

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: October 2013 **LETTER NO:** 13-CU-09

TO: Federally Insured Credit Unions

SUBJ: Examination Report Modernization

ENCL: (1) Chapter 13, National Supervision Policy Manual (NSPM)
(2) Chapter 11, Section 3 of the NSPM
(3) New Examiner's Findings Template
(4) New Document of Resolution Template

Dear Board of Directors and Chief Executive Officer:

If your credit union receives a separate examination from NCUA, you will soon see changes to streamline the examination report. *Full implementation will begin with examinations started on or after January 1, 2014.*

The following information explains all the improvements in the examination report and the reasons why this latest effort is part of my Regulatory Modernization Initiative.

Why is NCUA Changing the Examination Report?

We are acting to streamline the examination report, better clarify the priority exam action items to be resolved, reduce redundancy, and ensure consistency. Before making these improvements, we considered feedback from credit union industry officials, along with specific report recommendations by the Government Accountability Office (GAO) and NCUA's Office of Inspector General (OIG).

What Changes is NCUA Making to the Examination Report?

Specifically, the Document of Resolution (DOR) and Examiner's Findings will now be stand-alone documents. Separating the DOR and Examiner's Findings documents – and providing descriptive definitions of each document's purpose – will help credit union officials clearly differentiate between major and minor problems in order to prioritize corrective actions.

For any *material* problems identified in an exam, the examiner's concern and documented support for that concern will be included in the *DOR*, along with corrective action plans. This will help credit unions and NCUA implement timely problem resolution of the most critical and material concerns. These changes will also enhance consistency in the exam process.

More specifically:

- **DORs** will include a description of material problems, along with the agreed-upon corrective actions. Ideally, the DOR will include corrective action plans developed cooperatively between examiners and credit union officials for concerns of the highest priority. *Failure to correct problems documented in the DOR may result in enforcement actions, and will impact CAMEL and risk ratings.*
- **Examiner's Findings** will include less urgent problems the credit union must address, but can do so in the normal course of business. Management may use its own discretion to determine the timeframe and approach for correcting these problems; however, we expect management to address concerns documented in the Examiner's Findings within a reasonable timeframe. *Unresolved Examiner's Findings will impact CAMEL and risk ratings.*

The following table highlights the improvements from the current examination report format to the new format for 2014:

Exam Document	Current Document Format	New Document Format
<i>Examination Overview</i>	Examiners document the credit union's CAMEL and risk ratings in the Examination Overview. Additionally, examiners often include detailed discussion of the problems identified and the corrective actions necessary.	Examiners will document the credit union's CAMEL and risk ratings and include a high-level discussion of the credit union's risk profile, financial trends and progress in correcting prior concerns.
<i>Document of Resolution (DOR)</i>	Examiners document agreed-upon corrective action plans in the Document of Resolution.	Examiners will document and provide detailed support for problems meeting the DOR definition outlined in the NSPM and the corresponding corrective actions.
<i>DOR Status Report</i>	Currently, the status of the DOR is documented in a variety of places including the Supplementary Facts, Excel workbook, or blank Word document.	A <i>new document</i> titled DOR Status Report will summarize the status of prior or outstanding DORs, including DORs that were resolved since the last exam or contact.
<i>Examiner's Findings</i>	Examiners document problems identified during the exam in the Examiner's Findings.	Examiners will document problems identified during the exam that do not meet the definition of a DOR. Examiners may provide corrective action plans if necessary.

Exam Document	Current Document Format	New Document Format
<i>Informal Discussion Items</i>	Examiners use this document for a variety of purposes. Some provide recommendations and discussions, while others use it to document minor findings. Sometimes it is included in the official examination report, but other times it is provided only to operational management.	<i>This informal document will be eliminated.</i> Examiners will instead document any problems and corrective actions in either a DOR or the Examiner's Findings to be included in the official examination report. Examiners can document recommendations in the Supplementary Facts.
<i>Supplementary Facts</i>	Examiners use this form for a variety of purposes. Many examiners include the status of the DOR or outstanding administrative action in the Supplementary Facts.	Examiners may use this form to provide recommendations or suggestions, but must document them as such. Examiners can also use this form to provide additional information to support other documents in the examination report (Examiner's Findings, DOR, etc.). However, if the information refers to corrective action the credit union must take, or to issues that affect the credit union's operations, this form must be included in the official examination report provided to credit union officials.
<i>Status Update Template</i>	The status of administrative actions is documented in a variety of places including the Supplementary Facts, Excel workbook, or blank Word document.	<i>A new document</i> titled Status Update will provide the status of outstanding administrative actions, including Letters of Understanding (LUAs) and Preliminary Warning Letters (PWLs).

The changes outlined above are described in further detail in the new Chapter 13 of the NSPM. A copy is provided with this letter.

What Changes are Being Made to the Examination Process?

In addition to streamlining and clarifying the examination report documents, we are implementing new processes related to issuing and following up on the examination report. Relevant chapter revisions to the NSPM are attached for further information.

If a DOR instructs your credit union to cease an activity your examiner identifies as unsafe or unsound, the examiner will instruct you to notify the NCUA Regional Office in writing once you have implemented the necessary corrective action to enable your credit union to resume the activity in a safe and sound manner. Revisions to Chapter 11 of the NSPM outline this process.

Examiners are now *required* to follow up with credit union officials on outstanding DOR items within 120 days after the timeframe for completion has passed. This means examiners will contact you shortly after the timeframe for DOR resolution to verify compliance. This will help ensure timely resolution of identified problems.

The revisions to Chapter 13 of the NSPM highlight our long-standing policy that credit union management should be involved in the development of corrective action plans. *As examiners identify concerns, you should be ready to provide solutions.* The goal is to use management's preferred strategies to solve problems if they possess a reasonable chance of success. Thus, *reasonable solutions provided by the credit union will become the corrective action plan included in the DOR.* Working together to proactively identify problems and reasonable solutions will ensure credit unions continue to serve their members and operate soundly.

These examination changes reflect input NCUA received from various stakeholders over the past 24 months. Once implemented, this modernization will further improve the overall exam process by setting clearer expectations for credit unions and examiners, as well as streamlining paperwork and ensuring consistency.

If you have any questions related to this letter, please contact NCUA's Office of Examination and Insurance at 703-518-6360 or EIMail@ncua.gov.

Sincerely,

/s/

Debbie Matz
Chairman