Supervisory Letter

TO: All Field Staff
SUBJECT: Examiner Guidance for Institutions Affected by a Major Disaster
ENCL: Interagency Supervisory Examiner Guidance for Institutions Affected by a Major Disaster

The financial and operational condition of federally insured credit unions that serve an area affected by a major disaster can be impacted for an extended period. Following such a disaster, some credit unions may face extensive asset quality issues caused by business failures, interruptions of borrowers' income streams, increases in borrowers' operating costs, the loss of jobs, and uninsured or underinsured collateral damage. These asset quality issues have the potential to significantly impact the credit union’s earnings and capital. Credit unions may also face operational challenges resulting from their own property damage and employees impacted by the disaster.

To promote consistency across the financial institution sector when dealing with the effects of major disasters, the four federal financial institution regulatory agencies,1 in consultation with the Conference of State Bank Supervisors, have jointly developed the enclosed examiner guidance. This material outlines supervisory practices to follow when assessing the condition of an institution directly affected by a major event that results in a Presidential declaration of a major disaster.2

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1 The federal financial institution regulatory agencies include the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System (Board), Office of the Comptroller of the Currency, and the National Credit Union Administration.
2 In the attached guidance, “institutions” also refers to insured depository institutions and branches and agencies of foreign banking organizations (FBOs); however this term does not apply to the credit union industry.

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Supervisory letters are official agency examination policy. These letters communicate guidance to NCUA field staff on regulations and exam procedures. Each supervisory letter focuses on a specific topic, providing background information and outlining any related regulatory and statutory requirements. Supervisory letters may also require field staff to perform certain procedures during an examination; in these cases, the letter will provide instructions to help field staff implement the procedures. Supervisory letters are intended to provide a framework for more consistent application of staff judgment with respect to conclusions about a credit union’s financial and operational condition, and related CAMEL and risk ratings. These letters also provide a consistent approach for evaluating the adequacy of a credit union’s relevant risk-management processes. Supervisory criteria detailed in a supervisory letter are not strict requirements, unless noted as required by law or regulation. The supervisory criteria contained in these letters are used by field staff to evaluate a credit union’s condition based on the preponderance of relevant factors. Generally, supervisory letters are shared with the public as an attachment to a Letter to Credit Unions.
It is essential that the NCUA clearly understand the financial and operational condition of each credit union affected by a major disaster and the effectiveness of each credit union’s business continuity plan. As such, examiners will continue to assign CAMEL ratings consistent with the guidance in NCUA Letter to Credit Unions 07-CU-12, CAMEL Rating System.3

However, when scheduling follow up plans, examiners should exercise flexibility and take into account the extent to which a credit union’s problems are a direct result of external factors related to the major disaster and its impact. Further, examiners should fully understand the disaster’s effects on the credit union’s operations and financial trends.

In addition, formal or informal administrative action that would ordinarily be considered for lower-rated institutions may not be necessary, provided credit union management has implemented prudent planning and policies and is pursuing realistic resolution of the issues confronting them. In instances where a formal or informal supervisory response is warranted, examiners should consult with their immediate supervisor and tailor their response to management's capabilities and efforts in resolving the credit union’s specific issues.

If you have any questions about the guidance provided with this letter, please direct them to your immediate supervisor or regional management.

Sincerely,

/s/
Larry Fazio
Director
Office of Examination & Insurance

3 The Uniform Financial Institutions Rating System, or CAMELS rating, referenced in the enclosed material generally applies to the NCUA’s CAMEL rating system. The interagency Rating System for U.S. Branches and Agencies of Foreign Banking Organizations (commonly referred to as the ROCA rating), which is referenced in the guidance, does not apply to credit unions.