14-CU-02 Supervisory Focus 2014

Summary

Prepared by NASCUS Legislative & Regulatory Affairs Department
January 2014

NCUA has issued LTCU 14-CU-02 to provide credit unions with its supervisory focus for 2014. NCUA is especially concerned with credit union management of the following risks:

- Interest Rate Risk - NCUA vows to work to ensure credit unions manage balance sheets as appropriate to account for a rising interest rate environment.
- Cybersecurity Threats - NCUA expects credit unions to better prevent, detect and recover from cyber attacks. Credit unions of all sizes will be expected to implement appropriate risk mitigation controls including vendor due diligence, strong password processes, proper patch management and network monitoring.
- Money Services Businesses (MSBs) - NCUA will increase attention to credit union activity with MSBs, noting that the potential risks with regard to money laundering.
- Private Student Lending - Private student loans are the fastest-growing product in the credit union industry. NCUA field staff will evaluate each credit union's student lending plans, policies, controls, and third-party due diligence.

In addition to the risks above, NCUA examiners will assess credit unions' compliance with several new rules and regulations:

- Loan Participation Rule - The rule became effective September 23, 2013. In particular, NCUA staff will expect compliance with the single-originator concentration limit of 100% of net worth or $5 million; the risk retention requirements of 10% and 5% for FCUs and FISCUs (respectively); and the 15% limit of participations to one borrower. NCUA does encourage credit unions to discuss waivers with field staff.
- Ability-to-Repay and Qualified Mortgage Standards - The Consumer Financial Protection Bureau's (CFPB) new rule became effective January 10, 2014. The rule requires mortgage lenders to consider each consumer's ability to repay a home loan before extending credit. Initially, NCUA field staff will take into account a credit union's good-faith efforts to comply. However, NCUA will evaluate credit risk, liquidity risk, and concentration risk for all mortgage lending. Credit unions choosing to make non-QMs will need to take into account the potential market and legal risks.
- CUSO Rule - The final CUSO rule becomes effective June 30, 2014. NCUA examiners will ensure credit unions' written agreements with CUSO are amended to reflect new requirements such as CUSOs using Generally Accepted Accounting Principles, preparing **quarterly financial statements**, and obtaining **annual audits** of financial statements. CUSO must also agree to report information directly to NCUA when the agency is prepared with its new registry.

Finally, the LTCU contains a discussion of changes to NCUS's exam program. NCUA will issue a revised exam scope policy that provides its field staff with flexibility to narrow or expand the scope of an exam. NCUA will also continue to streamline exams for smaller credit unions, testing targeted scopes and new procedures in select credit unions with $30 million or less in total assets that received a CAMEL composite rating of 1, 2, or 3 at their last exam.