

WELCOME

2016 Alabama Governmental
Affairs Conference

Regulator Roundtable

ACUA

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- **62 State Chartered Credit Unions**
 - 59 Federally-Insured Natural Person CU's
 - 1 Federally-Insured Corporate CU
 - 2 ASI, Inc. Privately-Insured Natural Person CU's

- **Assets under supervision - \$13.8B,
7.5% increase over 2014**
 - Largest CU By Assets – \$2.6B
 - Smallest CU By Assets - \$2.3M

2016 Developments/ Code Changes

- SB 209/ HB 367
- Strengthens and expands the parity provision with federal charters
- Purchase loans from a financial institution as long as the loans are consistent with the nature and type of loans the credit union can originate (i.e., geographic, type)
- Investment authority matches federal charters- NCUA Part 703

2016 Developments/ Code Changes

- Modernized the Code for delegation of authority from the credit committee to loan officers (current law required that all loans approved or declined be presented to the credit committee within 7 days)
- Codified steps necessary to voluntarily dissolve a credit union
- Codified ability of a credit union to merge a bank or thrift into a credit union and vice versa



2016 Developments/ Code Changes

- Confidentiality of examination materials, communications, reports, etc. was strengthened and included in the Code – currently in regulations
- Added investigatory and enforcement tools



2016 Examination Focus

- Credit Quality
- Corporate Governance
- Interest Rate Risk
- IT Security and Cyber Security
- BSA – Risk Assessments



- Inadequate loan policies
 - Loan policies must establish risk limits and must adhere to regulations
- FIRREA Violations:
 - Loan officers originating loans are ordering appraisals
 - Inadequate and lack of independent review of appraisals.
- Indirect Lending:
 - Lack of monitoring loans by dealer, credit score.



ACUA will adopt the NCUA MBL rule

- New Rule is principles based rather than prescriptive
- Beginning May 13, 2016, waivers of personal guaranties will no longer be required
- Expectations are that each credit union will have robust MBL policies and procedures in place and will have loan officers with the expertise to conduct MBL lending prior to granting MBL loans

Participations

- Vendor policy samples are not always in compliance with regulations.
- Only 2 waivers permitted:
 - aggregate amount of loan participations that may be purchased from any one originating lender, not to exceed the greater of \$5M or 100% of Net Worth
 - aggregate amount of loan participations that may be purchased with respect to a single borrower, or group of associated borrowers, not to exceed 15% of Net Worth.



- Active Board
- Active Supervisory Committee
- Updated Bylaws to comply with state law
- Updated policies and procedures



- Growth in low-rate fixed rate first mortgages continues to drive growth in overall loans.
- CU's with high concentrations of long-term fixed rate mortgage loans will be subject to negative margins when interest rates do rise and funding costs exceed income derived from these fixed low rate mortgages.
- Monitor rate sensitive account balances because of the negative impact on earnings when interest rates rise.

2016 Examination Focus-Cyber- Security Risk Mitigation

- Implement internal controls over vendor due diligence, password processes, patch management and network monitoring to prevent, detect and recover from cyber-attacks.
- New Cyber security assessment tool (questionnaire) is being rolled out by NCUA. Already in use in corporates' but will extend to large natural person credit unions soon.
 - The questionnaire is designed to assist credit unions in identifying cyber risks to the institution.
 - Internal risks are often overlooked but result in the largest losses to credit unions.

A comprehensive credit union wide risk assessment is a critical part of any effective BSA program. The components of such an assessment will include details about a credit union's:

- Products & Services
- Member Classification (High, Moderate, or Low risk)
- Geographies of communities served by credit union offices



Credit Union Products and Services

- Identify high-risk products and services offered by the credit union
- Consider transaction volume and number of accounts within each category (High, Moderate, Low)
- Analyze and understand potential risk presented by new products and services offered by the credit union prior to launch
- Re-evaluate new product and services at regular intervals during the first 12 months of release to determine accuracy of risk level.



Knowledge of Credit Union Members

- Identify the credit union's exposure to high-risk members
 - North American Industry Classification System (NAICS) codes utilized in CTR Occupation Reporting
- Risk rate members at account opening
- Maintain member profiles to expectations of how the account will be used in order to validate risk exposure and identify changes in risk levels over time



Credit Union Geographies

- Risk Rate Branch Locations
- Consider current office location status:
 - HIDTA (High Intensity Drug Traffic Area)
 - or
 - HIFCA (High Intensity Financial Crime Area)
- Evaluate impact of new branches or acquisitions
- Consider members and transaction data for branch locations in risk rating



BOD Involvement and Responsibilities

- Protect the credit union from being used for illegal purposes
- Remain up-to-date on BSA/AML activities
- Support management's BSA/AML efforts, ask questions
- Avoid downplaying indications that some members (possibly including friends) may be involved in questionable activities covered by BSA/AML/OFAC
- Maintain BSA/AML confidentiality
- Perform an annual review of BSA and related policies. Discuss the state of the program with the credit union's BSA Officer.

New on the Horizon- Current Expected Credit Loss- FASB Proposal

- FASB identified weaknesses in current practice of recognizing incurred losses following the recent global economic crisis
- Issued proposed accounting standards update on December 20, 2012- Current Expected Credit Loss model or “CECL”
- Changes loss recognition to capture all credit losses expected to be realized over the life of their existing loan portfolio
- Implementation 2021

New on the Horizon- Current Expected Credit Loss- FASB Proposal

- Expected credit loss is an estimate of the present value of future cash flows not expected to be collected based on quantitative and qualitative information such as:
 - Past events
 - Historical loss experience
 - Current conditions
 - Borrower credit worthiness and
 - Forecasts of expected credit losses
 - Current point and forecast direction of economic cycle

New on the Horizon-Current Expected Credit Loss- FASB Proposal- What Should Credit Unions Do Now?

- We expect that most credit unions do not currently have the data to comply with the FASB.
- Recommend that you work with your CPAs to develop the data that you will need to comply. (All Credit Unions with greater than \$10 million in assets must comply with GAAP for Call Report.)
- Work with IT vendors to modify loan systems to capture data needed



Advantages of State Charter

- Field of membership- all current fields of membership plus opportunity to add counties (SEGs plus Geographic FOM are allowed and encouraged)
- Progressive code that promotes growth in state chartered credit unions through organic growth and through mergers and acquisitions
- Interstate Branching Agreement
- Parity provision- anything that a federal charter can do a State of Alabama chartered credit union can do



Advantages of State Charter

- Relationship between the credit unions and regulators
- Education/ Training and Examiner Certifications
- Seasoned examination staff
- Accreditation of Alabama Credit Union Administration
- Accessibility/ Expeditious Decision Making

Summary

- ACUA will work diligently with you to maintain a sound and healthy state chartered credit union that can safely adapt to members' changing needs.
- ACUA welcomes comments and feedback on examinations.
- We are always looking for ways to further enhance our approach to examining and supervising Alabama state chartered credit unions.



- Questions
- Comments

