

December 16, 2019

Mr. Gerard Poliquin  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314  
[regcomments@ncua.gov](mailto:regcomments@ncua.gov)

**Re:** Interagency Guidance on Credit Risk Review Systems; RIN 3133–AF05

Dear Mr. Poliquin:

On behalf of the 2.2 million credit union members we represent, the Heartland Credit Union Association (HCUA) appreciates the opportunity to comment on the proposed interagency guidance on credit risk review systems.

### **Background**

The NCUA, Office of the Comptroller of the Currency, Federal Reserve Board, and Federal Deposit Insurance Corporate (the agencies) have issued Proposed Guidance that discusses sound management of credit risk, a system of independent, ongoing credit review, and appropriate communication regarding the performance of the institution's loan portfolio to its management and board of directors.

The agencies are proposing to update guidance adopted in 2006 to reflect the current expected credit losses methodology (CECL). Further, the agencies recognize that credit risk review systems have a broader application in risk management programs than just providing information on the collectability of an institution's loan portfolio for determining an appropriate level for the allowance for credit losses (ACL) or allowance for loan and lease losses (ALLL), as applicable. Therefore, the agencies are proposing to issue guidance on credit risk review systems as a standalone guidance document and accordingly rescind the 2006 guidance.

### **Proposed Guidance on Credit Risk Review Systems**

The Proposed Guidance aligns with the *Interagency Guidelines Establishing Standards for Safety and Soundness*, which sets out safety and soundness standards for insured depository institutions to establish a system for independent, ongoing credit risk review, and including regular communication to its management and board of directors regarding the institution's loan portfolio performance. The Proposed Guidance is appropriate for all institutions and describes a broad set of practices that can occur either within a dedicated unit or multiple units throughout an institution to form a credit risk review system consistent with safe-and-sound lending practices. The Proposed Guidance outlines principles for use in developing and maintaining an effective credit risk review system. The nature of credit risk review systems typically varies based on an institution's size, complexity, loan types, risk profile, and risk management practices. Therefore, the proposed guidance attempts to highlight principles that can be scaled to an institution's loan activity.

The Proposed Guidance includes two primary sections:

- 1) Credit Risk Rating (or Grading) Framework: which describes how the foundation for any effective credit risk review system is accurate and timely risk ratings to assess credit quality and identify or confirm problem loans.
- 2) Elements of an Effective Credit Risk Review System: which describes the elements of a credit risk review system that should be reviewed and approved by an institution's board of directors (or appropriate board committee) at least annually.

In general, we believe the Proposed Guidance describes a broad set of practices that an institution—including most credit unions—can use to form a credit risk review system that is consistent with safe-and-sound lending practices.

While we believe the Proposed Guidance generally reflects current sound practices for an institution's credit risk review activities, we believe the Proposed Guidance should be just that, *guidance*. We do not think it would be appropriate to require credit unions to adhere to the letter of the Proposed Guidance as if it were a mandate included within NCUA's Rules and Regulations.

The elements within the Proposed Guidance appear reasonable and likely manageable for many credit unions. The Proposed Guidance is written in a way that attempts to allow it to be applied in varying degrees depending on the size and complexity of the institution.

We appreciate the agencies' effort to provide guidance that is appropriate for institutions of varying asset sizes. Specifically, the Proposed Guidance provides that the nature of credit risk review systems varies based on an institution's size, complexity, loan types, risk profile, and risk management practices. Further, the Proposed Guidance states that, "in smaller or less complex institutions, a credit risk review system may include qualified members of the staff, including loan officers, other officers, or directors, who are independent of the credits being assessed," whereas "in larger or more complex institutions, a credit risk review system may include components of a dedicated credit risk review function that are independent of the institution's lending function."

Again, while we appreciate the effort of the agencies in trying to draft the Proposed Guidance in a way to allow it to apply to institutions of varying size and complexity, we are concerned there will be instances where its application to certain credit unions is simply not feasible or appropriate. Therefore, we urge the NCUA to recognize the nature of the Proposed Guidance as simply guidance that credit unions can look to when establishing and maintaining credit risk review systems. We believe it would be inappropriate to examine credit unions for strict adherence to the exact guidance as outlined in the proposal.

As always, we appreciate the opportunity to review this issue. We will be happy to respond to any questions regarding these comments.

Sincerely,



Brad Douglas  
President/CEO