



NCUA
National Credit Union Administration

OFFICE OF INSPECTOR
GENERAL

**AUDIT OF THE NCUA'S
MINORITY DEPOSITORY INSTITUTIONS
PRESERVATION PROGRAM**

**Report #OIG-22-06
09/08/2022**



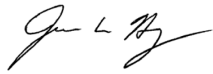


National Credit Union Administration

Office of Inspector General

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TO: Distribution List

FROM: Inspector General James W. Hagen 

SUBJ: Audit of the NCUA's Minority Depository Institutions Preservation Program

DATE: September 8, 2022

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted this self-initiated audit to assess the NCUA's Minority Depository Institutions Preservation Program (MDIPP). The objective of our audit was to determine whether the NCUA's MDIPP achieved its goals.

Results of our audit determined that the NCUA's MDIPP achieved its goals. However, we believe the NCUA should evaluate its communications with minority depository institutions (MDIs). In addition, we determined the NCUA lacked a process to conduct a required review to determine if MDIs continue to meet the MDI definition. Therefore, we are making two recommendations in our report and note that management has agreed to both recommendations.

We appreciate the cooperation and courtesies NCUA management and staff provided to us during the audit. If you have any questions on the report and its recommendation, please contact me at 703-518-6350.

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EXECUTIVE SUMMARY

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted this self-initiated audit to assess the NCUA's Minority Depository Institutions Preservation Program (MDIPP). The objective of our audit was to determine whether the NCUA's MDIPP achieved its goals. The scope of our audit covered the NCUA's actions to execute the MDIPP from January 1, 2019, through December 31, 2021.

Our audit determined the NCUA's MDIPP achieved its goals. Specifically, we determined the NCUA took actions to preserve the present number of minority depository institutions (MDIs), preserve the minority character of MDIs, provide technical assistance to prevent insolvency of MDIs, promote and encourage the creation of MDIs, and provide training, technical assistance, and educational programs. However, based on our survey of MDIs, we believe the NCUA should evaluate its communications with MDIs. In addition, we determined the NCUA lacked a process to conduct a required review to determine if MDIs continue to meet the MDI definition. We are making two recommendations in our report to address the issues we identified.

We appreciate the cooperation and courtesies NCUA management and staff provided to us during this audit.



BACKGROUND

The NCUA is an independent federal agency created by the U.S. Congress to regulate, charter, and supervise federally insured credit unions (FICU). The NCUA's organizational structure consists of a Headquarters, Asset Management and Assistance Center, and three regional offices.

NCUA's Office of Credit Union Resources and Expansion (CURE)

The mission of CURE is to support credit union growth and development. CURE provides support to low-income, minority, and any credit union seeking assistance with chartering, charter conversions, bylaw amendments, field-of-membership¹ expansion requests, and low-income designations.² The office also provides access to online training and resources, as well as grants and loans through the Community Development Revolving Loan Fund (CDRLF).³ Organizationally, CURE is under the NCUA's Office of the Executive Director (OED). CURE offers various forms of support for credit unions designated as MDIs through its MDIPP. This can include technical assistance, training, chartering assistance, and, if the credit union has a low-income designation, access to grants, loans, and the agency's MDI mentoring program.

CURE has a Program Manager for MDIs. The Program Manager stated that she is responsible for administering the MDIPP per requirements, being the subject matter expert on MDIs when called upon, maintaining MDI initiatives, developing programs to meet MDIPP goals, and ensuring the agency completes its annual MDI report to Congress.

Laws Relevant to MDIPP

Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA)⁴ - Section 308 of FIRREA is titled Preserving Minority Ownership of Minority Financial Institutions. It required the Secretary of the Treasury to consult with the Director of the former Office of Thrift Supervision and the Chairperson of the Board of Directors of the Federal Deposit Insurance Corporation on methods for best achieving five goals regarding minority financial institutions. Those five goals are:

- To preserve the present number of MDIs;

¹ A credit union's field-of-membership indicates who is eligible to join the credit union. Credit unions often want to expand their fields-of-membership. A federally chartered credit union must receive approval from the NCUA prior to making changes in its field-of-membership.

² A credit union qualifies for the low-income designation when a majority of its members meet certain low-income thresholds based on data from the Census Bureau and the requirements outlined in 12 C.F.R. § 701.34.

³ NCUA's CDRLF is intended to support the efforts of low-income designated credit unions through loans and technical assistance grants needed for: (1) providing basic financial and related services to residents in their communities; (2) enhancing their capacity to better their members and communities in which they operate; and (3) responding to emergencies.

⁴ Pub. L. No. 101-73.



- To preserve their minority character in cases involving mergers or acquisition by using general preference guidelines;⁵
- To provide technical assistance to prevent insolvency of MDIs that are not now insolvent;
- To promote and encourage the creation of new MDIs; and
- To provide for training, technical assistance, and educational programs.

FIRREA defines "minority depository institution" as any depository institution that:

- If privately owned, 51 percent is owned by one or more socially and economically disadvantaged individuals;
- If publicly owned, 51 percent of the stock is owned by one or more socially and economically disadvantaged individuals; and
- In the case of mutual institutions, where the majority of the Board of Directors, account holders, and the community in which it serves is predominantly minority.

FIRREA defines "minority" as any Black American, Native American, Hispanic American, or Asian American.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)⁶ – Section 367(4)(A) and (B) of the Dodd-Frank Act amended section 308 of FIRREA and required the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the NCUA to comply with section 308 of FIRREA. It also added a requirement that these agencies, plus the Federal Deposit Insurance Corporation, submit an annual report to Congress containing a description of actions taken to carry out section 308 of FIRREA.

NCUA Guidance for the MDIPP

Final Interpretative Ruling and Policy Statement 13-1 (IRPS 13-1) - The NCUA established an MDIPP for FICUs when it issued IRPS 13-1 as recorded in the Federal Register on June 24, 2015. The NCUA established the MDIPP in response to the Dodd-Frank Act, which became law in 2010.

IRPS 13-1 states the MDIPP reflects the preservation goals of section 308 of FIRREA namely:

⁵ In priority, the general preference guidelines involving mergers or acquisitions of an MDI are: (a) same type of MDI in the same city; (b) same type of MDI in the same state; (c) same type of MDI nationwide; (d) any type of MDI in the same city; (e) any type of MDI in the same state; (f) any type of MDI nationwide; and (g) any other bidders.

⁶ Pub. L. No. 111-203.



- To preserve the present number of MDIs;
- To preserve the minority character of MDIs that are involuntarily merged, or are acquired, by following the prescribed general preference guidelines to identify a merger or acquisition partner;
- To provide technical assistance to prevent insolvency of MDIs that are not now insolvent;
- To promote and encourage the creation of new MDIs; and
- To provide for training, technical assistance, and educational programs.

A credit union that meets the definition of an MDI is eligible to participate in the program. The program uses the MDI definition found in section 308 of FIRREA that applies to a mutual institution. Accordingly, a credit union MDI is a FICU in which a majority of its current members, a majority of its board of directors, and a majority of the community it serves falls within any of the eligible minority groups: Black Americans, Asian Americans, Hispanic Americans, Native American, or multi-racial American.

IRPS 13-1 describes how the MDIPP is to function. A FICU can self-certify as an MDI by affirmatively answering the following questions within the NCUA's Credit Union Online Profile system,⁷ accessible from the NCUA Web site, or when submitting a call report:

(1) Are more than 50 percent of your credit union's current and eligible potential members Black American, Native American, Hispanic American, or Asian American?
and

(2) Is more than 50 percent of your credit union's current board of directors Black American, Native American, Hispanic American, or Asian American?

If both questions are answered "yes," the credit union may self-certify via NCUA's Credit Union Online Profile system that it meets the >50 percent minority criteria. Once qualified as an MDI, a credit union should annually assess whether it continues to meet the MDI definition (e.g., December 31st Call Report cycle), and update its status on NCUA's Credit Union Online Profile system, as necessary. Participation in the MDI Program is voluntary. An MDI may discontinue its participation at any time by updating its status on NCUA's Credit Union Online system. IRPS 13-1 also states that the validity of the self-certification (and the supporting data) is subject to verification by the NCUA based on minority representation where the credit union's members reside. The NCUA is to periodically review and determine whether an MDI continues to meet the MDI definition.

⁷ Credit Union Online is a web-based program used by credit unions and state supervisory agencies to submit and certify operational and quarterly financial information to the NCUA. The profile section of Credit Union Online is for users to submit operational information.



IRPS 13-1 states that the NCUA will provide MDIs a variety of initiatives to assist in preserving the economic viability of their institutions. The initiatives include technical assistance and educational opportunities for MDIs. This technical assistance may include participation in NCUA-sponsored training, webinars, and grant or loan programs of NCUA's CDRLF. Technical assistance may also include examiner guidance in resolving examination concerns, locating new sponsors, mentors, or merger partners, expanding the field-of-membership, and setting up new programs and services. The NCUA may aid in coordinating partnerships between MDIs and other organizations (e.g., other MDIs and/or trade associations) as a means of providing technical or operational assistance to MDIs. This assistance may include training for officials and staff, expertise in technical areas, equipment, and assistance for specific projects or to achieve specific goals. IRPS 13-1 also states that the NCUA will publish a list of federally insured MDIs on its Web site (www.ncua.gov) to enable organizations (e.g., banks, other MDIs, trade associations, or other third parties) to identify MDIs that would benefit from partnering, mentoring, additional resources, and/or business relationships.

In addition, the NCUA will use FIRREA's prescribed general preference guidelines⁸ to attempt to preserve the minority character of failing MDIs that are involuntarily merged or acquired. In the event of an involuntary merger/acquisition of a troubled MDI, NCUA will invite bids from MDIs that are qualified to partner with a failing MDI, along with non-MDI credit unions. NCUA also will assist in locating an MDI partner for MDIs wishing to voluntarily merge their operations.

CURE's Users Guide and Procedures for the Minority Depository Institutions Tracking System provides guidance on the MDI tracking system. The tracking system is the primary tool used by the NCUA to record and monitor its work with MDIs. Such monitoring is needed because the agency is required to report to Congress annually on its actions to preserve existing MDIs and encourage the formation of new ones. Beginning with the Credit Union Online Profile of March 31, 2019, the tracking system automatically captures credit unions that self-designate as MDIs through the profile. The system is updated quarterly following agency publication of quarterly call report data.

The reporting to the tracking system requirement applies to CURE staff and the NCUA regional offices due to the extent of their work with MDIs. Other offices can report based on their contribution to preserving, promoting, and establishing MDIs. Each regional office should report on actions taken during the reporting period to preserve and promote MDI credit unions within its jurisdiction. Regional offices should report on the following:

- Facilitating mentorships with other credit unions;
- Providing guidance to MDIs seeking grants or loans;
- Providing guidance to MDIs undergoing or contemplating a merger;

⁸ Rules concerning field-of-membership, least cost to the National Credit Union Share Insurance Fund, and safety and soundness still apply to all mergers.



- Assistance with strategic planning; and
- Work associated with net worth restoration planning.⁹

CURE's Program Manager for MDIs stated that she will review the reported actions in the tracking system and determine if the action was an action associated with preserving the MDI. If so, she will approve the action in the tracking system. If not initially approved, the Program Manager will usually request clarification or information from the regional office on the reported action.

The Program Manager also stated that not all the information that is reported in NCUA's annual MDI report to Congress is from the MDI tracking system. Other information such as NCUA provided training and education, newly chartered MDIs, field-of-membership expansions, awarding of grants and loans, and other initiatives or programs are compiled by her and other CURE staff.

OIG Survey of NCUA MDIs

We conducted a survey of MDI credit unions to obtain feedback on the NCUA's efforts to preserve and promote MDIs. Our survey questions focused on the MDIs' awareness of, participation in, and assessment of the NCUA's MDIPP related training and education events and other initiatives. We sent the survey to 509 NCUA MDIs and received 228 (45 percent) responses. We present a selection of our survey results in the Results in Detail section of this report.

⁹ Federally insured credit unions are required to have in place an NCUA-approved net worth restoration plan when their net worth ratio is less than 6 percent. 12 C.F.R. § 7021.7(a)(2), 702.111



RESULTS IN DETAIL

The objective of our audit was to determine whether the NCUA's MDIPP achieved its goals. Based on our audit work, we determined the NCUA's MDIPP achieved its goals. However, based on our survey of NCUA MDIs, we believe the NCUA should evaluate its communications with MDIs. In addition, we determined the NCUA did not periodically review and determine whether a credit union that self-certified as an MDI continues to meet the MDI definition.

The detailed results of our audit follow.

The NCUA's MDIPP Achieved Its Goals

We determined the NCUA's MDIPP achieved its goals, which are defined by section 308 of FIRREA and the NCUA's IRPS 13-1. Specifically, we determined the NCUA took actions to preserve the present number and minority character of MDIs, provided technical assistance to prevent insolvency of MDIs, promoted and encouraged the creation of MDIs, and provided MDIs with training, technical assistance, and educational programs. The NCUA established its MDIPP in response to the Dodd-Frank Act, which amended section 308 of FIRREA to require the NCUA, among other federal regulators, to take steps to preserve existing MDIs and encourage the establishment of new ones.

Details

Goal: Preserving the present number of MDIs - We determined the NCUA's MDIPP achieved the goal of preserving the present number of MDIs. We determined that although the number of MDIs decreased, the number of FICUs overall also decreased, and that the number of MDIs as a percentage of FICUs remained steady at 10 percent. See Table 1 below.



Table 1

MDI and FICU Data (year-end)					
	2017	2018	2019	2020	2021
Number of MDIs	562	529	515	520	509
% of MDIs to FICUs	10.1%	9.8%	9.8%	10.4%	10.3%
Number of MDI Members	4.3 million	3.9 million	4 million	4.3 million	4.5 million
Total Assets of MDIs	\$41 billion	\$38.5 billion	\$40.5 billion	\$51.1 billion	\$58.8 billion
Number of FICUs	5573	5375	5236	5009	4942
Number of FICU Members	111 million	116 million	120.4 million	124.3 million	129.6 million
Total Assets of FICUs	\$1.37 trillion	\$1.45 trillion	\$1.57 trillion	\$1.85 trillion	\$2.06 trillion

Data obtained from the NCUA's Annual Reports for 2017, 2018, 2019, 2020, and 2021

Note: MDI data is included in FICU data

The number of MDIs (from 562 to 509) and FICUs (from 5573 to 4942) decreased while the number of MDI members (\$4.3 million to \$4.5 million) and the number of FICU members (111 million to \$129.6 million) increased since year-end 2017. Total assets also increased for both MDIs (\$41 billion to \$58.5 billion) and FICUs (\$1.37 trillion to \$2.06 trillion) since year-end 2017.

The primary cause of the decline in the number of MDIs was the merging of MDIs with other credit unions. In the NCUA's MDI 2017 Annual Report to Congress, the agency reported the number of MDI credit unions had declined by 28 percent between 2013 and 2017, with a considerable portion of that due to mergers and liquidations. In the NCUA's MDI 2018 Annual Report to Congress, the agency reported the number of MDI credit unions had declined from the end of 2017 to the end of 2018, largely the result of mergers. In 2018, twenty-one MDIs merged into other credit unions. In the NCUA's MDI 2019 Annual Report to Congress, the agency reported the number of MDI credit unions had declined between 2018 and 2019, again primarily due to mergers, which mirrors the general long-term trend of consolidation in the financial services sector. In 2019, twenty MDIs merged into other credit unions. We determined that there were 424 mergers of FICUs, which includes MDI mergers, during the 3-year period from 2019-2021.



We determined the NCUA took actions to preserve the number of MDIs including:

- Creating the MDI Mentoring Grant, which awards grants to help small low-income MDIs establish mentoring programs with larger low-income credit unions that can provide expertise and guidance in serving low-income and underserved populations. In 2019, three MDIs received mentoring grants totaling almost \$75,000 and, in 2020, the NCUA awarded mentoring grants totaling \$75,000 to three more MDIs.
- Introducing the MDI Mentoring Cohort, which provides technical assistance and training to mentoring grant recipients. Participating in the cohort is a required component of being awarded a mentoring grant.
- Approving field-of-membership expansions for MDIs, which enables credit unions to add groups or geographic areas to their field-of-membership. The NCUA's MDI 2020 Report to Congress noted that one of the most significant ways to preserve MDIs was to expand existing institutions. In 2019, the NCUA approved field-of-membership expansions for 24 MDIs, which enabled the credit unions to add 578 groups or geographic areas to their fields-of-membership. In 2020, the NCUA approved field-of-membership expansions for 23 MDIs, allowing them to add 754 groups or geographic areas to their fields-of-membership.
- Conducting surveys of MDIs to learn their needs and challenges. The NCUA conducted a survey of MDIs in 2018 to help inform development of the agency's MDI strategic plan and priorities. The NCUA conducted another survey in 2021 and followed that up with feedback sessions in the NCUA regions to learn the needs of and challenges faced by MDIs.

In our survey of MDIs, we asked: "Overall, how do you rate the NCUA's efforts to preserve and promote MDIs?" Following are the responses from the 203 MDIs that responded to this question:

Q13: Overall, how do you rate the NCUA's efforts to preserve and promote MDIs?

Answered: 203 Skipped: 25

ANSWER CHOICES	RESPONSES	
Very good	17.73%	36
Good	28.08%	57
Fair	16.26%	33
Poor	6.90%	14
Very poor	4.43%	9
Don't know	26.60%	54
TOTAL		203

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Not including the “Don't know” responses, 149 MDIs provided a rating of the NCUA's efforts to preserve and promote MDIs, with 93 of 149 (62 percent) responding “Very good” or “Good.” The remaining responses showed 33 (22 percent) felt the NCUA’s efforts were “Fair” and 23 (15 percent) indicating the agency’s efforts were “Poor” or “Very poor.”

In our survey of MDIs, we also asked: "What suggestions, if any, do you have for improving existing NCUA efforts to preserve and promote MDIs or for creating new programs or policies in this area?" We received 84 responses to this question. In reviewing the responses, we identified 58 of the 84 that were suggestions or complaints; therefore, we focused on those. We then grouped these 58 responses into categories of topics addressed in the responses. For example, for 31 of 58 responses, the MDIs believed the NCUA could improve communications with the MDIs. A selection of those 31 responses follows:

- "Having sessions with peer MDIs so that we can discuss what makes us special, marketing and constraints that affect us."
- "More constant communication on training/seminars being offered in relation to MDIs."
- "More individual direct contact to encourage participation and inform of assistance."
- "Have examiners inform MDI credit unions they supervise of any programs available."
- "Publish more info on the MDI performance and impact relative to the larger CU community."
- "It would be helpful if the NCUA provided more information about different programs that may be available to MDIs even if they aren't directly sponsored by NCUA."
- "Maybe choose a day during the year that can be called “#MDI Day” where NCUA could lead the awareness campaign and have credit unions and other third-party vendors participate using the hashtag."
- "Increase outreach to MDIs, especially new ones and ones that are struggling, to make aware of MDIPP program benefits. Fix link at bottom of page two of fact sheet to sign up for MDI announcements via NCUA express messages."
- "The lack of direct communications with MDI credit unions on support opportunities is holding us back."
- "Assign a person to contact and inform individual MDIs about programs and available funding for help."



- "Email communication is not enough as there is too much of it and many important messages are missed. Partner with our state associations and chapters to help deliver the programs and policies and make it easier to listen to and access past presentations."

Other categories of topics that had multiple mentions by survey respondents included: grants (6 of 58), mentoring/networking (3 of 58), mergers (3 of 58), and training (3 of 58).

Because most of the MDIs that responded with a suggestion or complaint believe the NCUA could improve its communications, we are making the following recommendation.

Recommendation

We recommend NCUA management:

1. Review all 31 responses the OIG received from its independent survey of minority depository institutions related to communication issues and evaluate and determine the best manner and content of the agency's messaging to these institutions going forward to ensure the focus is on: (1) issues and concerns brought forward by the 31 minority depository institutions and (2) the agency's efforts to preserve and promote the existence of the minority depository institutions.

Management Response

Management agreed with our recommendation. Management indicated they will review the survey responses and where warranted will update the agency's approach to communications with minority depository institutions. Management plans to complete this by March 31, 2023.

OIG Response

We concur with management's planned actions.

Goal: Preserving the minority character of MDIs - We determined the NCUA's MDIPP achieved the goal of preserving the minority character of MDIs that are involuntarily merged, or are acquired, by following the prescribed general preference guidelines to identify a merger or acquisition partner.

As previously discussed, the NCUA is required to use FIRREA's prescribed general preference guidelines to attempt to preserve the minority character of failing MDIs that are involuntarily merged or acquired. In the event of an involuntary merger/acquisition of a troubled MDI, the NCUA will invite bids from MDIs that are qualified to partner with a failing MDI, along with non-MDI credit unions. The NCUA also will assist in locating an MDI partner for MDIs wishing to voluntarily merge their operations.

CURE personnel told us that most mergers are voluntary mergers. NCUA's Office of Examination and Insurance (E&I) personnel told us that in all cases of involuntary mergers of



MDIs, a list of potential bidders for the MDI is checked to see if it includes other MDIs. If the other MDIs meet criteria that indicate they can acquire another MDI (e.g., be well run, have sufficient financial resources), they will be invited to bid on the failing MDI.

From 2019-2021, E&I personnel told us there were only two involuntary mergers or acquisitions of MDIs that required bids, with both occurring in 2021. In one case, a failing MDI was merged into another MDI when it’s bid for the failing MDI was selected by the NCUA. In the other case, the NCUA determined that there were no MDIs that could assume the operational risk of taking on the failing MDI as a merger or purchase and assumption. The failing MDI was ultimately purchased by a non-MDI credit union.

In the case of the failing MDI being merged into another MDI, we determined the NCUA used the general preference guidelines for identifying merger partners. The failing MDI was in New York City and had minority categories of Asian Americans, Black Americans, and Hispanic Americans. Two MDIs located in the New York City area, among other credit unions, were invited to bid on the failing MDI and one had minority categories of Black Americans and Hispanic Americans and the other had minority categories of Asian Americans, Black Americans, and Hispanic Americans.

Regarding assistance the NCUA provides MDIs wishing to voluntarily merge their operations, we reviewed the actions the NCUA’s regional offices reported in the MDI tracking system from 2019 to 2021. We determined that the regional offices reported on actions taken to assist MDIs undergoing or contemplating mergers. These reported actions included encouraging management to merge with another MDI, providing guidance, facilitating merger talks between credit unions, and helping to identify potential merger candidates.

In our survey of MDIs, we asked "How do you rate the NCUA's efforts to preserve the minority character of MDIs that experience financial and other challenges?" Following are the results from the 207 MDIs that responded to this question:

Q12: How do rate the NCUA's efforts to preserve the minority character of MDIs that experience financial or other challenges? Efforts could include providing technical assistance to these MDIs, facilitating collaboration opportunities, like mentoring, with other credit unions; or providing assistance with mergers or acquisitions with other MDIs/credit unions.

Answered: 207 Skipped: 21

ANSWER CHOICES	RESPONSES	
No basis to judge	43.00%	89
Very good	17.87%	37
Good	18.36%	38
Fair	12.08%	25
Poor	5.31%	11
Very poor	3.38%	7
TOTAL		207



Of the 118 MDIs that felt they had a basis to judge the NCUA's efforts on preserving the minority character of MDIs, 75 of 118 (64 percent) rated the NCUA’s efforts as “Very Good” or “Good,” 25 of 118 (21 percent) responded with a rating of “Fair,” and 18 of 118 (15 percent) indicated the NCUA had done a “Poor” or “Very Poor” job in this area.

Goal: Providing technical assistance to prevent insolvency of MDIs - We determined the NCUA’s MDIPP achieved the goal of providing technical assistance¹⁰ to prevent insolvency of MDIs.

As previously discussed, the NCUA's regional offices report in the MDI tracking system on actions taken during the reporting period to preserve and promote MDI credit unions within their jurisdiction. Regional offices are to report on actions taken to facilitate mentorships with other credit unions, provide guidance to MDIs seeking grants or loans, provide guidance to MDIs undergoing or contemplating merger, and assist with strategic planning, including work associated with net worth restoration planning.

We obtained and reviewed all approved actions to preserve and promote MDIs from the MDI Tracking System for 2019-2021. We determined that the regional offices reported in the MDI tracking system actions they took regarding facilitating mentorships with other credit unions, providing guidance on grants or loans, and assistance with strategic planning and work associated with net worth restoration planning, and other actions. As previously discussed, the regional offices also provided guidance to MDIs undergoing or contemplating mergers.

In our survey of MDIs, we asked the following questions related to technical assistance provided by the NCUA:

Q4: Has the NCUA made your institution aware of the types of technical assistance it offers in the past three (3) years? (Technical assistance comprises of one -on-one assistance NCUA provides a credit union.)

Answered: 219 Skipped: 9

ANSWER CHOICES	RESPONSES	
Yes	36.99%	81
No	38.81%	85
Don't know	24.20%	53
TOTAL		219

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¹⁰ We define technical assistance as the NCUA providing one-on-one assistance to a credit union.



Q5: Has your institution used any technical assistance offered by the NCUA in the past three (3) years?

Answered: 218 Skipped: 10

ANSWER CHOICES	RESPONSES	
Yes	11.93%	26
No	79.82%	174
Don't know	8.26%	18
TOTAL		218

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Q6: If you answered YES to Question 5, that your institution used technical assistance offered by the NCUA, how useful was this assistance?

Answered: 73 Skipped: 155

ANSWER CHOICES	RESPONSES	
Extremely useful	10.96%	8
Very useful	20.55%	15
Somewhat useful	5.48%	4
Not so useful	0.00%	0
Not at all useful	0.00%	0
Don't know	63.01%	46
TOTAL		73

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While relatively few MDIs indicated in the survey that they had received technical assistance from the NCUA, the majority of the MDIs that expressed an opinion on the technical assistance the agency provided felt it was “Extremely Useful” or “Very Useful.”

Goal: Promoting and encouraging the creation of MDIs - We determined the NCUA’s MDIPP achieved the goal of promoting and encouraging the creation of MDIs. Specifically, we determined that the NCUA took actions to promote and encourage the creation of MDIs including that it:

- Chartered two new MDIs during 2019-2021



- Started an initiative called Advancing Communities through Credit, Education, Stability and Support (ACCESS), which is intended to foster financial inclusion and address financial disparities experienced by minority, underserved, and unbanked populations. One subgroup of this initiative is the MDI working group. Its mission is to research, identify and recommend how the NCUA may expand its support of MDIs, and encourage chartering of new minority credit unions.
- Conducted letter campaigns in 2020 and 2021 to promote the MDI designation to credit unions. In January 2020, the NCUA sent out letters to 29 non-MDI credit unions in Alaska and Hawaii and to a Native American credit union chartered in 2019. These letters were meant to proactively invite these potential MDIs to self-certify as MDIs. In January 2021, the NCUA sent out letters to three groups of credit unions that might qualify for the MDI designation. The first group was based on census data, the second group was based on the credit unions answering yes to one of the two self-certification questions, and the third group of credit unions was based on both census data and answering yes to one of the two self-certification questions. The letters encouraged these credit unions to review whether they qualify for the MDI designation.
- As reported in the MDI tracking system, a regional office made three credit unions aware that they qualified as MDIs, provided them with a MDI fact sheet, and explained how they could self-designate as an MDI.

Goal: Providing training, technical assistance, and educational programs - We determined the NCUA's MDIPP achieved the goal of providing training, technical assistance, and educational programs. Specifically, we determined that the NCUA took actions related to such programs including:

- Through an initiative with the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund,¹¹ the NCUA qualified three MDIs as CDFIs in both 2019 and 2020. With a CDFI certification, an organization has access to a variety of funding programs through the CDFI Fund, such as mortgage lending for first-time homebuyers and commercial loans.
- Hosted three webinars of interest to MDIs in 2020: Financial Inclusion, Collaborations with NeighborWorks,¹² and Payday Alternative Loans and Short-term Lending.

¹¹ The CDFI Fund's purpose is to promote economic revitalization and community development in low-income communities through investment in and assistance to CDFIs.

¹² NeighborWorks is a congressionally chartered and funded nonpartisan nonprofit that supports organizations that provide communities with affordable housing, financial counseling and coaching, training, and resident engagement and collaboration in the areas of health, employment, and education.



- Conducted a 2-day forum in March 2020 for MDIs and a presentation to the African-American Credit Union Coalition¹³ in August 2019.
- Co-hosted a webinar with the Department of the Treasury’s CDFI Fund on the Small Dollar Loan Program¹⁴ in May 2021.
- Held two webinars for CDFI and MDI credit unions on the Department of the Treasury’s Emergency Capital Investment Program¹⁵ to make these credit unions aware of the funding available. We determined that 26 of the 91 credit unions that applied for these funds were MDIs.
- Awarded technical assistance grants of \$738,000 to 58 MDIs in 2019 and \$459,900 to 48 MDIs in 2020.

In our survey of MDIs, we asked the following questions related to the goal of providing training, technical assistance, and educational programs:

Q8: Has the NCUA made your institution aware of its training and educational programs or events typically open to all credit unions in the past three (3) years?

Answered: 213 Skipped: 15

ANSWER CHOICES	RESPONSES	
Yes	71.36%	152
No	13.62%	29
Don't know	15.02%	32
TOTAL		213

Powered by  SurveyMonkey

¹³ The African-American Credit Union Coalition is a non-profit organization of African-American professionals and volunteers in the credit union industry. Its mission is to increase diversity in the credit union community through advocacy and professional development.

¹⁴ The Small Dollar Loan Program is a program from the Department of the Treasury's CDFI Fund that awards grants to CDFIs to help expand consumer access to financial institutions by providing alternatives to high-cost small dollar lending.

¹⁵ Under the Emergency Capital Investment Program, the Department of the Treasury provides capital directly to depository institutions that are certified CDFIs or MDIs to, among other things, provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities, that may be disproportionately impacted by the economic effects of the COVID-19 pandemic.



Q9: Has your institution participated in any training and educational programs or events typically open to all credit unions offered by the NCUA in the past three (3) years?

Answered: 215 Skipped: 13

ANSWER CHOICES	RESPONSES	
Yes	43.26%	93
No	47.44%	102
Don't know	9.30%	20
TOTAL		215

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Q10: If you answered YES to Question 9, that your institution participated in training and educational programs or events, how useful were these programs?

Answered: 122 Skipped: 106

ANSWER CHOICES	RESPONSES	
Extremely useful	15.57%	19
Very useful	36.89%	45
Somewhat useful	20.49%	25
Not so useful	0.82%	1
Not at all useful	0.00%	0
Don't know	26.23%	32
TOTAL		122

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The majority of respondents indicated that the NCUA made them aware of training and educational programs or events and 43 percent of respondents indicated that they had participated in such programs or events. The majority of respondents who said they had participated in these program or events rated them as “Extremely Useful” or “Very Useful.”

The following is a selection of the responses we received from among the 80 MDIs that responded to Question 11, “What are the reasons for your rating in the previous question?”

- "The training and educational programs or events keeps us in the loop and informed. It also helps us remain compliant."
- "Helpful in being current on regulatory changes."



- "These offerings have helped our credit union remain abreast of current industry trends and best practices as well as improve operations and compliance for success."
- "Some of the training resources helped us perform functions useful to our credit union."
- "We are a very small credit union so much of the training and educational content does not apply to our situation."
- "The information was timely and relevant. Also, it was helpful that the information was coming directly from NCUA."
- "They tend to be pretty technical rather than helpful with day-to-day problems."

**NCUA Needs a
Process to Validate
MDIs Self-
Certification**

We determined the NCUA did not conduct a required review to determine if MDIs continued to meet the MDI definition because the agency did not design and implement a process to validate the self-certification. The IRPS 13-1 states that the NCUA will periodically review and determine whether an MDI continues to meet the MDI definition. The Government Accountability Office's Standards for Internal Control in the Federal Government¹⁶ states that management should design control activities to achieve objectives and respond to risks and should implement control activities through policies. As a result of not conducting the required review, NCUA MDIs that no longer meet the MDI definition are potentially benefiting from the NCUA's MDIPP.

Details

The IRPS 13-1 states the validity of the self-certification (and the supporting data) is subject to verification by the NCUA based on minority representation where the credit union's members reside and that the NCUA will periodically review and determine whether an MDI continues to meet the MDI definition. The Government Accountability Office's Standards for Internal Control in the Federal Government states that control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system. It also states, in part, that management should (1) design control activities to achieve objectives and respond to risks and (2) implement control activities through policies.

In its 2021 internal control assessment, we note that CURE identified that a credit union self-designating as an MDI without meeting the requirement for doing so was a risk to the MDI program administration. CURE's Program Manager for MDIs told us that CURE did not conduct periodic reviews of MDIs self-certification and they were not aware that any NCUA office

¹⁶ GAO-14-704G, Standards for Internal Control in the Federal Government sets internal control standards for federal entities.



performed such verification. An E&I official told us that he was not aware of any examination-related procedure performed by NCUA examiners to verify a credit union's MDI status. A member of the NCUA's ACCESS MDI working group told us the working group is exploring a process to address the risk of credit unions self-certifying without meeting the requirement to do so. The MDI working group has proposed using a similar process to validate the MDI self-certification the NCUA uses to determine if a credit union meets the criteria for the low-income designation. If the process does not confirm the MDI's eligibility, CURE would follow up with a letter to the credit union. The MDI working group will present the proposed criteria to the OED in October 2022.

Credit unions that have self-certified as an MDI that do not meet the MDI definition are potentially benefiting from the NCUA's MDIPP. CURE's Program Manager for MDIs told us that MDIs could benefit from the NCUA's assistance in locating new sponsors, mentors, or merger partners, expanding the field-of-membership; and setting up new programs and services. MDIs could also benefit from NCUA-sponsored training and webinars. MDIs with a low-income designation can benefit from grants and loans from the NCUA's CDRLF. Also, funds from the Department of the Treasury's Emergency Capital Investment Program are available to MDIs.

Recommendation

We recommend NCUA management:

2. Implement and document in appropriate policy and procedures a process to validate whether minority depository institutions continue to meet the minority depository institution definition.

Management Response

Management agreed with our recommendation. Management indicated they had already identified the need to do so earlier this year and have been working on incorporating this into updated examination procedures for minority depository institutions. Management plans to implement a process by March 31, 2023.

OIG Response

We concur with management's planned action.



Appendix A

OBJECTIVE, SCOPE, AND METHODOLOGY

We developed our objective for this engagement based on OIG's 2022 Annual Performance Plan. Specifically, our objective was to determine whether the NCUA's MDIPP achieved its goals.

To accomplish our audit, we performed fieldwork with information relevant to the NCUA's MDIPP obtained from various NCUA sources. The scope of this audit covered the NCUA's actions to execute the MDIPP from January 1, 2019, through December 31, 2021. To achieve our objective, we:

- Reviewed laws relevant to the MDIPP.
- Reviewed NCUA's IRPS 13-1 and CURE's Users Guide and Procedures for the Minority Depository Institutions Tracking System.
- Interviewed CURE and E&I personnel.
- Obtained an understanding of the NCUA's MDIPP.
- Reviewed the NCUA's annual MDI reports to Congress.
- Reviewed the MDI Tracking System for actions taken to preserve and promote MDIs.
- Reviewed other MDIPP related documentation.
- Reviewed the NCUA's Annual Reports.
- Conducted a survey of NCUA MDIs.
- Evaluated internal controls.

We used computer-processed data from NCUA's systems. We did not test controls over these systems, but we relied on our analysis of information from management reports, correspondence files, and interviews with management to corroborate data obtained from these systems to support our audit conclusions.

We conducted this audit from February 2022 through July 2022 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a



reasonable basis for our findings and conclusions based on our audit objectives. We assessed the effectiveness of internal controls we determined were significant to the audit objective. Specifically, we assessed 4 of the 5 internal control Components and 5 of the 17 associated underlying Principles defined in the Government Accountability Office’s Standards for Internal Control in the Federal Government.¹⁷ We summarize in Table 2 below the Components and Principles we assessed.

Table 2: Internal Control Components and underlying Principles Assessed

Component: Control Environment	
	Principle #3 – Establish Structure, Responsibility and Authority
Component: Risk Assessment	
	Principle #7 – Identify, Analyze, and Respond to Risks
Component: Control Activities	
	Principle #10 – Design Control Activities
	Principle #12 – Implement Control Activities
Component: Information and Communication	
	Principle #15 – Communicate Externally

The report presents within the findings the internal control deficiency we identified. However, because our audit was focused on these significant internal control Components and underlying Principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

¹⁷ The Standards for Internal Control in the Federal Government organizes internal control through a hierarchical structure of 5 components and 17 principles. The five components, which represent the highest level of the hierarchy, consist of the Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. The 17 principles support the effective design, implementation, and operation of the components, and represent the requirements for establishing an effective internal control system.



NCUA MANAGEMENT RESPONSE



National Credit Union Administration
Office of the Executive Director

TO: Inspector General James Hagen

FROM: Executive Director Larry Fazio **LARRY FAZIO** Digitally signed by LARRY FAZIO
Date: 2022.09.06 11:22:38 -0400

SUBJ: Management Response Audit of the NCUA's Minority Depository Institutions
Preservation Program

DATE: September 6, 2022

We reviewed the Office of the Inspector General's audit report titled *Audit of the NCUA's Minority Depository Institutions Preservation Program*. We agree with the two recommendations.

OIG Recommendation: Review all 31 responses the OIG received from its independent survey of minority depository institutions related to communication issues and evaluate and determine the best manner and content of the agency's messaging to these institutions going forward to ensure the focus is on: (1) issues and concerns brought forward by the 31 minority depository institutions and (2) the agency's efforts to preserve and promote the existence of the minority depository institutions.

Management Response: We agree to review the survey responses and where warranted will update the agency's approach to communications with MDIs by March 31, 2023.

OIG Recommendation: Implement and document in appropriate policy and procedures a process to validate whether minority depository institutions continue to meet the minority depository institution definition.

Management Response: We agree. In fact, we had already identified the need to do so earlier this year and have been working on incorporating this into updated examination procedures for MDIs. We will implement this by March 31, 2023.

Thank you for the opportunity to comment.

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ACRONYMS AND ABBREVIATIONS

Acronym	Term
ACCESS	Advancing Communities through Credit, Education, Stability and Support
CDFI	Community Development Financial Institution
CDRLF	Community Development Revolving Loan Fund
CURE	Office of Credit Union Resources and Expansion
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act
E&I	Office of Examination and Insurance
FICU	Federally Insured Credit Union
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act of 1989
IRPS 13-1	Final Interpretative Ruling and Policy Statement 13-1
MDI	Minority Depository Institution
MDIPP	Minority Depository Institutions Preservation Program
NCUA	National Credit Union Administration
OED	Office of the Executive Director
OIG	Office of Inspector General