2022 Supervisory Priorities Board Briefing

January 27, 2022
2022 Supervisory Priorities

• Credit Risk Management
• Information Security (Cybersecurity)
• Payment Systems
• BSA/AML/Countering Terrorism Financing
• Capital Adequacy/Risk Based Capital Rule
• Loan Loss Reserving
2022 Supervisory Priorities

- Consumer Financial Protection
- Loan Participations
- Fraud
- London Inter-Bank Offered Rate (LIBOR) Transition
- Interest Rate Risk
Other Reminders

- NCUA Connect & MERIT
- Recording of Official Meetings
- CAMELS Update
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 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
The BSA was amended for the first time since 2001 by the AML and CTA Acts

New requirements for credit unions to update their risk-based BSA and AML/CFT policies, procedures, and processes

Requirements will be implemented incrementally throughout 2022
• 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
  – Will need to make Call Report revisions based on 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
  – CUs < $10M are not required to follow GAAP or CECL unless required by the SSA

• 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

• Fraud risk has increased due to the offsite posture of many credit unions
• NCUA will focus on credit union efforts to detect and deter fraud and will perform transaction testing
• Reviews will include
  – Internal controls
  – Separation of duties
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
Interest Rate Risk

• 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
• 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
• Federal credit unions may record exit meetings and joint conferences with examiner concurrence
• Examiners will normally agree to recordings
• Any disagreement may be addressed with regional management
• Credit unions should refer to local, state, and federal laws, especially re: obtaining consent
• Examiners may request a copy of the recording
CAMELS Update

• Final rule to add “S” to CAMELS approved October 2021; with an effective date of April 1, 2022
• CAMELS distinguishes liquidity risk from market sensitivity
• “S” component effective risk management includes comprehensive policies, risk limits, risk mitigation strategies, and governance framework
• “L” component considerations include current and prospective sources of liquidity
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