

NCUA LETTER TO FEDERAL CREDIT UNIONS

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

DATE: July 2012 **LETTER NO.:** 12-FCU-03
TO: All Federal Credit Unions under \$10 Million in Assets
SUBJ: Small Credit Union Examination Program Changes

Dear Board of Directors and Chief Executive Officer:

This letter highlights changes in examination procedures of small credit unions.

To more efficiently allocate agency resources, the National Credit Union Administration (NCUA) is implementing a Small Credit Union Examination Program (SCUEP) that streamlines the examination process for small federal credit unions (FCUs) with a record of solid performance.

This program is a first step in our efforts to more closely align resources with risks.

Who Is Eligible for the Small Credit Union Examination Program?

The SCUEP is targeted to FCUs with total assets less than \$10 million and a CAMEL rating of 1, 2 or 3. Small credit unions that are financially and operationally sound and present lower risk will typically have shorter examinations and more concise examination reports. While we expect the majority of small credit unions will reap the benefits of the new SCUEP, Regional Offices do have discretion to either expand the scope of an exam or exclude an eligible FCU based on its level of risk.

How Does the New Exam Differ from a Traditional Exam?

The most noticeable difference between the SCUEP and a traditional annual exam is the time spent on-site by the examiner. As part of the SCUEP, the agency is allocating only 40 hours per well managed credit union. This relieved burden reflects a reduced scope aimed at focusing on the most pertinent areas of risk in small credit unions – lending, recordkeeping, internal audit functions, etc.

The SCUEP also includes a streamlined Examination Overview to highlight significant issues in an easy-to-read table format.

What Exam Features Will Remain the Same?

Consistent with our existing risk-focused examination (RFE) process,¹ the SCUEP focuses on areas of highest risk. Credit unions receiving a SCUEP examination will continue to see:

- Examination time commensurate with credit union size, structure, and risk profile;
- Emphasis on improved communication with management;
- Focus on issues and risks relevant to the credit union;
- Optional meetings with the board of directors for qualifying credit unions;
- Customized examination reports; and
- Additional supervision where appropriate.

Examiners will still closely review areas exhibiting weaknesses and adverse trends. Also, the scope of SCUEP examinations will continue to reflect the challenges unique to small credit unions – for example, fewer staff, limited segregation of duties and internal controls, and scarce financial resources to secure necessary equipment, education and training.

Will Examiners Still Have Time to Provide Assistance?

Much of the guidance and direct assistance examiners previously provided smaller credit unions during the examination process will now be provided by NCUA's Office of Small Credit Union Initiatives (OSCUI).

NCUA created OSCUI in December 2004 to provide guidance, assistance, and information on development opportunities to small, new, and low-income designated credit unions nationwide. OSCUI's goal is to ensure the long-term viability and growth of these credit unions through four primary functions – training, consulting, grants and loans, and partnerships and resources.²

- Training – OSCUI delivers training to credit union staff and officials at multiple venues and using varied media. These programs explore various aspects of operational management and regulatory compliance.
- Consulting – OSCUI's Economic Development Specialists (EDS) are located throughout the country. They are experienced and equipped to provide hands-on consulting services to credit union officials on a variety of operational and strategic management issues at no cost.

¹ Refer to NCUA Letter to Federal Credit Unions No. 02-FCU-09, Risk-Focused Examination Program.

² A video providing an overview of OSCUI's services is available at: <http://bit.ly/vsHHfE>

- Grants and Loans – OSCUI administers the Community Development Revolving Loan Fund (CDRLF) that provides grants and loans to assist low-income credit unions. The goal of the fund is to stimulate economic activity in the communities served by such credit unions.
- Partnerships and Resources – OSCUI works with other federal agencies and non-profit organizations to identify programs and services that help credit unions meet their members' needs. These OSCUI partnerships help broaden credit union access to beneficial resources. Many resources are posted on OSCUI's webpage which can be accessed through NCUA.gov.

How Can Small Credit Unions Access Free OSCUI Services?

OSCUI provides services through its National Small Credit Union Program (NSCUP). Enrollment in the NSCUP is entirely voluntary and can be done through the credit union's NCUA district examiner. Credit unions should contact their NCUA district examiner or OSCUI for more information on the program.

OSCUI provides customized consulting services, including training in various areas of operational management. Examples include:

- Net Worth Restoration Plan / Revised Business Plan Development;
- Recordkeeping;
- Budgeting;
- Strategic Planning;
- Internal Controls;
- Lending; and
- Policy Development (Lending, Investments, Collections, Asset-Liability Management, Disaster Recovery, Consumer Compliance, Bank Secrecy Act / Office of Foreign Assets Control Compliance, Identity Theft Prevention Program, etc.).

In many cases, an OSCUI EDS can assist a small credit union with implementing corrective actions outlined in the Document of Resolution developed during the SCUPE examination.

Why Is NCUA Making these Changes?

As your regulator and insurer, NCUA's primary responsibility is protecting the safety and soundness of the credit union system. We recognize the unique and vital roles that small credit unions play in the system. Rather than a one-size-fits-all examination program, we are allocating our resources appropriate to the risk posed by each credit union to the National Credit Union Share Insurance Fund.

Credit unions eligible for the SCUEP will continue to receive professional and thorough examinations that focus on areas of weakness, adverse trends or higher risks. NCUA believes the risk-focused SCUEP, coupled with training and assistance from OSCUI, will result in improved small credit union operations and a better allocation of agency resources.

We welcome your feedback as you have the opportunity to experience this new examination approach. We plan to run the SCUEP throughout 2012 and evaluate its benefits and longer-term outlook early next year.

If you have any questions, please contact your NCUA regional office, district examiner or OSCUI.

Sincerely,

/s/

Debbie Matz
Chairman