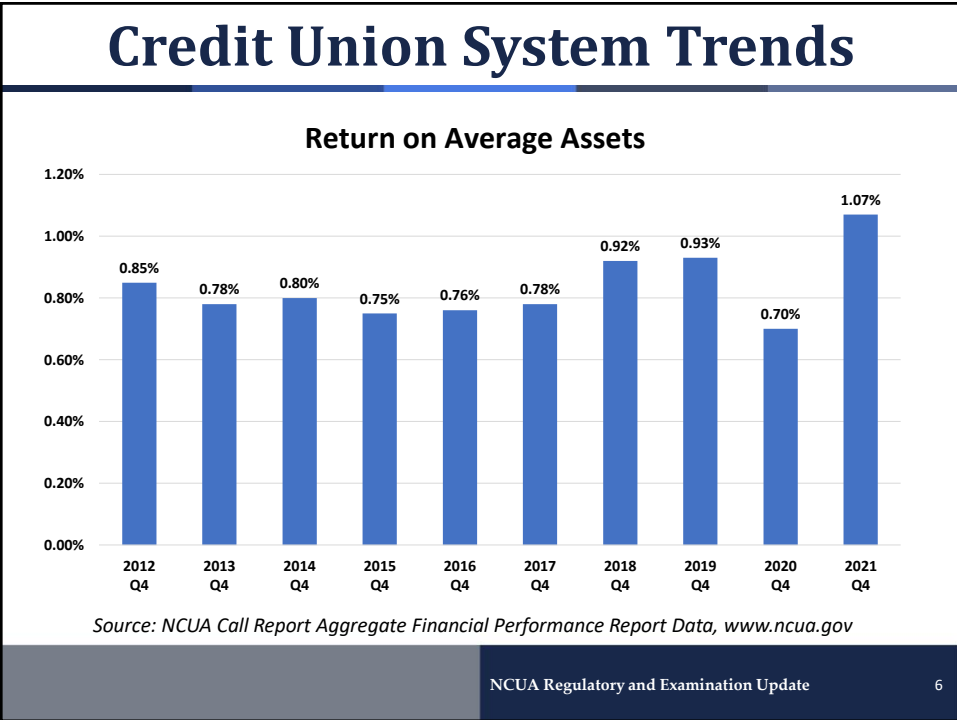
Source: NCUA Call Report Aggregate Financial Performance Report Data, [www.ncua.gov](http://www.ncua.gov)

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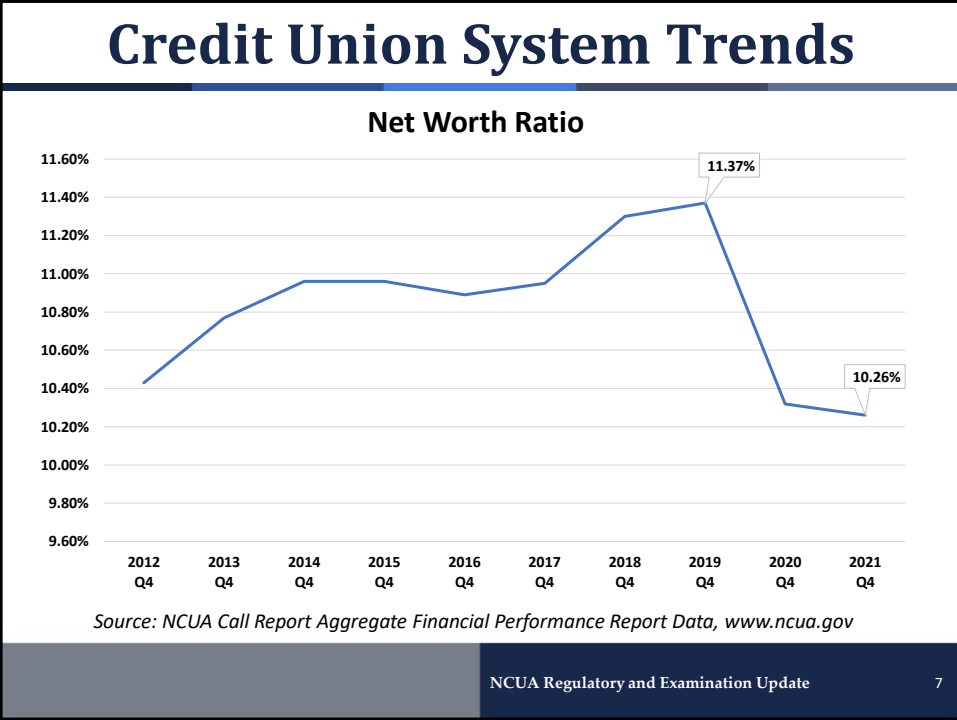
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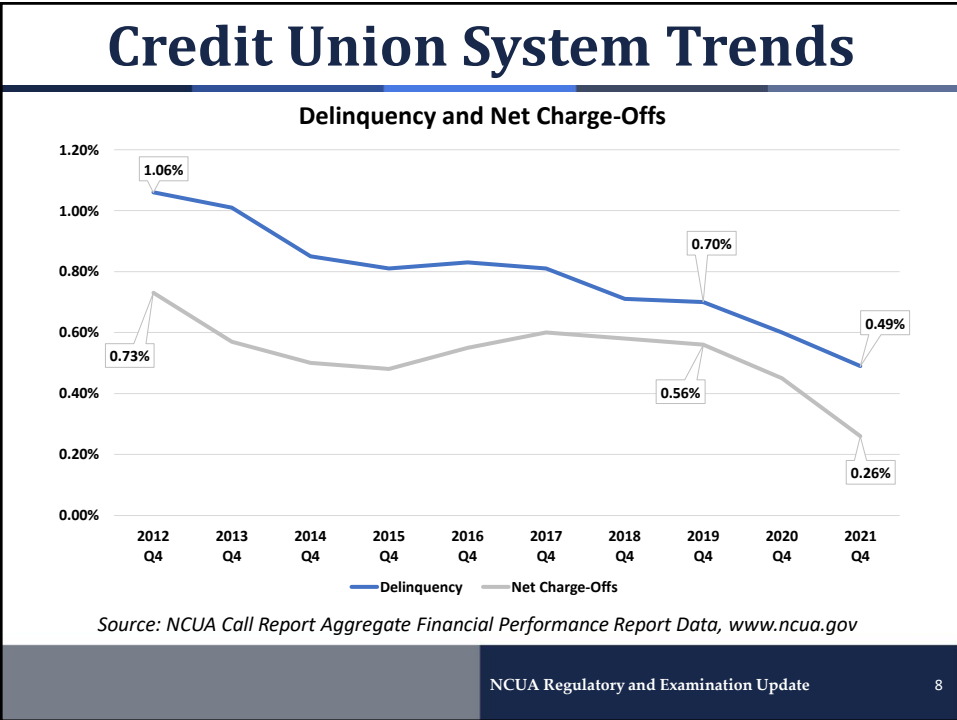
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# NCUA Regulation Changes

## *COVID-19 Relief*

Part	Topic
702	Risk-Based Net Worth – COVID-19 Regulatory Relief
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 (and Interim Final Rule)
701	Regulatory Relief in Response to COVID-19 Pandemic (Temporary Final Rule)

- **25 Letters to CUs**
- **9 Webinars**


- **3 Regulatory Alerts**
- **2 Risk Alerts**

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# 2022 Supervisory Priorities

Credit Risk Management	Information Security (Cybersecurity)	Payment Systems	BSA/AML/Countering Terrorism Financing
Capital Adequacy/RBC Rule	Loan Loss Reserving	Consumer Financial Protection	Loan Participations
Fraud	LIBOR Transition	Interest Rate Risk	

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## Credit Risk Management

### NCUA will:

- Continue to focus on credit risk management and mitigation efforts
- Review adjustments credit unions made as a result of the COVID-19 pandemic and the CARES/Consolidated Appropriation Acts
- Consider credit union efforts to provide prudent relief due to COVID-19

## Information Security (Cybersecurity)

- Cybersecurity risks are a significant threat to the credit union system
- NCUA continues to update information security examination procedures
- The Automated Cybersecurity Evaluation Toolbox (ACET) allows credit union to determine and measure cybersecurity preparedness
  - Toolbox is voluntary and establishes no new requirements or expectations for credit unions

## Payment Systems

- Credit union payment related products, services, and operations are a growing area of complexity and risk
- Increased consumer demand
- Heavy reliance on technology for transaction processing
- Increased risk of fraud, illicit use, and breaches of data security

## BSA/AML/Terrorism Financing

- The Bank Secrecy Act (BSA) was amended for the first time since 2001 by the Anti-Money Laundering (ALM) and Corporate Transparency (CTA) Acts
- New requirements for credit unions to update their risk-based BSA and AML/Countering Financing of Terrorism (CFT) policies, procedures, and processes
- Requirements will be implemented incrementally throughout 2022



## Capital Adequacy/Risk-Based Capital Rule

- **Capital adequacy standards will be reviewed commensurate with:**
  - Risk Based Capital ratios
  - A credit union's efforts to evaluate impact of COVID-19 relief on financial and capital stability
- **Complex credit unions:**
  - Are subject to Risk Based Capital rule requirements effective Jan 1, 2022
  - The March 2022 Call Report was revised to reflect the Risk Based Capital Rule

## Loan Loss Reserving

- **Continued focus on reviewing ALLL accounts adequacy and reserve methodology**
- **CECL compliance effective January 2023**
  - Examiners will discuss preparations to implement CECL
  - Credit unions < \$10M are not required to follow GAAP or CECL unless required by the State Supervisory Authority
    - Reserve methodology will still be reviewed

## Consumer Financial Protection

- **Mortgage Loan Forbearance**
  - CARES Act Single-Family Mortgage Loans
  - Non-CARES Act Single-Family Mortgage Loans
- **Consumer Loan Forbearance/Accommodation**
- **CARES Act Amendments to the Fair Credit Reporting Act (FCRA)**
- **2021 Mortgage Servicing Final Rule (RESPA/Reg X)**
- **Servicemembers Civil Relief Act (SCRA)**
- **Fair Lending**
- **Overdraft Document Requests**

## Loan Participations

- **NCUA will evaluate loan participation portfolios for safe-and-sound practices, including:**
  - Loan participation transaction risks
  - Compliance with board approved policy limits
  - Credit union reconciliations of servicer records
  - Third party due diligence

## Fraud

- **Potential fraud risks have increased during the COVID-19 offsite posture**
- **NCUA will continue to focus on credit union efforts to detect and deter fraud through:**
  - Transaction testing
  - Internal control reviews
  - Separation of duties reviews

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## LIBOR Transition

- **The one-week and two-month USD LIBOR settings are no longer published as of December 31, 2021**
- **The overnight and one-, three-, six-, and 12-month USD LIBOR settings were extended through June 2023**
- **NCUA will focus on credit unions with significant LIBOR exposure or inadequate fallback mitigation measures**

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## Interest Rate Risk (IRR)

- The credit union system experienced high share growth over the last two years
- IRR and sensitivity increased as a result of longer duration assets
- Earnings were strained with some short-term assets
- NCUA will evaluate credit union efforts to balance, model, and manage IRR

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## Modernization Update

- NCUA and State examiners completed MERIT and associated systems training between August and November 2021
- These new systems provide important benefits
- Credit unions will use MERIT and related systems during examinations
- Examiners have time allocated to work with credit unions on using the new tools in 2022

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## 2022 NCUA Regulation Changes

Part(s)	Topic
702, 741	Subordinated Debt
703, 721	Mortgage Servicing Assets
700, 701, 703, 704, 713	CAMELS Rating System
702, 703	Capital Adequacy: The Complex Credit Union Leverage Ratio; Risk Based Capital
701	Succession Planning
700, 701, 702, 708a, 708b, 750, 790	Asset Threshold for Determining the Appropriate Supervisory Office
747	Rules of Practice and Procedure

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## 2022 NCUA Regulation Review

*Submit comments by August 16, 2022*

Part	Topic	Part	Topic
700	Definitions	708a	Bank Conversions and Mergers
701	Organization and Operation of Federal Credit Unions	708b	Mergers of Insured Credit Unions into Other Credit Unions; Voluntary Termination or Conversion of Insured Status
703	Investment and Deposit Activities		Involuntary Liquidation of Federal Credit Unions and Adjudication of Creditor Claims Involving Federally Insured Credit Unions in Liquidation
704	Corporate Credit Unions	709	
705	Community Development Revolving Loan Fund Access for Credit Unions	710	Voluntary Liquidation
707	Truth in Savings		

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# Q&A



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# Questions / Comments

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