CREDIT UNION UPDATE

NCUA Supervisory Priorities for 2016

The NCUA has recently issued Letter No.:16-CU-01 outlining its Supervisory Priorities for 2016. The letter is intended to assist credit unions in preparing for their next NCUA examination. Several of the areas are carried over from 2015 and continue to be high on NCUA's risk areas for 2016. The carry over areas include Cybersecurtiy, Interest-rate risk, BSA Compliance and Truth in Lending changes in TILA and RESPA.

The complete list of items listed in the letter as the top areas of focus for 2016 are as follows:

Cyber Threats

The sophistication of cyber criminals continues to increase and attacks on credit unions continue to grow and create significant risk. The NCUA has advocated the FFIEC Cybersecurity Assessment Tool for credit unions to use to assess their risk in this area. The NCUA has added staff in this area and has also increased its internal training in IT, so credit unions can expect an increase in scrutiny of their IT practices in the future.

Response Programs for Unauthorized Access to Member Information

A credit union's appropriate incident response procedures when inappropriate access to member information occurs is an ever growing concern as the number and types of these incidents continues to be increasing. Appendix B to Part 748 of NCUA rules and regulations, *Guidance on Response Programs for Unauthorized Access to Member Information and Member Notice*, outlines the minimum components of an incident response program that federally insured credit unions need to develop and implement. An incident response program is needed to address unauthorized access to, or use of, member information that could result in substantial harm or inconvenience to a member.

BSA Compliance

Field staff will continue to assess BSA compliance, with a focus on "credit unions' relationships with money services businesses". If a credit union provides services to "Money Service Businesses" (MSB), the following are the minimum practices that is expected to be in place:

1. Perform customer identification program procedures;
2. Ensure each MSB is registered with the Financial Crimes Enforcement Network (FinCEN) and is in compliance with state and local licensing requirements; and
3. Conduct a BSA/anti-money laundering risk assessment to document the level of risk associated with each MSB account and determine whether greater due diligence is necessary.

NCUA Supervisory Priorities for 2016 (cont.)

Interest Rate Risk

This is certainly not a new focus but continues to be high on the priority list of the regulators. The current and ongoing focus results from the growth in interest sensitive deposits over the last several years, coupled with a general higher level of net long-term assets. The focus in these areas has resulted in NCUA adding capital market specialists, adding sophistication to the IRR analysis, adding additional tools and providing more resources to credit unions.

Truth in Lending Act-Real Estate Settlement Procedures Act (TILA-RESPA) Integrated Disclosure Rule

The Consumer Financial Protection Bureau's TILA-RESPA rule l become effective Aug. 1, and NCUA staff will be assessing ongoing compliance.

CUSO Reporting

Federally insured credit unions are required to have written agreements in place with CUSO's that they invest or lend to that requires the CUSO to submit annual reports directly to NCUA and any applicable state authority. The reports will be required to be filed through the CUSO registry in 2016 and compliance will be reviewed by NCUA beginning in 2016 as well.

In addition to these specific areas, the NCUA also plans to continue to adjust and refine the examination program, place more focus on the credit unions that present the biggest risk to the NCUSIF and spend more time on pre-exam scoping to minimize onsite examination time.

Other Areas of Interest

Current Expected Credit Loss (CECL) is the new standard that is expected to become effective sometime in the next several years, although no specific time frame has been established. This is a complete rework on the methodology used to determine the recorded allowance for loan loss. This method requires the allowance to include an estimate of all contractual cash flows not expected to be collected from the entire loan portfolio, including commitments to loan, over the life of the loans. This is substantively different from the current methodology which is an estimate of the actual amount of loan losses that have been incurred as of the date of the financial statements. Implementation of this new methodology is expected to be quite complex and will include the need for credit unions to maintain both internal and external factors that are relevant to its various portfolios in order to have the most flexibility and accuracy in the determination of the allowance using this methodology. Credit unions should begin to assemble and capture historical data now to assist them in the implementation of this new standard.

About GBQ Partners LLC

GBQ has a team of professionals that exclusively serves credit unions with a combined 100 years of industry experience. Our team assists credit unions through accounting, compliance, regulatory, IT and a number of other complex areas. Our IT professionals have already been using the FFIED Cybersecurity Assessment Tool to assist our clients evaluate and implement risk monitoring tools. Our compliance professionals are up to date and accredited and our accounting professionals work with credit unions every day. If you have questions or need assistance please do not hesitate to contact us.