



June 24, 2019

CERTIFIED MAIL

XXXXXX XXXXXX
President/CEO
XXXXX XXXXX Federal Credit Union
XXX XXXXXXXX XX
XXXX, XX XXXXX

RE: XXXXX XXXXX FCU, Supervisory
Review Committee Appeal Decision
(SRC-05-19)

Dear XX. XXXXXX:

I am writing to inform you that the NCUA’s Supervisory Review Committee (SRC) has made a final decision to uphold the decisions made by the Region X and XXXXX Regional Directors to deny XXXXX’s application for secondary capital. We further explain our decision below.

XXXXX filed a notice of appeal to the SRC with the NCUA Board Secretary, pursuant to 12 C.F.R. §746.17, in a letter dated March 13, 2019. Your letter included the following statement of appeal.

“XXXXX appeals the decision of the NCUA Regional Director (Region X) that denied XXXXX’s Application for Secondary Capital. This decision was submitted to XXXXX in a letter dated December 19, 2018. The basis for the denial was later re-stated by the Eastern Regional Director in their letter dated February 13, 2019. The 2/13/2019 Letter was sent in response to XXXXX’s Letter of Reconsideration, dated January 11, 2019.”

As a low-income designated credit union, XXXXX is eligible to request secondary capital authority from the NCUA pursuant to 12 C.F.R. §701.34. A chronology of significant events related to XXXXX’s request for approval to accept secondary capital is as follows:

Date	Activity
November 9, 2018	XXXXX submitted its secondary capital application to the Region X Regional Director. XXXXX requested authority to accept \$XX million in secondary capital.
December 19, 2018	The Region X Director denied XXXXX’s secondary capital plan, citing deficiencies in the capital plan.

Date	Activity
January 11, 2019	XXXXXX submitted its Letter of Reconsideration to the XXXXXX Regional Director. The letter asserted that the original decision was in error as the application complied with the five regulatory components of 12 C.F.R. §701.34(b)(1).
February 13, 2019	The XXXXXX Regional Director denied XXXXX's request for reconsideration of the revised plan, stating the request did not address the deficiencies noted in the original denial. The XXXXXX Region Director expressed safety and soundness concerns with respect to three specific issues.
March 13, 2019	XXXXXX filed its appeal to the NCUA Supervisory Review Committee.
March 28, 2019	The SRC requested additional information of XXXXX and the XXXXXX Region. Both parties responded to these requests.
April 25, 2019	The SRC scheduled an oral hearing and sent both parties a letter explaining the procedures for the hearing.
May 30, 2019	All parties attended the oral hearing.

Authority to Request SRC Review

The NCUA Regulations allow a credit union to request SRC review after receiving a written decision issued by a program office in response to a request for reconsideration pursuant to 12 C.F.R. §746.105. The SRC must receive the request for review within 30 days of the credit union receiving the written decision by the appropriate program office on reconsideration, and the matter for review must be a “material supervisory determination.”

According to 12 C.F.R. §746.103, a material supervisory determination means any written decision by a program office that may significantly affect the capital, earnings, operating flexibility, or that may otherwise affect the nature or level of supervisory oversight of an insured credit union. 12 C.F.R. §746.103 (a)(5) further defines the term to include a determination on a waiver request or an application for additional authority where independent appeal procedures have not been specified in other NCUA regulations.

The SRC finds that XXXXX's request for SRC review meets regulatory requirements. The regional directors' denial of the secondary capital application does have a material impact on capital, earnings, and the operating flexibility of the credit union. As the above timeline illustrates, XXXXX requested reconsideration of the denial of its plan from the program office,

and then requested SRC review after receiving the written determination regarding its request for reconsideration. XXXXX completed the request for reconsideration and request for SRC review the calendar days required by the applicable regulations.

Supervisory Review Committee Appeal Precedents

The SRC has ruled on three appeals related to the denial of secondary capital applications. In all cases, the SRC determined the denial of a secondary capital application is a material supervisory determination and appeals of these decisions to the SRC are appropriate.

The final determinations made in these three appeals are available on NCUA's website at <https://www.ncua.gov/regulation-supervision/supervisory-review-committee/appeal-decisions>. The three SRC decisions are titled SRC-01-19, SRC-02-19, and SRC-03-19.

Federally insured credit unions submit secondary capital applications pursuant to 12 C.F.R. §741.204, and must further comply with the requirements of 12 C.F.R. §701.34. A regional director's response to secondary capital application requires the consistent application and interpretation of these regulations. The interpretation and application of these regulations is a significant part of XXXXX's appeal. It has also been a part of each of the three prior SRC appeals dealing with secondary capital applications.

At the same time, each request for secondary capital is unique to the credit union applicant. In considering XXXXX's appeal, the SRC reviewed the regional directors' application and interpretation of 12 C.F.R. §701.34 and 12 C.F.R. §741.204; XXXXX's original application materials for secondary capital; and the materials submitted as part of its request for reconsideration. The SRC also requested and considered additional information from XXXXX related to its original application.

Brief Review of 12 C.F.R. §701.34 and 12 C.F.R. §741.204

XXXXX's written appeal and oral testimony argue that 12 C.F.R. §741.204 requires that the regional director **must** approve a plan that meets the requirements 12 C.F.R. §701.34(b)(1). 12 C.F.R. §741.204 is included in Subpart B of Part 741 of the regulations. Subpart A of Part 741 references regulations that apply to both federal credit unions and federally insured state-chartered credit unions. Subpart B of Part 741 references regulations codified elsewhere in NCUA's regulations as applying to federal credit unions that also apply to federally insured state-chartered credit unions.

12 C.F.R. §741.204 states,

Any credit union that is insured, or that makes application for insurance, pursuant to title II of the Act must:

(a) Adhere to the requirements of §701.32 of this chapter regarding public unit and nonmember accounts, provided it has the authority to accept such accounts.

Requests by federally insured state-chartered credit unions for an exemption from the limitation of §701.32 of this chapter will be made and reviewed on the same basis as that provided in §701.32 of this chapter for federal credit unions, provided, however that NCUA will not grant an exemption without the concurrence of the appropriate state regulator.

(b) Obtain a low-income designation in order to accept nonmember accounts, other than from public units or other credit unions, provided it has the authority to accept such accounts under state law. The state regulator shall make the low-income designation with the concurrence of NCUA. The designation will be made and reviewed by the state regulator on the same basis as that provided in §701.34(a) of this chapter for federal credit unions. Removal of the designation by the state regulator for such credit unions shall be with the concurrence of NCUA.

(c) Receive secondary capital accounts only if the credit has a low-income designation pursuant to paragraph (b) of this section, and then only in accordance with the terms and conditions authorized for Federal credit unions pursuant to §701.34(b)(1) of this chapter and to the extent not inconsistent with applicable state law and regulation. State chartered federally insured credit unions offering secondary capital accounts must submit the plan required by §701.34(b)(1) to both the state supervisory authority and the NCUA for approval. The state supervisory authority must approve or disapprove the plan with the concurrence of NCUA.

(d) Redeem secondary capital accounts only in accordance with the terms and conditions authorized for federal credit unions pursuant to §701.34(d) of this chapter and to the extent not inconsistent with applicable state law and regulation. State chartered federally insured credit unions seeking to redeem secondary capital accounts must submit the request required by §701.34(d)(1) to both the state supervisory authority and the NCUA. The state supervisory authority must grant or deny the request with the concurrence of NCUA

Subpart B lays out obligations of a federally insured credit union to comply with regulations codified elsewhere. To summarize the foregoing, §741.204 requires a federally insured credit to comply with 12 C.F.R. §§701.32, 701.34(a), 701.34(b)(1), and 701.34(d). The only obligation this regulation requires of NCUA is to act in concurrence with the appropriate state supervisory authority for federally insured state-chartered credit unions applying to receive secondary capital.

12 C.F.R. §701.34(a) discusses the designation of low-income status and acceptance of secondary capital accounts by low-income designated credit unions. XXXXX applied for and received a low-income designation on July 31, 2018.

12 C.F.R. §701.34(b) also deals with the acceptance of secondary capital accounts by low-income designated credit unions. Many of the issues in XXXXX's appeals relate to the specific interpretation and application of §701.34(b)(1). Section 701.34(b)(1) reads:

(b) Acceptance of secondary capital accounts by low-income designated credit unions. A federal credit union having a designation of low-income status pursuant to paragraph (a) of this section may accept secondary capital accounts from nonnatural person members and nonnatural person nonmembers subject to the following conditions:

(1) Secondary capital plan. Before accepting secondary capital, a low-income credit union ("LICU") shall adopt, and forward to NCUA for approval, a written "Secondary Capital Plan" that, at a minimum:

(i) States the maximum aggregate amount of uninsured secondary capital the LICU plans to accept;

(ii) Identifies the purpose for which the aggregate secondary capital will be used, and how it will be repaid;

(iii) Explains how the LICU will provide for liquidity to repay secondary capital upon maturity of the accounts;

(iv) Demonstrates that the planned uses of secondary capital conform to the LICU's strategic plan, business plan and budget; and

(v) Includes supporting pro forma financial statements, including any off-balance sheet items, covering a minimum of the next two years.

During oral arguments, XXXXX referred to (i)-(v) as the five pillars of the rule. XXXXX's written appeal and oral arguments make a number of assertions in its interpretation of this regulation. These include:

1. The regional director must approve a plan that contains the minimum components spelled out in (i)-(v)
 2. The regional director does not have the authority to take action under the pretext of safety and soundness. During oral presentations XXXXX conceded that the safety and soundness is a consideration in any application, but the regional director's consideration of safety and soundness must be based on and in context with C.F.R. §701.34(b)(1).
 3. Sections 701.34(b)(1)(ii)-(v) exist to protect investors who provide secondary capital
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Supervisory Review Committee Determination – Regulatory Interpretations

The SRC would like to comment on XXXXX's third point first. This point is not a significant factor in the actions of the region or the SRC's final determination. However, XXXXX went to great lengths to emphasize this point during oral presentations. The SRC was unable to find anything in the plain wording of the regulation or the preamble to the regulation that suggests this regulation exists to protect investors. Section 701.34(b)(11) does require an investor to execute and sign a "Disclosure and Acknowledgement" as set forth in the Appendix to Part 701.34.

The preamble to the regulation states the purpose of the regulation was to allow low-income credit unions to begin redeeming uninsured secondary capital accounts when they were within five years of maturity, and to require prior approval of a plan for the use of uninsured secondary capital before a credit union can begin accepting the funds. The Board noted that promoting diligent practices in place of lenient ones cannot help but improve the safety and soundness of low-income credit unions. Thus, the focus of the regulation was improving the safety and soundness of low-income credit unions, not protecting investors. Tangentially, improving the safety and soundness of the credit union also reduces risk for investors. However, the intent of the regulation focuses on low-income credit unions, not the protection of investors.

The SRC rejects XXXXX's first argument that a regional director must approve a plan that contains the minimum components spelled out in §701.34(b)(1). Prior appeals raised this argument and both SRC-01-19 and SRC-02-19 discussed it. In both of these decisions, the SRC determined that there is no duty for the regional director to approve a secondary capital application simply because the plan meets the five minimum content requirements of the rule.

Both SRC-01-19 and SRC-02-19 note that §741.204(c) imposes obligations on the federally insured credit union with respect to secondary capital, rather than imposing a duty on the regional director to approve secondary capital applications.

The SRC does not see within the plain language of §701.34(b)(1) any obligation or requirement for a regional director to approve a plan simply because it includes what XXXXX terms the five pillars of an application. The plain language of C.F.R. §701.34(b)(1) states that at a "minimum" the application for secondary capital will include XXXXX's five pillars.

The SRC does not reject XXXXX's second point. In fact, the region and Office of General Counsel (OGC) attorney representing the region agree that a regional director must consider safety and soundness within the context of the §701.34(b)(1). XXXXX and the region both acknowledge that safety and soundness considerations are applicable within the context of regulation. XXXXX and the region do not agree on what constitutes an application that represents a safe plan.

As pointed out by the OGC attorney, the congressional mandated purpose of the NCUA is to ensure the safety and soundness of insured credit unions. The preamble to §701.34(b)(1) is

informative as it provides specific examples illustrating why the NCUA Board chose to require approval of plans, and provides examples of unsafe conditions that led to that decision. The preamble cited lenient practices that included: (1) Poor due diligence and strategic planning in connection with expanding member service programs such as ATM's, share drafts, and lending (e.g., member business loans, real estate, and subprime); (2) Failure to adequately perform a prospective cost/benefit business analysis of these programs; (3) Premature and excessively ambitious concentrations of uninsured secondary capital to support unproven or poorly performing programs, and (4) Failure to realistically curtail programs that, in the face of mounting losses, are not meeting expectations. The Board noted these issues contribute to excessive operating costs, high losses from loan defaults and a shortfall in revenues.

The Board's stated objectives in requiring an application process were to,

- First, prevent low-income credit unions from accepting and using uninsured secondary capital for purposes and in amounts that are improper and unsound.
- Second, ensure that regions evaluate and critique plans before credit unions implement them; and
- Third, for both the NCUA and the low-income credit union, an approved plan will document parameters to guide the proper implementation of the uninsured secondary capital.

When we consider the examples of lenient practices and the Board's stated objectives for the rule, it is clear the Board's intent was for regional directors to consider safety and soundness in the review and critique of secondary capital plans.

As acknowledged by both parties, the regional director's review of plan should be based on the criteria spelled out in §701.34(b)(1). The regulation states these are minimum requirements. This allows the regional director discretion to require additional information to alleviate safety and soundness concerns. The preamble notes the regional director will also rely on input from the district examiner who regularly oversees the credit union.

With respect to XXXXX's underlying legal arguments, the SRC finds that:

- Neither 12 C.F.R. §701.34 nor 12 C.F.R. §741.204 requires or obligates the regional director to approve a plan for uninsured secondary capital;
- Under both 12 C.F.R. §701.34(b) and 12 C.F.R. §741.204, the regional director is expected to review uninsured secondary capital applications specifically to determine if the credit union's plans are safe and sound. There is an expectation that the regional director will evaluate and comment on those plans; and
- 12 C.F.R. §701.34(b)(1) and 12 C.F.R. §741.204 are focused on improving the safe and sound operations of low-income designated credit unions. These regulations do not focus on investor protections, even though improving safety and soundness also improves investor protections.

Supervisory Review Committee Determination – Regional Director Decisions

XXXXX believes the decisions reached by the two regional directors on its application and request for consideration are in error because they are based on safety and soundness considerations.

The SRC has established that the regulations require a regional director to review XXXXX's uninsured secondary capital application, evaluate it based on safety and soundness and make a determination based on the criteria established in 12 C.F.R. §701.34(b)(1). The SRC rejects XXXXX's assertions that the regional directors were obligated to approve XXXXX's application solely because it addressed the minimum plan requirements.

XXXXX also contends that the plan submitted reflects a safe and sound plan and the regions' reasons for denial are not consistent with the five elements on which the regional directors should base their decisions.

The SRC reviewed both the original and request for reconsideration denial letters. Both letters cite similar deficiencies. The original denial cited three specific deficiencies as discussed below:

- 1. The intended use of secondary capital does not clearly conform to your strategic plan and budget as documented in your financial forecast.*

The original denial dated December 19, 2019, notes this a requirement of 12 C.F.R. §701.34(b)(1)(iv). The February 13, 2019, letter denying your request for consideration noted that you provided minimal new information. Both regional directors were concerned with the level and type of loan growth, and stated that your plans and projections failed to detail loan portfolio composition goals throughout the plan.

Your original application included a lending strategy. This strategy lists a number of initiatives including mortgage program enhancements, new unsecured loan enhancements, expanding indirect dealership networks, a high yield lending strategy, plans to partner with XXXXX (a manufactured home lender), and within five years, a new business lending program.

XXXXX's appeal letter and statements at the oral hearing questioned why the regions would expect the credit union to project loan characteristics in its plans, budgets and pro-forma financial statements.

XXXXX's plan reflects the lenient practices cited in the preamble to the regulation. Specifically it reflects limited due diligence on expanding member service programs and a failure to perform prospective cost/benefit business analyses of these programs. With no beginning expectations, the credit union cannot assess achievement of expected risk and rewards without incurring excessive operating costs and revenue shortfalls in future periods.

The SRC notes that XXXXX's operating expenses are already XX basis points higher than peer, and that XX of its XX branches are operating at a loss. The regional directors have legitimate safety and soundness concerns that XXXXX is planning to grow loans, but is unwilling to document the type of loan growth.

Several of the planned loan types will require additional training, collections, and internal resources, as the CEO acknowledged during the oral hearing. Simply planning to grow loans without at least a rudimentary projection of the types of loans the credit union will add to the balance sheet is unsafe and unsound. Without preliminary projections, a credit union cannot monitor either progress or success, cannot monitor profitability of program, or project operating expense levels.

The SRC concurs with the regional directors' decisions and reasoning. It is the credit union's responsibility to demonstrate that strategic plans, business plans and financial projections align. By not providing loan program goals, the credit union not demonstrating alignment between strategic plans, business plans and financial projections. Simply stating the plan is to grow loans, without specific portfolio composition targets, is simplistic and irresponsible. The regional directors' safety and soundness concerns were correct, and consistent with the regulation.

2. *Deficiencies with the supporting pro forma financial statements, including any off balance sheet items, covering a minimum of the next two years (12 C.F.R. §701.34(b)(1)(v)).*

The December 19, 2019, letter denying your original application noted your loan portfolio growth projections of 202 percent over the next 10 years. However, there was no detail regarding the loan portfolio composition goals or changes in credit risk characteristics. These are critical details that impact loan loss expenses, net income and net worth projections. The February 13, 2019, denial letter noted continued concerns with the same issues and noted XXXXX's reconsideration letter did not address these deficiencies.

XXXXX did provide 10 years of pro forma financial statements, in excess of the minimum two years required by the regulation. As XXXXX notes in its appeal letter, it is impossible to develop 10-year financial projections as economic and competitive factors are unpredictable over long periods. Including long-term projections is helpful. It allows the region to assess long-term risks, though the range of assumptions is narrow and scenarios are limited. The financial statement projections provide summarized balance sheet and income statement information. With respect to loans, the pro forma financial statements provide a number for total loans only.

The regional directors' specific concern with the pro forma financial statement was the lack of detail with respect to lending programs. The regulation does not define what constitutes a pro forma financial statement. A CPA might say that this includes projected balance sheets, income statements and statements of cash flows. This implies a certain minimum level of detail. An investor expectation may require a higher level of detail; one that more clearly demonstrates how anticipated changes in the relationships among balance sheet items affect future financial developments, including the income and cash flow statements.

What is a reasonable expectation for the level of detail in pro forma financial statements? Based on the SRC panel's 84 years of experience with credit unions, a common standard in the credit union industry is a projected financial statement with the same level of detail provided to a credit union's board of directors every month. This level of detail does include a breakdown of loan and share type in most credit unions. Most credit unions base their operating plans, budgets, ALM analysis and scenario analysis on this same level of detail. We know XXXXX can provide additional detail because the 2019 budget contains very specific information regarding loan type goals and the projected income from those loans. The budget also contains line item balances and the cost of funds related to specific deposit types. The pro forma financial statements submitted by XXXXX do not meet the level of detail common in a credit union with assets over \$XXX million.

The SRC believes the regional directors' expectation for greater loan detail is reasonable, at least for the first two years of pro formal financial statements. The SRC upholds the regional directors' finding that pro forma financial statements do not meet the requirements of §701.34(b)(1)(v). The regional directors have an obligation to evaluate the safety and soundness of the plan. They cannot meet their obligation without information to evaluate how relationships among balance sheet items affect future financial developments.

3. *Deficiencies with the supporting pro forma financial statement, including any off balance sheet items, covering a minimum of the next two years (12 C.F.R. §701.34(b)(1)(v)).*

The December 19, 2018, denial letter included four items in this section:

- Your projections conflict with your board approved limits in your Concentration Risk and Liquidity Management policies;
- The plan fails to demonstrate how you will improve investment yields to the plan projected level;
- Violations of the credit union's Asset Liability Management and Interest Rate Risk policies, which require the completion of what-if scenarios for new business strategies; and
- The plan does not demonstrate the credit union will have sufficient contingency liquidity sources to manage a range of stress environments after implementation.

The February 13, 2019, letter denying your request for reconsideration does not repeat these issues, but does state your request for reconsideration did not adequately address these concerns. XXXXX did provide information regarding investment yields with its reconsideration request. The letter also noted continued concerns with your liquidity risk assessment that speaks to the first and fourth bullet above.

The SRC believes the regional directors' decisions to deny the application were appropriate and consistent with the regulation.

XXXXX's oral presentation included statements that the primary tools to manage risk are competent and experienced management, board approved policies and clear management procedures. The SRC agrees that these are critical components of risk management and integral to a safe and sound operation.

NCUA regulations require credit unions to develop policies establishing management's risk limits. These include, but are not limited to, a loan policy required by §701.21, an investment policy required by §703.3 and §741.3, an interest rate risk policy required by §741.3, and a liquidity and contingency funding plan required by §741.12.

During the oral presentation, the CEO noted that the credit union's management plans to revise policies and risk limits after receiving approval to accept uninsured secondary capital. This is not sound risk management. If management has sound procedures in place, and accountability to their board, they will develop strategic and business plans that are within the credit union board's existing risk policies.

The SRC requested that XXXXX provide additional information to the SRC. The primary purpose for this request was for the SRC to ascertain the level of XXXXX's due diligence with respect to its original application for uninsured secondary capital. The SRC's objective was to allow XXXXX the opportunity to demonstrate they conducted an appropriate level of due diligence in formulating their uninsured secondary capital application.

One of the problematic lenient practices cited by the NCUA Board in the preamble to the regulations was poor due diligence in strategic planning. Developing plans in contravention of your own policies illustrates the Board's concern about poor due diligence. It appears XXXXX developed and submitted this plan for uninsured secondary capital without conducting proper due diligence and without considering existing risk limits.

The CEO indicated XXXXX took 18 months to research and develop its indirect loan program, which resulted in a strong, well-run program. We would expect the same level of diligence to develop a plan that will materially alter XXXXX's operations and financial condition. Based on the documents submitted to the SRC XXXXX received its low income designation in July 2018, the ALCO first discussed secondary capital in August of 2018, and submitted its plan to NCUA on November 9, 2018, less than four months after receiving its low income designation.

The SRC also requested documents on the credit union board's due diligence related to the uninsured secondary capital request. There are comments in the August and September minutes noting the review of vendor presentations. In September, the board authorized the payment of \$XX,XXX to a vendor to assist with the preparation of secondary capital plan. The board also empowered the CEO to initiate an application for a secondary capital request. Both the August and September minutes note the board discussed the pros and cons of secondary capital generally, but XXXXX did not provide the SRC any document describing the board's consideration of the pros and cons of the specific proposal. The SRC also notes XXXXX submitted the secondary capital plan to NCUA on November 9, 2018, but board minutes indicate

management did not discuss the submitted plan with the credit union's board until November 27, 2018, well after management already submitted the plan to NCUA.

Summary Conclusions

In summary, the SRC upholds the regional directors' denial of both the original application and the request for consideration. The bases for our conclusions are as follows:

- The SRC finds a regional director has no obligation to approve an uninsured secondary capital plan under 12 C.F.R. §701.34 or 12 C.F.R. §741.204. These regulations create obligations for a low-income credit union to meet certain minimum standards when applying for uninsured secondary capital;
- The NCUA Board, in its preamble to C.F.R. §701.34 and C.F.R. §741.204, made it clear that it created an application process with the expectation for regional directors to assess, critique and evaluate plans for safety and soundness.
- The regional directors' denial of the plan and denial of the credit unions request for reconsideration was consistent and represented a reasonable interpretation of C.F.R. §701.34(b)(1).
- The regional directors provided an evaluation and critique of the plan. They denied the plan for multiple, valid reasons, any one of which alone, was a valid reason for denying the plan.

XX. XXXXXX XXXXXX

June 28, 2019

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Pursuant to NCUA's regulations, 12 C.F.R. [§746.109](#), you may appeal this decision to the NCUA Board within 30 calendar days of receiving this letter.¹ Such appeals must follow the requirements established in the regulation, and must be filed in writing with the Secretary of the Board, National Credit Union Administration, 1775 Duke Street, Alexandria, VA 22314-3428. Please refer to the regulation for additional information.

Sincerely,

Todd Miller
Supervisory Review Committee Panel Chair

SRC TAM:tam
FCU 03962

cc: NCUA Board Secretary Gerard Poliquin
XXXXX Regional Director XXXXX XXXXX
SRC Member Christine Bryant
SRC Member Dennis Farmer

¹ Alternatively, to the extent you intend to reapply instead of appealing this decision to the NCUA Board, the SRC recommends you address the deficiencies discussed in this letter and submit a new secondary capital plan to your region. It remains incumbent upon XXXXX to prepare a more comprehensive risk analysis that is commensurate with the planned levels of risk. The committee also encourages ongoing dialogue with the region to identify the necessary aspects of supporting due diligence most relevant to the underlying safety and soundness issues that were the basis of previous denials.