



NCUA
National Credit Union Administration

Office of Examination and Insurance
Office of Consumer Financial Protection

2023 Supervisory Priorities

January 31, 2023

Agenda

- **Welcome**
- **Supervisory Priorities**
- **Other Updates**
- **Questions**
- **Contact Information**

Welcome & Introduction

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SUPERVISORY PRIORITIES

2023 Supervisory Priorities

- **Interest Rate Risk**
- **Liquidity Risk**
- **Credit Risk**
- **Fraud Prevention & Detection**
- **Information Security (Cybersecurity)**
- **Consumer Financial Protection**

Interest Rate Risk

- **Higher interest rates may elevate IRR and exposure to earnings and capital fluctuations**
- **Recent updates**
 - Letter to Credit Unions 22-CU-09, [Updates to Interest Rate Risk Supervisory Framework](#)
 - Supervisory Letter 22-01, [Updates to Interest Rate Risk Supervisory Framework](#)
 - Addition of Sensitivity to Market Risk, or “S,” component to CAMELS
- **Key risk management and control activities**
 - Assumptions and data sets must be reasonable and well documented
 - Overall level of IRR must be properly measured and controlled
 - Results must be promptly communicated to decision-makers and board
 - Actions must be taken to remain within safe and sound policy limits

Additional references: [Examiner’s Guide](#) under [Workpapers and Resources](#)

Liquidity Risk

- **Potential effects of higher interest rates may reduce credit union's asset valuation and borrowing capacity**
- **Large increases in share balances from 2020–2022 may increase share sensitivity and share roll-off**
- **Exam considerations**
 - Sources of liquidity compared to funding needs
 - Liquidity policies, procedures, and risk limits
 - Adequacy of liquidity risk management framework relative to the size, complexity, and risk profile
- **Key liquidity management evaluation factors**
 - Effects of interest rates on market value of assets and borrowing capacity
 - Scenario analysis for liquidity risk modeling
 - Scenario analysis for changes in cash flow projections
 - Appropriateness of contingency funding plans to address liquidity shortfalls

Resources and guidance: [Examiner's Guide](#)

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Credit Risk

- **Continue to focus on credit risk management and mitigation efforts**
 - Assess the effectiveness of credit unions' credit risk review system in identifying, monitoring, and managing credit risk exposure
 - Evaluate how credit risk is changing due to high inflation, higher borrowing costs from high-interest rates, and increased likelihood of an economic downturn
- **Review adjustments credit unions made to underwriting standards, portfolio monitoring practices, and loan loss reserves in response to the current inflationary economic environment**

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Fraud Prevention & Detection

Goals:

- Enhance the detection and identification of insider fraud risks, red flags, and material supervisory concerns earlier in the examination process
- Reduce losses to credit unions and the Share Insurance Fund
- Increase exam efficiencies and the NCUA's offsite work capabilities

Fraud Prevention & Detection

- Examiners began sending the Management Questionnaire on January 1st along with the Items Needed List
- An email notification was sent to credit union CEOs, CFOs, Board Members, and Supervisory Committee Chairs in December 2022
- Similar questionnaires are used by other federal and state regulators
- Pilot conducted in 2021
- Questions further refined to reduce burden on credit unions

Fraud Prevention & Detection

Two sections of the questionnaire:

1. Anti-Fraud Program section

- Primarily for the credit union to evaluate its own anti-fraud program and policies

2. Board of Directors, Management, and Business Associates section

- Can provide insights into insider fraud risks, red flags, and other material supervisory concerns

Fraud Prevention & Detection

- **Two versions of the questionnaire:**
 - Risk-Focused Exams
 - Small Credit Union Examination Program
- **Used in all full-scope exams that NCUA participates in, including joint exams**
 - Credit unions will only complete one similar questionnaire per exam
- **Complete the questionnaire to the best of your knowledge, and contact your examiner with any questions**

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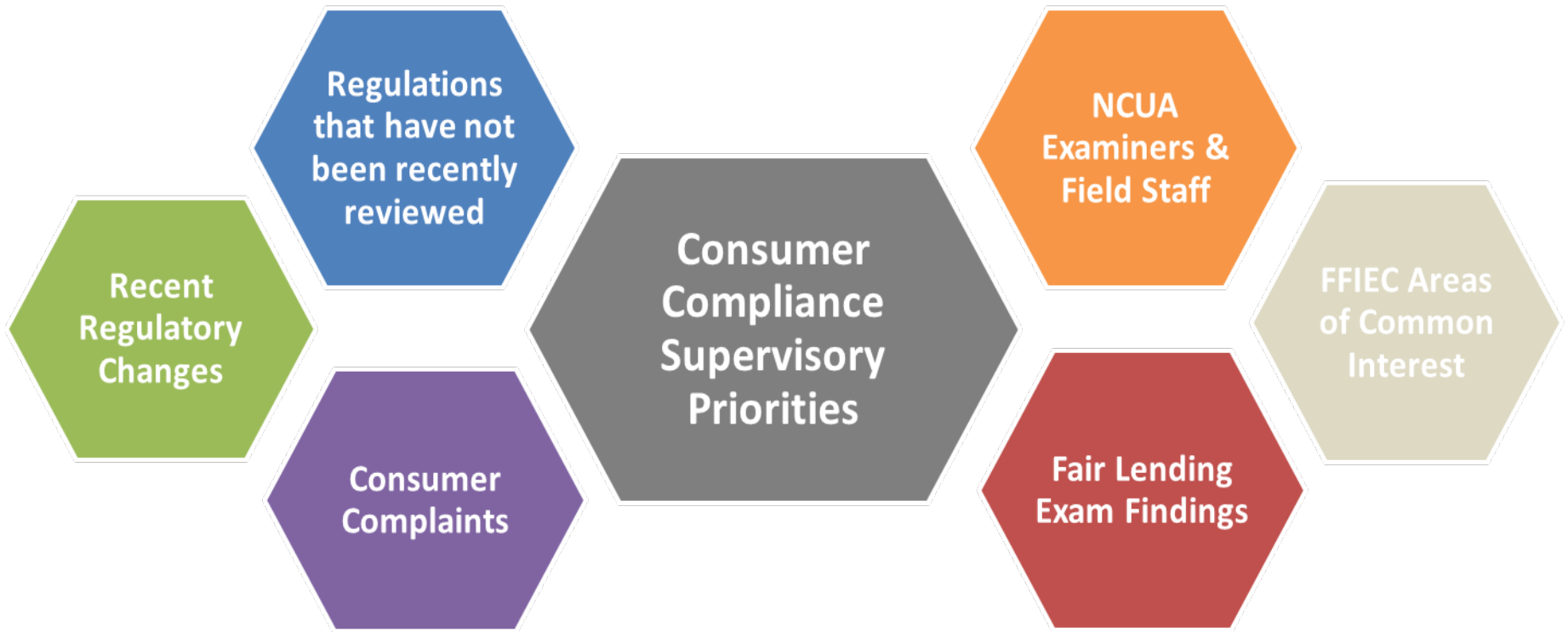
Information Security (Cybersecurity)

- **Cybersecurity risks remain a significant, persistent and ever-evolving threat**
- **The NCUA has implemented the new Information Security Examination**
- **The Automated Cybersecurity Evaluation Toolbox will have some minor updates in 2023**
 - Toolbox is voluntary and establishes no new requirements or expectations for credit unions

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Consumer Financial Protection



Consumer Financial Protection

- **Overdraft programs**
- **Fair lending, including appraisal bias**
- **The Truth in Lending Act/Regulation Z
(Auto Lending only)**
- **The Fair Credit Reporting Act/
Regulation V**

Consumer Financial Protection

Overdraft Programs

- **Limited Scope:** Federal credit unions with assets totaling \$500 million or more.
- **Examiners will review:**
 - Website advertising;
 - Balance calculation methods;
 - Settlement processes;
 - Member statements and disclosures related to PALS II loans; and
 - Management's actions to address unanticipated overdraft fees.

Consumer Financial Protection

Fair Lending

- Examiners will review policies and practices related to:
 - Loan pricing discrimination risk
 - Steering discrimination risk
 - Appraisal bias

Consumer Financial Protection

Truth in Lending Act/Regulation Z

- **Limited Scope: Federal credit unions with auto loan portfolios that increased more than 30 % between September 30, 2021, and September 30, 2022.**
- **Examiners will review compliance with Regulation Z auto loan disclosure requirements.**

Consumer Financial Protection

Fair Credit Reporting Act/Regulation V

- Examiners will review compliance with certain Regulation V credit reporting protections:
 - Adverse Action Notices;
 - Risk-based pricing disclosures; and
 - Consumer rights disclosures



OTHER UPDATES

Other Updates

- **Current Expected Credit Loss**
- **Small Credit Union & Minority Depository Institution Support**
- **Succession Planning**
- **Post-Examination Survey**

Current Expected Credit Losses

Implementation

- Most credit unions adopted January 1st
- New FAQs on
 - CECL Resources webpage
 - Simplified CECL Tool
- Exception for credit unions with assets under \$10 million

Current Expected Credit Losses

Examiners will evaluate the adequacy of credit unions' Allowance for Credit Losses (ACL) on loans and leases accounts by reviewing:

- ACL policies and procedures
- Documentation of an ACL reserving methodology, including logic for model selection and related input data, modeling assumptions, and qualitative adjustments
- Adherence to GAAP

Current Expected Credit Losses

- **Independent Reviews**

- If the credit union's ACL is independently reviewed by the supervisory committee or an internal or external auditor, examiners will also consider the results of that review as part of their evaluation.

- **Day-one adjustment**

- Required by CECL.

- Feeds into Call Report for calculating the adjustment to Net Worth for PCA.

- Call Report changes to factor in transition rule

Other Updates

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- **Succession Planning**
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Small Credit Union & MDI Support

- **Small Credit Union & Minority Depository Institutions (MDI) Support Program**
 - MDI credit unions and credit unions under \$100 million in assets are eligible
 - Allocated hours not part of the typical exam process
- **MDI-Specific Exam Procedures**
 - Tailored approach
 - MDI peer metrics

Small Credit Union & MDI Support

- **ACCESS – Advancing Communities through Credit, Education, Stability, and Support**
 - Continue to identify additional ways to help new, small, low-income designated, and MDI credit unions grow and prosper
- **Resources**
 - Training
 - Community Development Revolving Loan Fund Grants
 - Mentoring Grants

Other Updates

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Succession Planning



Succession Planning

- **Be prepared**
- **Succession *planning* vs. Succession *plan***
- **Why succession planning?**
- **Tailor to your credit union**
- **Credit union resources**
- **2023 reviews**

Post-Examination Survey

- **Pilot program**
 - Survey
 - Focus groups
- **Results of pilot program**
- **Permanent post-examination survey**

QUESTIONS





THANK YOU

Office Contact Information

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