



**NATIONAL ASSOCIATION OF STATE CREDIT UNION SUPERVISORS**

**ACCREDITATION BEST PRACTICES**

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***Updated September 1, 2017***

**THE NASCUS/CSBS BANK, CREDIT UNION & MORTGAGE ACCREDITATION PROGRAMS**

GENERAL INSTRUCTIONS FOR COMPLETION OF THE SELF EVALUATION QUESTIONNAIRE

NOTE: For a summary of the bank, mortgage and credit union accreditation programs please refer to the separate program summaries on the CSBS and NASCUS websites.

**INSTRUCTIONS FOR RATING OF QUESTIONS**

**Self-Evaluation Questionnaire: Content and Procedures**

Most questions in the Self-Evaluation Questionnaire begin by asking the agency to "describe" its approach to, experience in and/or handling of that aspect of the regulatory program. The agency then chooses a rating of 1 to 5, as follows:

<u>Rating</u>	<u>Narrative Description</u>
5	Excellent: Strength obvious and no significant weaknesses perceived.
4	Good: Strong, only minor improvements could be made.
3	Average: Some improvements needed.
2	Substandard: Definite improvements are needed.
1	Poor: Not Acceptable/Function not performed.

After choosing a rating and calculating the score for the criterion, the agency states the basis for that rating, including documentation where appropriate. (Please note: when asked to provide documentation of a specific nature, the specific documentation requested should be considered a minimum. It may be necessary to provide additional documentation). This description may range from a few sentences to a page or more. Generally, low-valued criteria require less description.

The criteria have values ranging from 1 to 50, with the higher values being most important. The agency multiplies the value by its own rating to calculate the score for that criterion, and then adds the scores for all the criteria in a section to compile the section score.

The Review Team also evaluates and scores the Self-Evaluation Questionnaire during its visitation.

**NOTE FOR SCORING:** When the Best Practice states "must", the agency will be required to fully comply with the Best Practice to obtain the highest rating. If the Best Practice states "should", the Review Team is given greater discretion in determining if the agency has earned the highest rating.

## **SECTION I - AGENCY ADMINISTRATION AND FINANCE**

Purpose -This section evaluates the administration of the state bank, credit union and mortgage regulatory agency and the financing of the agency's operations. Questions begin with the broad issues of agency mission and goals and then address specific areas, such as formal procedures in rule-making, communication with other regulators and adequacy of support personnel. Questions on financing address the funding mechanism for the agency and the adequacy of the budget to enable the agency to: (1) meet its supervisory requirement to include chartering and licensing, examinations and investigations; (2) provide adequate computer equipment; (3) monitor the agency budget and (4) influence its budget allocation.

Narrative Material for the Section -The Accreditation Programs do not require or endorse a standard management style. Instead, the narrative sections allow the agency to explain the agency's organization and to demonstrate the effectiveness of the agency's management. Similarly, the Accreditation Program does not endorse a particular funding mechanism. States that finance their operations entirely from assessments or fees on the regulated entities insulate themselves from the uncertainties of the legislative process. However, other funding mechanisms can be defended as adequate for a particular state.

<b>I. Agency Administration and Finance</b>
<b>A. Mission Statement and Strategic Plan</b>
Describe the agency's mission statement and strategic plan with most recent date of review. Who is involved in the plan development? How are the finalized items communicated to the agency's employees? Who within the agency is assigned responsibility for completion of strategic actions and what is the time frame for completion? Provide documentation for actions met and state reasons for not meeting goals. Who would assume the duties of the commissioner if he was incapacitated? Has a Business Continuity and Leadership Succession Plan been developed?
<b>BEST PRACTICE:</b> The agency must have a mission statement and a strategic plan with measurable goals and assigned accountability. The strategic plan must be reviewed and adjusted at least annually. The agency must meet or be in process of meeting the desired goals as stated in the plan.
<b>B. Organizational Chart</b>
Provide a copy of the agency's organizational chart (include any agency boards if applicable.) Does the chart demonstrate clear accountability for significant functions such as examination, finance, personnel, training and legislation? Are the lines of supervision clearly defined and compatible with job descriptions? Note: Job descriptions are discussed in the Personnel Section of the Self-Evaluation Questionnaire.
<b>BEST PRACTICE:</b> The agency must have an up-to-date organizational chart indicating direct lines of responsibility that correspond to supervisory roles and job descriptions.
<b>C. Internal Communication / Internal Staff Meetings</b>
Describe the agency's system and frequency of holding periodic staff meetings either state-wide, by region, or through systematic visitation, to keep professional staff informed of administrative matters, provide legislative and regulatory updates, and provide a forum for the exchange of ideas.
<b>BEST PRACTICE:</b> The agency should facilitate a conference with all professional staff at one location at least annually with input from field examiners as to topics and items to be covered. If the state is large enough for districts, district meetings should be held at least quarterly. If a smaller agency, meetings with all examiners should be held at least quarterly.
<b>D. Communication with Federal Regulators</b>

Describe the process of the agency's communication with applicable federal regulators. How does the communication affect the scheduling of examinations, participation in examinations (including visitations and specialty examinations), sharing of information, conducting exit meetings and enforcement actions?

**BEST PRACTICE:** The agency should have a designated contact and meet with federal regulators at least annually. Sharing of information should include all applicable types of examinations performed.

**NOTE:** Compliance with signed agreements with federal regulators is covered under the Examination Section of the Questionnaire.

#### **E. Communication with Other State Regulatory Agencies**

Describe the process of the agency's communication with the other state regulatory agencies. How does the communication affect the scheduling of examinations, participation in examinations (safety and soundness and specialty examinations), sharing of information, exit conferences and enforcement actions.

**BEST PRACTICE:** The agency should have written agreements with all host or home states regarding interstate regulation of financial institutions. The agency should also coordinate with other states at least annually and provide periodic updates on the condition of financial institutions involved in interstate activities.

#### **F. Communication with Industry Trade Associations**

Describe and evaluate the nature, purpose and effectiveness of the agency's communication with the bank, credit union and/or mortgage trade associations.

**BEST PRACTICE:** Agency senior personnel should attend meetings of all relevant associations in their state. Proposed legislation should be discussed with trade associations in the state to clarify issues.

#### **G. Consumer Education / Financial Literacy**

Does the agency provide or participate in consumer education or financial literacy training to consumers?

**BEST PRACTICE:** The agency should provide (or participate in) consumer education or financial literacy training to consumers. Documentation of active participation must be maintained.

**NOTE:** If the regulatory agencies are part of a larger Agency and the Agency provides consumer education or financial literacy training that will qualify as long as documentation of training provided is included as an attachment.

#### **H. Promulgation of Rules and Regulations**

Briefly describe the agency's formal procedures for promulgating rules and regulations including time frames and emergency procedures.

**BEST PRACTICE:** Procedures for promulgation of agency rules and regulations must follow the administrative procedures act as prescribed by state law unless the agency is specifically exempt from such an act. "Emergency procedures" must be provided.

### **I. Access to Legal Assistance**

Describe the agency's direct and/or indirect access to legal assistance, advice and support.

**BEST PRACTICE:** The agency must have an attorney on staff or a consistently assigned attorney, with appropriate expertise, from the Attorney General's Office to represent the agency if required by state law. The department should also have the ability to hire outside counsel when necessary.

### **J. Agency Facilities**

Describe the agency's physical facilities. Provide a copy of the agency's emergency preparedness procedures, including the security and fire protection of the office and confidential files.

**BEST PRACTICE:** All agency offices must have either keyed or coded entry and meet the following qualifications:

1. Confidential files must be locked and access controlled.
2. There must be a procedure for maintaining control of confidential files and security when not in locked area.
3. Space should be adequate to accommodate all examiners as needed.
4. All facilities must have adequate fire safety, including sprinklers, and evacuation procedures.

### **K. Internal Computer Capabilities, Disaster Recovery / Preparedness**

Describe the use and evaluate the adequacy of the agency's computer system, including central office computers (i.e., LAN system, E-mail, etc.), number of computers for field examination staff, anticipated replacement and/or upgrade of computers, backup and disaster recovery plans (including those for field computers).

**Agency Best Practice:** The agency's computer system must be adequate to provide the necessary tools for regulation of financial institutions and must be compatible with the programs necessary to perform examinations. A written policy on information technology (IT) must be adopted and include the following:

1. Computers must be replaced at least every three years unless justified for longer period.
2. Computer systems must have adequate firewalls, virus protection, and intrusion detection.
3. Secure transmission of data.
4. Agency must have adequate off-site backup and a disaster recovery plan that is tested at least annually.

**Examination Best Practice:** The Agency's written IT Policy which is policed through periodic spot checks for adherence to the policy must also address:

1. Practices for proper daily backup of examination data such as a network connection, agency issued encrypted external device or a system offering comparable protection.
2. Each examiner must have their own computer and own email address with access to the internet.
3. Limits for retaining examination data on field laptops.

**L. Budget Revenue Source / Contingency Plan**

Describe the agency's revenue source(s). Note the amount of total funds obtained as of the most recent FY End from:

assessments on the assets of the providers supervised	\$
fees charged per residential mortgage documentation filed	\$
fees for examinations	\$
state general revenue funds*, and	\$
application/licensing fees	\$
other sources (_____)	\$
<b>Total</b>	<b>\$</b>

\* This question involves income generated by the agency when income goes direct to the state with no separate designated or operating fund for the agency.

	Yes	No
Is the organizational unit responsible for bank regulation self-supporting?		
Is the organizational unit responsible for mortgage regulation self-supporting?		
Is the organizational unit responsible for credit union regulation self-supporting?		

Considering possible future changes in the industries regulated, describe the agency's contingency plans. State the basis for the rating and provide documentation if applicable.

**BEST PRACTICE:** Each regulatory agency must be self-supporting. Income generated from each industry's regulatory program must support costs attributed to the supervision of that program. Agency must have a contingency plan (separate fund, cash balance or proven ability to increase revenue) to cover at least 3 months' worth of expenses.

**M. Budget Expenses / Supplemental Budgets**

Describe the process of preparing the agency budget, including the procedure for reviewing monthly or periodic budget reports and making appropriate changes.

To what extent do supervisors and/or managers with income and/or expense responsibilities contribute to the preparation process?

Evaluate the adequacy of the existing budget to 1) examine and supervise all state regulated entities in accordance with frequency guidelines, and 2) operate the regulatory agency.

Note: The adequacy of salaries and benefits and adequacy of training funds is covered elsewhere in the questionnaire. State the basis for the rating and include documentation if appropriate.

**BEST PRACTICE:** Input into budget process must include all individuals who will be responsible for monetary controls of portions of the budget. Budget versus actual expenses must be reviewed monthly and reported to senior management. The agency must have sufficient funds to operate and to examine all regulated entities in poor economic times, as well as during times of good economy, including the ability to hire additional examiners, if necessary.

## SECTION II - PERSONNEL

Purpose - This section evaluates various aspects of the "people" side of the agency. The criteria assume that a superior agency provides a clear, adequate and consistent set of rules for the treatment of employees. Some of the criteria address the documents related to personnel policy, e.g., policy manuals and job descriptions. Other criteria address retention of professional staff.

<b>II. Personnel</b>
<b>A. Personnel Manual</b>
Describe the agency's Personnel Manual in terms of completeness, relevancy of material, and maintenance procedures.
<b>BEST PRACTICE:</b> The agency must have an approved Personnel Manual. The Manual should be reviewed at least annually and should include department specific procedures regarding hours, travel, per diem, etc. The Manual must be available to all employees either in hard copy or electronically and should be reviewed with employees periodically as needed.
<b>B. Job Descriptions</b>
Describe the agency's written job descriptions and their frequency of revision. <ul style="list-style-type: none"><li>a. State the basis for the rating and have documentation available on-site, including copies of the job descriptions for those positions directly involved in the examination, regulation and supervision of regulated entities available on-site.</li><li>b. Indicate which positions, if any, are union and/or civil service positions. Detail which positions are appointments, who appoints, and if confirmation is required.</li></ul>
<b>BEST PRACTICE:</b> All positions must have job descriptions which describe duties performed and should be up-to-date, and reviewed at least annually. The job descriptions should include positions that the individual supervises, state the name or position of that individual's supervisor, and should correspond to the organizational chart.

### C. Hiring Policies

Describe the personnel hiring policies and recruiting procedures to allow employment of the type and number of personnel needed for examination, regulation and supervision. Detail any groups which are given preferential treatment, such as veterans.

**BEST PRACTICE:** Although most States have an agency which provides hiring and recruiting duties for the entire State Government, supervisors from the agency must be included in the selection process in some way. The immediate supervisor must participate in the hiring interview for individuals whom they will directly supervise and have acceptable training in conducting hiring interviews. The agency should have the ability to recruit through optional sources, such as college job fairs.

### D. Promotional Opportunities / Pay for Performance

Describe the ability of your agency's organizational structure to provide a career path that will enable the department to hire and retain qualified personnel for a reasonable time. Provide documentation that includes the salary ranges and any pay for performance incentives of those positions directly involved in the examination, regulation and supervision.

**BEST PRACTICE:** In order to provide an examiner career path with adequate advancement opportunity, the agency must have at least three levels of field mortgage examination staff and at least four levels of field bank or credit union examination staff with three of those levels not limited in the number of positions. If pay for performance incentives are available, funds should be sufficient to pay merit increases for above average performance of examiners. In small agencies where the career path is limited because of the size of staff, efforts should be made to develop specialized experts, thereby expanding the career path professionally if not vertically.

### E. Performance Appraisal Process

Describe the performance appraisal and review process used by the agency, including the process for new-hires, trainees in new positions, and experienced staff. Provide documentation that includes sample forms/checklists used in the evaluation process.

**BEST PRACTICE:** Performance appraisals should not only include an evaluation of the employee's performance over a definitive timeframe but should provide a plan for the next timeframe with set goals agreed to by the employee and supervisor. All employees must have at least one annual review with more frequent evaluations for new hires and persons recently promoted to a new position. All reviews should be conducted in person and signed by the employee and supervisor. Reviewers should avoid template style language in their comments and should emphasize individual strengths and weaknesses.

## F. Adequacy of Salaries and Benefits

Describe and evaluate the adequacy of the agency's salaries and benefits, particularly as it affects the agency's ability to hire and retain well-qualified employees for a reasonable time.

- a. State the basis for the rating and provide documentation that includes the salary ranges and comparisons with contiguous states' examiners and comparable federal examiners who provide regulation and supervision of examiners.
- b. State the turnover ratios for examiners for the previous three years. Provide the reasons for leaving based on exit interviews.

**BEST PRACTICE:** The agency's Employee Compensation Program for supervision & examination staff must be adequate to hire and retain well-qualified employees. The Program at a minimum should address salary, benefits, and expense reimbursements. The program should contain provisions which require that periodic compensation studies be conducted to assure that employee compensation remains competitive. Such periodic studies should document the competition's compensation structure, including data from similar agencies in contiguous states and federal agencies operating in its employee market.

## SECTION III - TRAINING

Purpose - This section evaluates those steps an agency takes to improve personnel skills over time. This section does not require any one method of training. Instead, it examines the effectiveness of an agency's chosen method to train its staff. On-the-job training, formal classroom instruction and seminars can singly or jointly comprise an adequate training program. Whatever the mix, the program should maintain high quality staff and be carried out on a routine basis.

Narrative Material for the Section - The narratives for this section provide opportunities to describe special efforts in the training and education areas, especially where local conditions require specific areas of expertise (e.g., agricultural lending, business loans). Quantitative measures of formal education completed by staff can be included, even though the number of classroom hours or courses completed may not, by themselves, identify an effective training program.

<b>III. Training</b>
<b>A. Training Coordinator / Evaluations</b>
Describe how the Agency assigns overall formal training responsibility (whether it is assigned to a selected individual or individuals) and evaluate the effectiveness of that assignment. State the basis for the rating and include documentation if appropriate. Note: On-the-job training is addressed in another section.
<b>BEST PRACTICE:</b> The responsibility for oversight of formal training should be assigned to one individual who maintains a database of training per examiner. The effectiveness of formal training should be evaluated in writing by the participant within a set timeframe following attendance at the class for internal use within the Agency.
<b>B. Policy on Examiner Training</b>
Describe the Agency's written policy on examiner training. How is the policy's effectiveness evaluated? Include a copy of the written training policy and a list of the core and advanced schools used (i.e., CSBS, NASCUS, AARMR, state, federal or other schools and seminars).
<b>BEST PRACTICE:</b> The Agency must have a written training policy as follows: <ol style="list-style-type: none"><li>1. The policy must include a listing of core classes for each level and type of examiner.</li><li>2. The policy must include support for an examiner to achieve and maintain a definite career path.</li><li>3. The policy must be reviewed annually.</li><li>4. The policy must allow examiners the ability to request training that will be subject to a supervisor's approval and budgetary constraints.</li><li>5. The training goal must be for each examiner to have, at a minimum, "outside classes" with at least 28 hours of instruction annually. Exceptions should be documented.</li></ol>
<b>C. Training Manual(s)</b>

Describe the Agency's training manual(s) in terms of completeness, relevance and maintenance procedures. How does the manual address issues specific to your state? Include a list of the manuals used.
<b>BEST PRACTICE:</b> The Agency must have a written training manual. Federal manuals may be used; however, the Agency must have some type of written "state specific" procedures for examination. The Training Manual may include OJT duties as noted in item D.
<b>D. On-The-Job Training</b>
Describe the Agency's use of on-the-job training. Include a description of who is responsible for providing the training (i.e., mentor) and evaluation procedures. Provide documentation that includes the forms or checklists used in evaluating the completeness and effectiveness of the training.
<b>BEST PRACTICE:</b> The Agency must have an approved OJT Manual (if not included in training manual). <ol style="list-style-type: none"> <li>1. The Manual should include a listing of duties to be performed by the trainee with recommended timeframes and a listing of reading material for reference by topic.</li> <li>2. The OJT Manual must address the following areas: operations, credit, and EIC along with specialty areas as applicable.</li> <li>3. OJT procedures should include the use of an assigned coach for examiners as they are assigned to new areas of training.</li> <li>4. Written evaluation of trainee should be performed at the conclusion of each job while in training status. Use of a training checklist ensures that the trainee has become proficient in all areas and provides consistency in training new hires and newly promoted examiners.</li> </ol>
<b>E. Training on Emerging Issues</b>
Describe the department's method for providing continuing education on emerging issues such as white-collar crime, IS&T, ALM, Cyber Security, etc.
<b>BEST PRACTICE:</b> The Agency must provide education on emerging issues. Education on emerging issues may include outside schools and/or internal training.

#### **F. Exit Interview Training**

Describe and evaluate the methods used by the Agency to train examiners to conduct examination exit meetings.

**BEST PRACTICE:** The Agency must provide training for conducting exit meetings. This may take the form of outside schools or internal training including audio and/or visual presentations. Training should also include attendance at such meetings and presentation of various portions of the examination findings prior to taking the lead in conducting the exit meeting.

#### **G. Support of External Academic Training**

Describe the Agency's policy (i.e., tuition reimbursement and/or leave policies) for external academic training programs. Include documentation if appropriate.

**BEST PRACTICE:** The Department must have a policy on advanced/academic training which reimburses tuition and allows flexibility of time to attend classes. This includes full-time college classes and graduate banking/trust schools. To demonstrate encouragement, there should be continuous attendance in this type of training if there are eligible examiners.

#### **H. Adequacy of Training Funds**

Describe, in detail, the Agency's training budget and expenditures. What percentage of the total budget is allocated to or expensed for training? Is the training budget adequate to satisfy the training needs of the department? Provide documentation that includes summary training budget information (three-year history and one-year projection of budget and actual expenditures).

**BEST PRACTICE:** The training expenditures should be at least 2% of total agency expenditures or 28 hours for each examiner. The dollar amounts for training should only include expenses for materials, registration, and travel. Variations from the 2% must be supported in writing and will be evaluated by the Review Team on-site.

## CREDIT UNION ONLY SECTION IV – EXAMINATION

### Purpose

This section and the following section (Supervision) cover those areas the public most closely regards as the main activities of a state credit union department. In addition, federal agencies, before accepting the work product of a state credit union department, need some assurance concerning the quality of that work product. Therefore, these sections raise numerous questions regarding work product and the department's ability to carry out the necessary steps to ensure consistently competent regulation, examination and supervision.

### Narrative Material for the Section

These narratives lend themselves to both qualitative and quantitative measurements of department success in completely and adequately examining state-chartered credit unions. Please specifically address these criteria, giving a justification for the rating chosen and, where the rating is "3" or below, the departmental action being taken to correct the situation.

### Documentation

Documentation for this section could include a variety of department-prepared items, including self-produced examination manuals, examination scheduling sheets, department-produced rating systems (where CAMEL ratings are not used), formal statements of procedures to be followed before and after examination, and flow-sheets describing actual staff responsibilities for various examination tasks (do not send actual exam documents).

<b>IV. Examination</b>
<b>A. Examination Policy</b>
Describe the statutory requirement, department policy, and actual frequency of state-chartered credit union examinations.  Provide documentation where appropriate, including definitions of examination types, frequency of examinations for the last three years by examination type, and examination frequency with respect to problem credit unions. If applicable, the response should include a description of the department's policy and practices regarding privately-insured credit unions.
<b>BEST PRACTICE:</b> The department's written policy on examinations should state that each credit union should be examined every 15 months of "1" and "2" Composite rated credit unions and may be extended to 18 months depending on the condition of the credit union and more frequently for troubled credit unions. The department should have a written policy on examination frequency.

## B. Examination Manual

Describe the department's examination manual in terms of completeness, relevancy of material, and maintenance process.

**Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.**

**BEST PRACTICE:** The department should have examinations manuals addressing policies and procedures for safety and soundness examinations and specialty examinations as applicable. These manuals may be a duplicate of federal training manuals, but should also address state specific areas.

## C. Scope of Examination Capabilities

1. Describe the department's ability to examine the following areas of credit union operations:
  - a. Loans - Overall evaluation of your ability to examine member business, personal, mortgage, other real estate, recreational equipment, education, and other types of loans<sup>1</sup>
  - b. Investments<sup>1</sup>
  - c. Asset/Liability Management
  - d. Liquidity
  - e. Financial Analysis
  - f. Management<sup>1</sup>
  - g. Off-Balance Sheet Items (if any) <sup>1</sup>

Include documentation that includes the number of examiners in each of the categories listed who have reached a high degree of technical competency. *Also, in each of the categories provide a reasoning for whether the number of examiners is sufficient to examine that specialized area. If not sufficient, state why number is insufficient and what is the action plan to have a sufficient number of examiners with a high degree of technical competency.*

**Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.**

**BEST PRACTICE:** The department should have a sufficient number of trained examiners to perform independent examinations of at least 50% of the financial institutions regulated [The department should be the lead examiner on joint examinations]. The department should have the authority and a sufficient number of qualified examiners to examine all specialty areas.

## C. Scope of Examination Capabilities

<sup>1</sup>Including detection of insider dealing, credit union fraud and money laundering.

2. Describe the department's ability to examine Information Systems & Technology (IS&T) applications for:
  - a. Users of IS&T services - The business systems that relate to the credit union use of computers for the processing of credit union business information (contracts, rotation of duties, backup files, etc.).
  - b. Providers of IS&T Services - For safety of user files, integrity of programs and data files, adequate backup of facilities, adequate business systems (contracts, rotation of duties, separation of duties, etc.)
3. Describe the department's ability to examine electronic financial services.
4. Describe the department's ability to examine the area of compliance with state and federal laws.
5. Describe the department's ability to examine the area of C.U.S.Os.

**Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.**

**BEST PRACTICE:**

**D. Planning Individual Safety and Soundness Exams**

Describe the department's systematic method for organizing and planning individual safety and soundness and as specialty examinations.

**Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.**

***BEST PRACTICE:*** The department should have established procedures for organizing safety and soundness and specialty examinations including coordination with federal agencies as necessary. Internal procedures should provide at least one month's notice to the assigned examiner-in-charge for scheduling purposes in order to provide lead time to do pre-planning and scoping examinations. The department should have a system of completing pre-examination work prior to the examination to reduce on-site time at the credit union.

### **E. Examination Report and Workpapers**

Describe your department's examination report (including workpapers) for completeness, clarity, and ease of understanding. Also describe the department's system for periodic review of the various examination forms and report pages.

**Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.**

**BEST PRACTICE:** Examination forms should be sufficient to include comments and pertinent information on all CAMEL areas. In most instances, these forms will be AIREs with some state specific pages as necessary.

### **F. Exit Conferences with Management**

Describe the department's procedures and ability to conduct exit conferences with the board of directors or senior management of each credit union examined.

**Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.**

**BEST PRACTICE:** The department should conduct some form of exit meeting at each examination and require a Board meeting for all "3", "4", and "5" rated institutions.

### **G. Examination Report Review and Turnaround**

Describe the department's procedure for internally reviewing the examination report before it is returned to the credit union, including the adequacy of the department's staffing and systems to assure the prompt return of accurate examination reports. Also include an explanation of the department's procedures for senior staff members to prepare, review, and approve examination report transmittal (i.e., cover) letters.

Include documentation that includes a two-year history of average examination report turnaround time in calendar days and the range of number of days to return the examination report to the credit union. (Note: turnaround time should be calculated from the time the EIC leaves the credit union.)

**Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.**

**BEST PRACTICE:** Report turnaround time should average no more than 30 calendar days from the time the examiner leaves the credit union.

**BEST PRACTICE:** Procedures for drafting transmittal letters on "1" and "2" composite rated credit unions may be less stringent than those for problem institutions. For better efficiency, the field staff should be adequately experienced and trained to draft transmittal letters for non-problem institutions

**BEST PRACTICE:** Transmittal letters requiring response to problem areas in examinations findings should be signed by the highest level of authority within the department.

**BEST PRACTICE:** Financial institutions should be required to respond within a minimum of 30 days after receipt of the report of examination and a transmittal letter. Individuals should be assigned to track

and review the responses. Notation of reviews should be made and retained in the files. The Examiner-in-Charge should be involved in the response to problem credit unions.

## **CREDIT UNION ONLY SECTION V - SUPERVISION**

### **Purpose**

This section evaluates the ability of the department to foster a healthy and stable credit union system that provides the financial services members demand. The section assumes that the supervisory program will provide appropriate, timely, accurate and usable information. The section also assumes that a department is best served by having available authority to carry out enforcement actions. Finally, the section assumes that a department will take thoughtful, well supported discretionary actions on a variety of applications and other supervisory matters that impact credit union safety and soundness.

### **Narrative Material for the Section**

The narrative provides the opportunity to describe the department's preventative, anticipatory measures that have been developed and how the program is used. If the department has developed its own monitoring system, describe how this system works. List any "outside" sources of information that the department may use to increase the reliability of its program, e.g., NCUSIF, on-line computer data, outside auditor reports, FRB information, and the use of information submitted routinely by credit unions to the department (including call reports). Describe how the program influences changes in examination schedules and other regulatory activities, e.g., enforcement actions and meetings with credit union boards of directors. Describe the department's procedures and internal processes for the on-going supervision of credit union corporate governance and activities as well as other exercises of discretionary regulatory authority. This description should focus on how the quality of the department's actions impact the financial condition and stability of the credit union system.

### **Documentation**

Please enclose materials describing the department's supervisory program. Questions regarding enforcement may involve statutory citations and/or department rules and guidelines. Provide a listing of enforcement actions taken in last three years. Also provide several examples of corporate and other supervisory actions taken in the last three years. Examples of areas to cover include applications for various approvals, requests for interpretations of statutes or regulations, bulletins, policy statements, etc.

<b>V. Supervision – CREDIT UNION</b>
<b>A. Surveillance System</b>
<p>Describe the department's system for off-site monitoring of credit unions. How is statistical data utilized to monitor or improve the credit union operations or the stability or insurability of credit unions? Describe the use of computer-generated reports, board minutes, and the procedures and frequency for analyzing available financial information and assuring that the information is current.</p> <p><b><u>Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.</u></b></p>
<p><b>Best Practice:</b> The department should have a written surveillance program to monitor all financial institutions under the purview of the department, with approved parameters set for variance and exceptions. Reviews should be performed on all institutions at least quarterly.</p>
<b>B. Follow-up</b>
<p>Describe the department's procedure for following up problems discovered and ensuring credit unions undertake required corrective actions. Indicate the staff members responsible for follow up and explain how the department utilizes visitations as part of its monitoring system.</p> <p><b><u>Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.</u></b></p>
<p><b>BEST PRACTICE:</b> Computer generated reports and documentation of surveillance reviews on all credit unions should be maintained in the credit union files. When problems are noted, procedures should be established for assigned responsibility of written and/or oral communication with the credit union, other regulators, and field personnel with appropriate documentation in the individual credit union file. This information should be available for review by the appropriate field personnel including the assigned examiner-in-charge.</p>
<b>C. Enforcement Authority Use</b>
<p>Describe the department's <i>actual use</i> of its enforcement authority. (Provide a list of enforcement actions taken in the last three years. <i>Do not</i> use the names of the credit unions.)</p> <p><b><u>Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.</u></b></p>

**BEST PRACTICE:** The department should have specific enforcement powers. The department should have the ability to issue Cease and Desist Orders, Memorandums of Understanding or other forms of informal agreements. The department should also have the authority to remove officers, directors and employees; and to prohibit such individuals from serving in any capacity in any other financial institution that the department regulates.

The department should have the ability to assess civil money penalties sufficient to deter violations of laws and regulations and/or violations of orders or agreements. CMPs should be per violation per day.

**D. Corporate and Other Supervisory Activities**

Describe the department’s statutory authority and policies for on-going supervision of credit union corporate governance and activities as well as other exercises of discretionary regulatory authority. Examples of areas to cover include, but are not limited to, applications for various approvals (bylaws amendments, field of membership changes, investment authorities, fixed asset investments, new charters, charter conversions, mergers, etc.), rendering decisions on requests for waivers of regulatory requirements, requests for interpretations of statutes or regulations, and development and dissemination of regulatory guidance (bulletins, policy statements, etc.) to credit unions. Provide several examples of actions taken in the last three years. Do not use the names of the credit unions.

*This response should focus on the agency's statutory authority over corporate governance activities, rather than the procedures for processing applications requiring agency approval (these procedures are discussed in Section I).*

**Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.**

**BEST PRACTICE:**

## SECTION VI – LEGISLATIVE POWERS

### Purpose

This section covers a series of credit union code and legislative issues important to maintaining a regulatory program that meets current and future regulatory needs. This section assumes that a well-run credit union department will operate under a code that is comprehensive and clear, changes as often as necessary, and places accountability with the supervisor. This section also addresses the Supervisor's ability to draft legislation for the Governor, legislature or other appropriate office as well as to review legislation drafted by others that would affect the department's regulatory program.

### Narrative Material for the Section

The narratives should describe the scope of the authority of the state regulator and the department. They should also indicate the capacity of department personnel to participate in the legislative process.

### Documentation

Much of the appropriate documentation for this section will consist of statutory references.

<b>VI. Legislative Powers – CREDIT UNION</b>
<b>A. Revising Laws, Department Duties and Responsibilities</b>
Describe the frequency of revision or updating the document creating the state credit union department and outlining its responsibilities and duties. Describe when the last revision occurred and any area of change needed. Are there any existing plans to recodify the state credit union laws, and when?  <b><u>Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.</u></b>
<b>Best Practice:</b> The credit union code should be reviewed in its entirety at least once every three years to determine if recodification is needed. Once the determination is made that recodification or revision is necessary, the code should be revised within 5 years.  Department management should indicate that the credit union code provides the department or the commissioner with the necessary powers to perform prescribed duties and responsibilities. Any areas needing improvement should be identified with any current actions in progress being noted.

**B. Enforcement Authority**

Describe the department's statutory authority for taking enforcement actions against credit unions (e.g. informal agreements, memorandum of understanding, civil money penalties, officer and director removal, cease and desist orders, etc.).

**Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.**

**BEST PRACTICE:** The department should have specific enforcement powers. The department should have the ability to issue Cease and Desist Orders, Memorandums of Understanding or other forms of informal agreements. The department should also have the authority to remove officers, directors and employees; and to prohibit such individuals from serving in any capacity in any other financial institution that the department regulates.

The department should have the ability to assess civil money penalties sufficient to deter violations of laws and regulations and/or violations of orders or agreements. CMPs should be per violation per day.

**C. Involvement in Legislative Process**

Describe the department's involvement in the legislative process, including the ability to initiate legislation, review legislation, and otherwise have an impact on legislation affecting the institutions under its purview.

**Once you have assigned a numerical rating, be sure to provide specific justification for the numerical rating assigned and include documentation if appropriate.**

**BEST PRACTICE:** The department should have input into any proposed legislation regarding areas under its purview with adequate opportunity to defend the proposals before the legislature. There should be a process in place to identify and review any proposed legislation that would impact the department.