



What to Expect from Your Regulators in 2019



New and Old Examiner Concerns

- State Credit Unions Update
- Loans and the economy
- Liquidity and Interest Rate Risk
- Information Security
 - Keeping Up?
 - Documenting
- Next Gen Management

Number of Credit Unions by Asset Size

	March 31, 2019	March 31, 2017
Less than \$2 million	1	2
\$2 - \$5 million	2	2
\$5 - \$50 million	19	20
\$50 - \$100 million	11	10
\$100 - \$500 million	11	12
\$500 million - \$1 billion	12	9
\$1 billion and over	10	10
Total	66	65

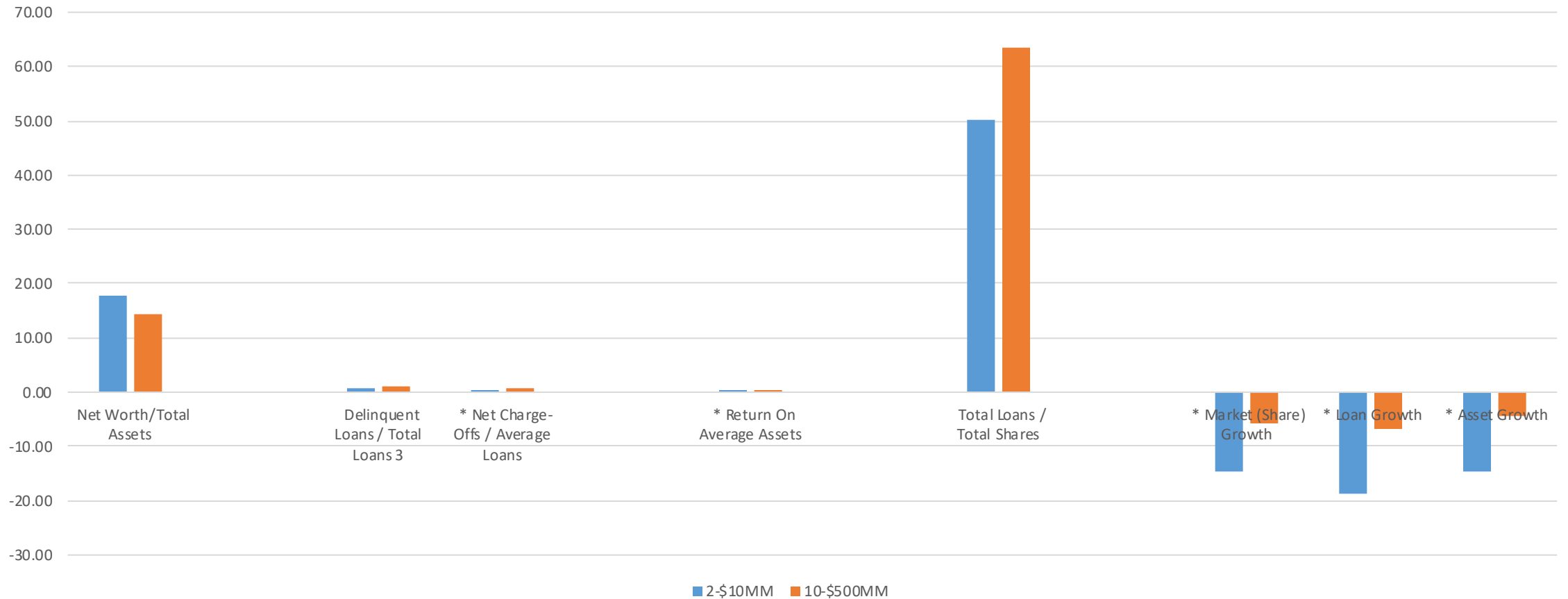
As of March 31, 2019, total assets held by state chartered credit unions amounted to **\$47.49 billion**. This is an increase since the December 31, 2017, figure of **\$41.39 billion**.

Return on Average Assets (ROAA)

- Credit Unions are generally more profitable.
- For March 2019, approximately 21% or 14 credit unions reported a ROAA between 0.0% and 0.49%, 42% or 28 credit unions reported a ROAA between 0.50% and 0.99%, and 27% or 18 credit unions reported a ROAA at or above 1.00%. An increase from 20% last quarter in the top bracket.

Florida Small Credit Unions

FPR Data December 2018
 FL CUs \$2-10, \$10-50 Mil.

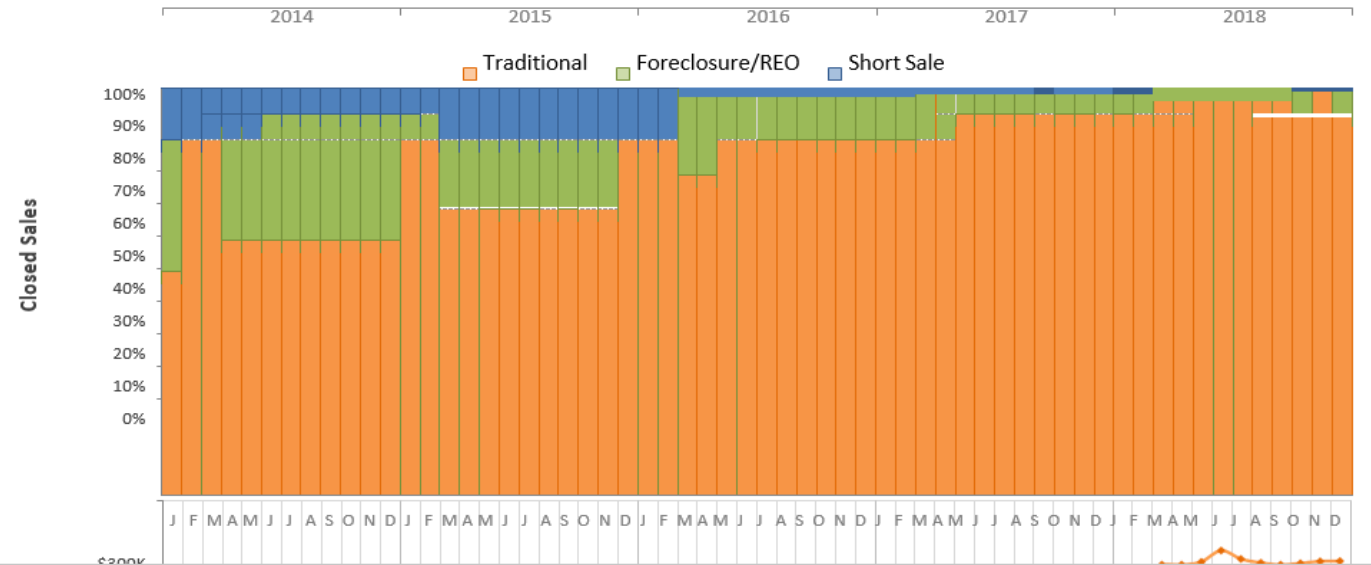


Econ 101 –
Housing
Median
\$257,500

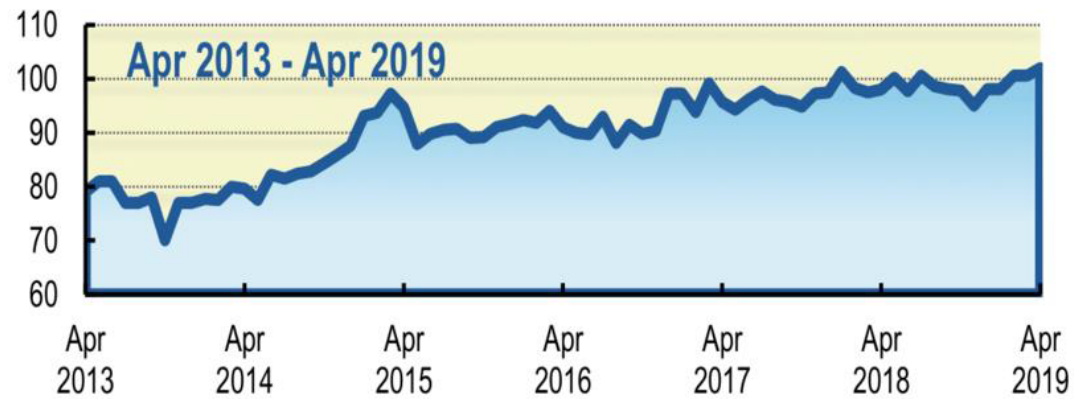
Monthly Distressed Market - December 2018
Single Family Homes
Florida



		December 2018	December 2017	Percent Change Year-over-Year
Traditional	Closed Sales	19,815	21,676	-8.6%
	Median Sale Price	\$257,500	\$248,000	3.8%
Foreclosure/REO	Closed Sales	664	907	-26.8%
	Median Sale Price	\$168,500	\$169,900	-0.8%
Short Sale	Closed Sales	154	307	-49.8%
	Median Sale Price	\$207,500	\$175,000	18.6%

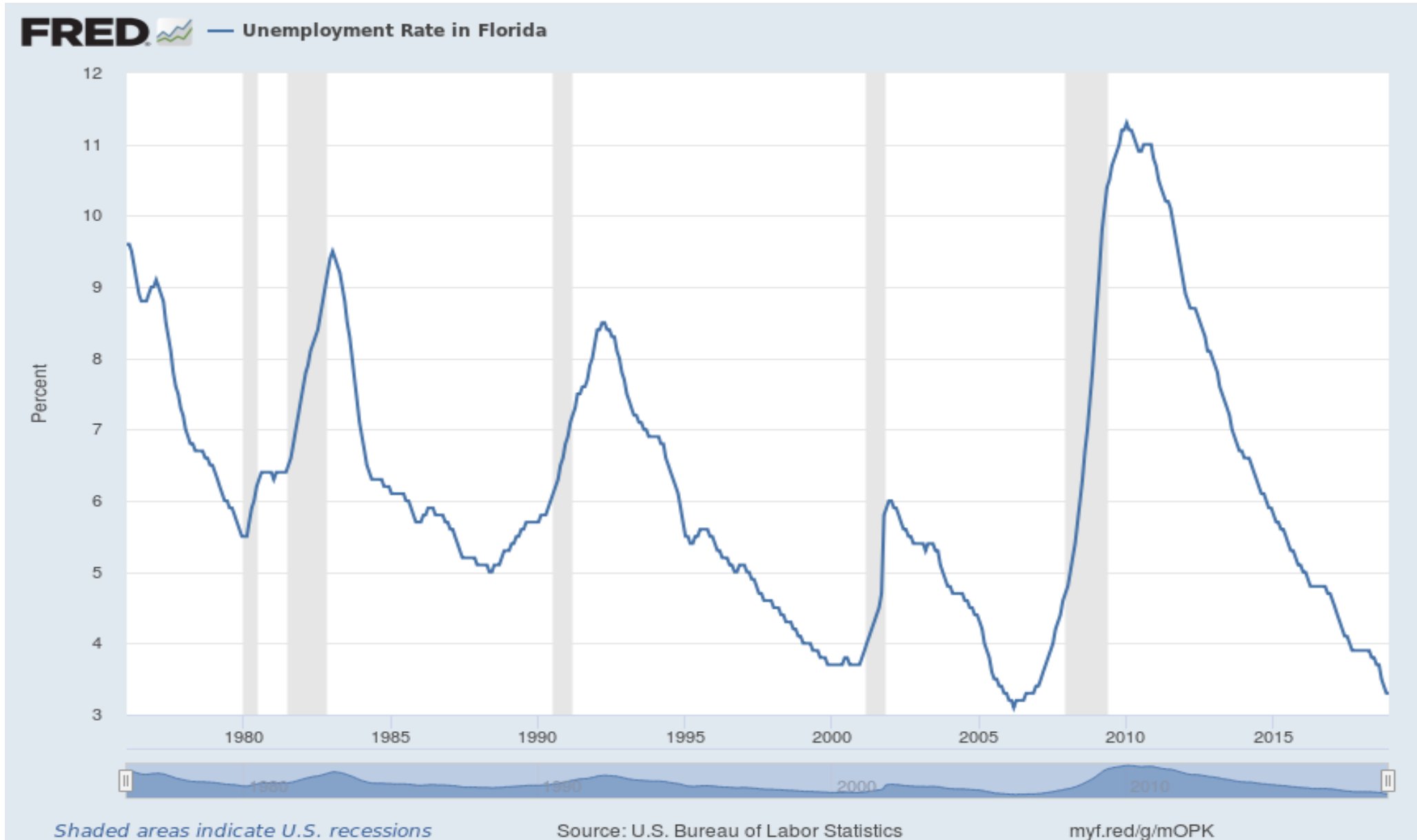


Florida Consumer Sentiment Index



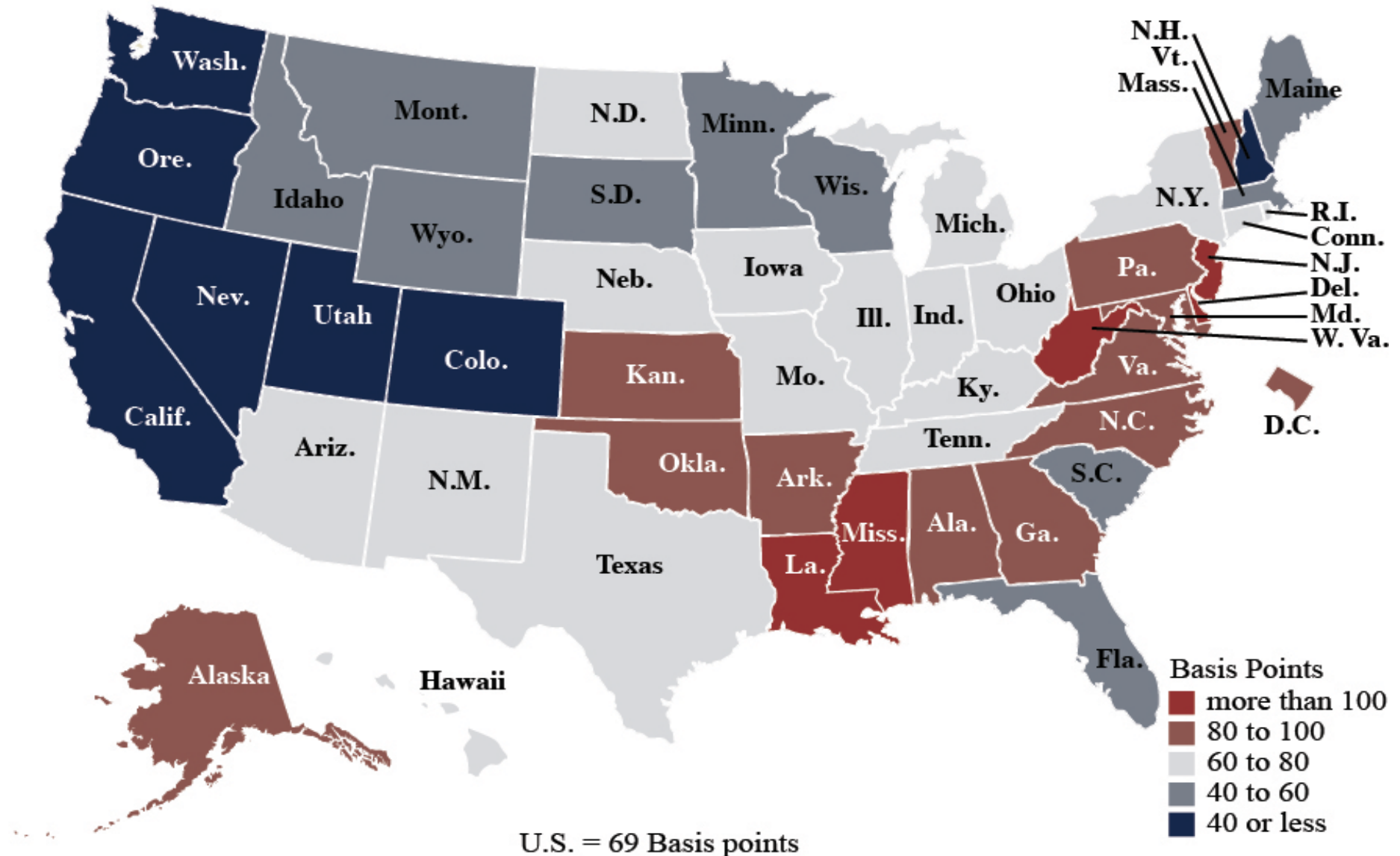
Courtesy of University of Florida Bureau of Economic and Business Research

Unemployment and Delinquency Are Related



4th Quarter Median Total Delinquency Rate (NCUA)

Median Total Delinquency Rate



Economics

Yield Curve Tells the Fed to Hold on Rates

If this keeps up, a key recession warning indicator soon will be flashing red.

By [Noah Smith](#)

January 2, 2019

Inversion Ahead of the Storm

Treasury term spreads for different maturities Three-month vs 10-year

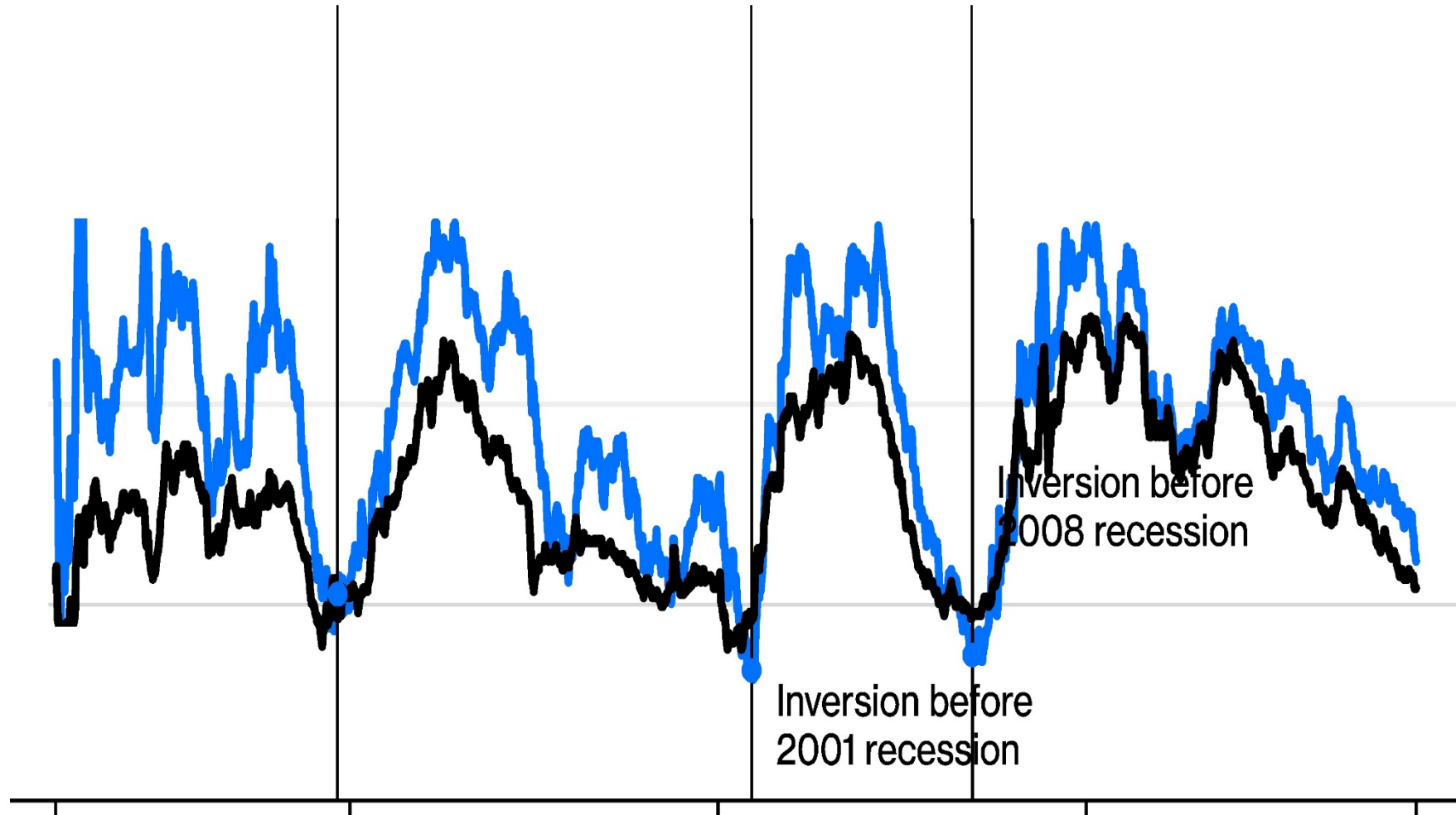
Two-year vs 10-year

Inversion before 1990 recession
1982 1990
Source: Federal Reserve Bank of St. Louis

2000

2010

2018



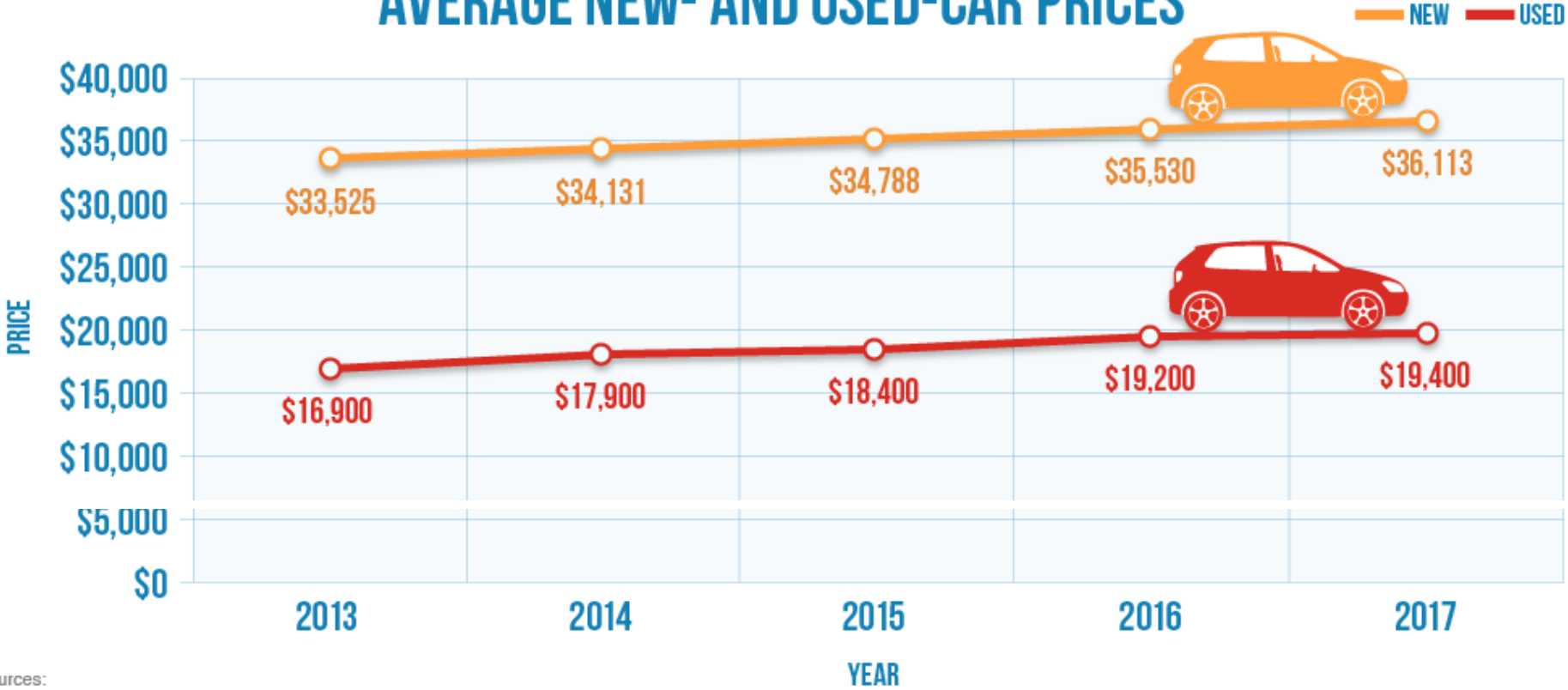
Inversion before 2008 recession

Inversion before 2001 recession

Auto Prices 

Collateral Value Up?

AVERAGE NEW- AND USED-CAR PRICES



Sources:
Kelley Blue Book - Average December new-car transaction prices
Edmunds - Average Q3 used-car transaction prices

Auto Prices



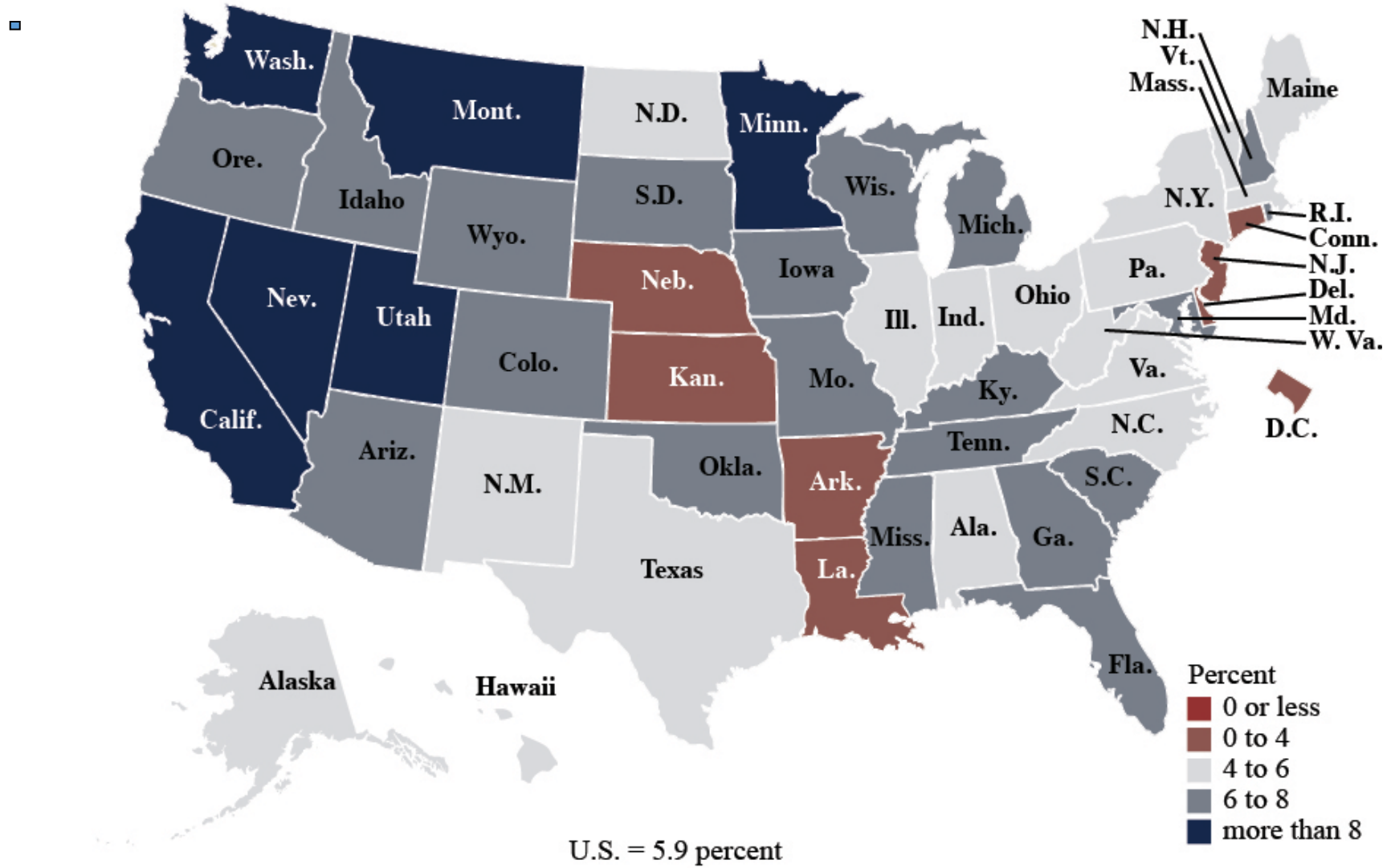
- New-car prices have risen in step with the economy since the Great Recession and the average price is now beyond the means of most median-income Americans, says Bankrate.com, which based its calculations on the 20/4/10 rule of a 20 percent [down payment](#), four-year loan and payments of principal, interest and insurance making 10 percent of a household's income.
- Numerous factors affect increasing prices and growing demand for large SUVs and trucks, which are more expensive than most passenger cars, has also played a part.
- With the cost of new cars at these levels, and taking into account depreciation after purchase, used vehicles may become increasingly attractive options. In fact, around 40 million used cars, more than double the number of new ones, are sold each year. [May become??]

Prime vs Subprime Auto

- Small CUs Know the Relationship, but in the big blue world (competition)...
- According to the latest report S&P Global Ratings, the firm explained that its subprime index became more heavily weighted toward deep subprime issuers between 2007 and 2017. Analysts acknowledged these issuers' pools tend to have three characteristics, including:
 - An expected cumulative net loss of 20 percent or more
 - Weighted average FICO of the pools tends to be 550 or lower
 - Many of the obligors don't have a credit bureau score.
- While the subprime sphere has some sour numbers, S&P Global Ratings pointed out other portions of the ABS market are performing much better.
- Analysts indicated prime losses declined to 0.47 percent in May from 0.53 percent in April and 0.60 percent a year earlier

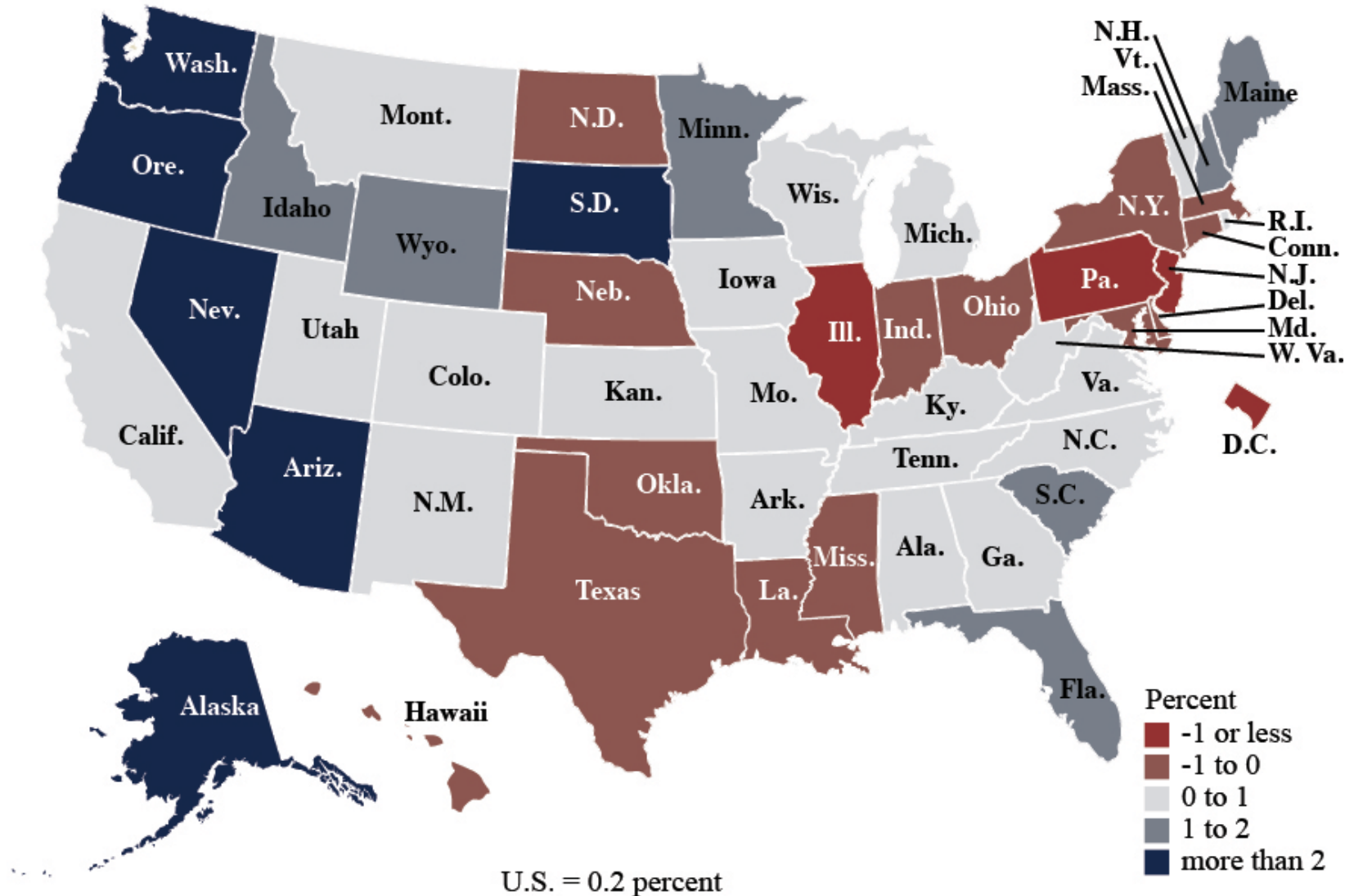
4th Quarter Median Annual Loan Growth (NCUA)

Median Annual Loan Growth



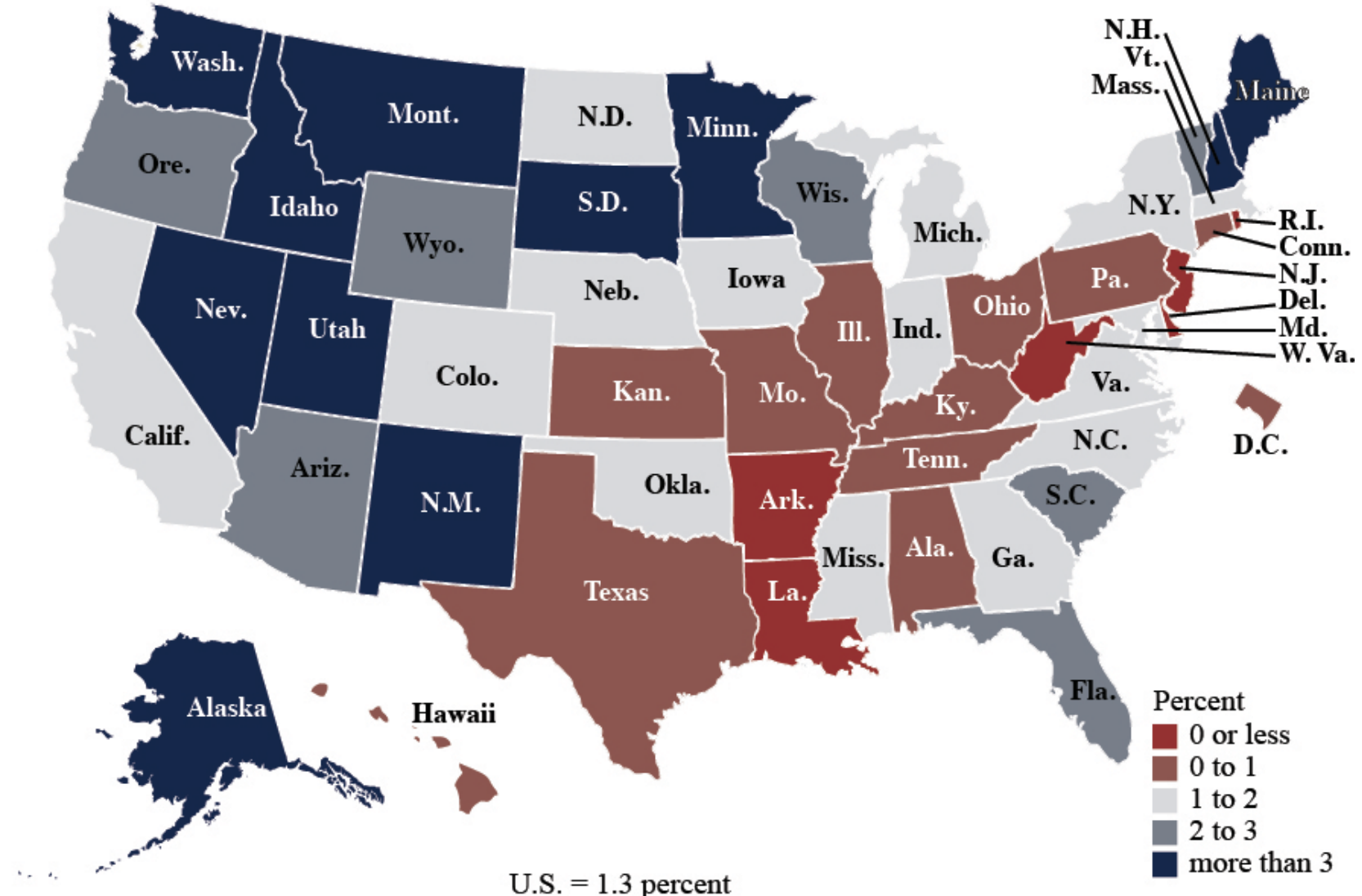
4th Quarter Median Annual Membership Growth (NCUA)

Median Annual Membership Growth



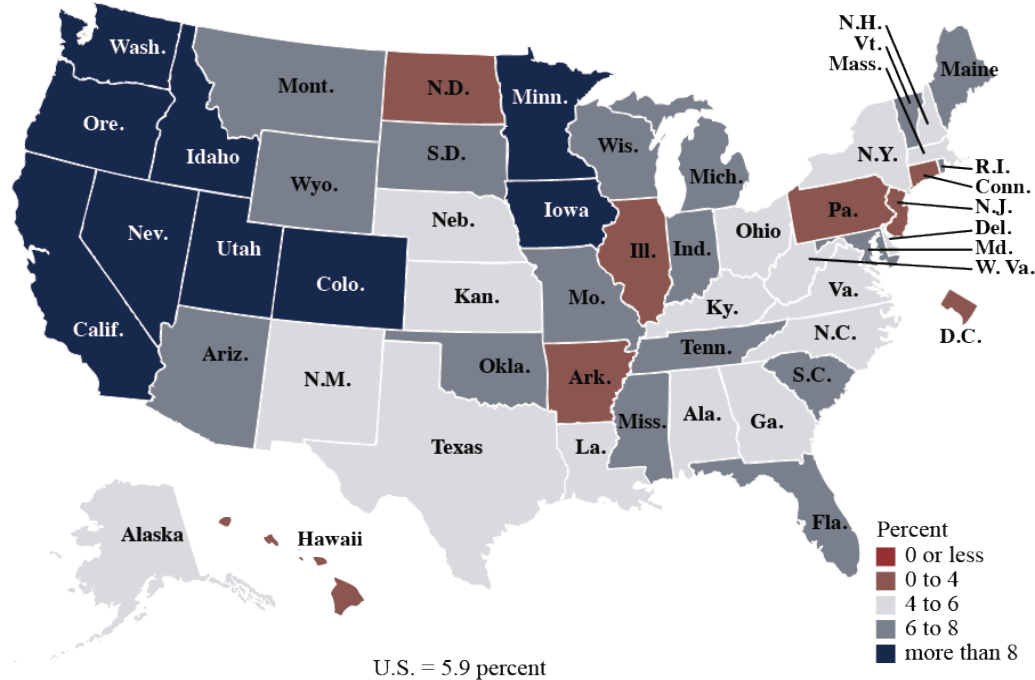
4th Quarter Median Annual Share and Deposit Growth (NCUA)

Median Annual Share and Deposit Growth



Liquidity Factors

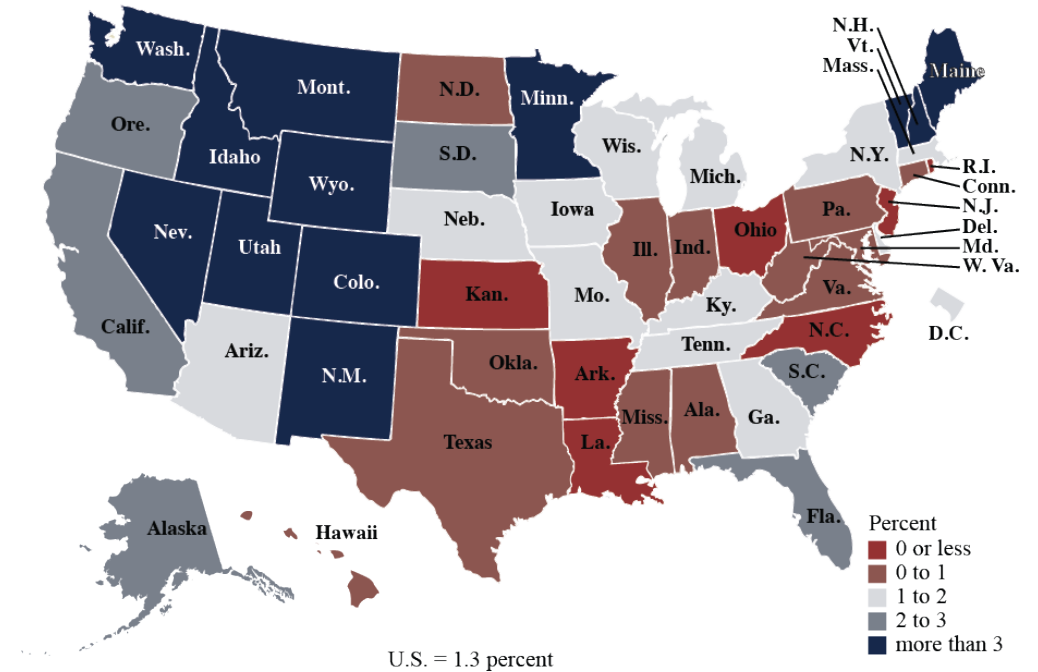
Median Annual Loan Growth



- Over the past five years, the average credit union loan-to-share ratio has increased 15.5 percentage points. [Nationally]
- In the second quarter of 2018 quarter alone, it has increased 2.3 percentage points, reaching 82.9%, and remains only 86 basis points below the record high reached in September 2008... (<https://www.cuinsight.com/loan-to-share-ratio-nears-record-high.html>)

- Florida Median Loan to Share 69%
- Florida Median Asset Growth 2.7%
- Florida Median Share Growth 2.4%
- Florida Median Loan Growth 7.1%

Median Annual Share and Deposit Growth



Member Information Security

- The Credit Union's Information Security Program should include at a minimum:
 - Risk assessment:
 - identify foreseeable internal and external threats
 - Assess the likelihood and potential damage from the threats identified
 - A written information security program to control identified risk
 - Provide training to staff
 - Test key controls, systems, and procedures of the program. (Consider Phishing tests).
 - Procedures to properly dispose of member information
 - Incident response plan
 - Board report, review and approval ANNUALLY ([12 CFR Part 748 Appendix A](#))

Member Information Security (continued)

- Format of the report should describe the overall status of the information security program and the credit union's compliance with these guidelines. The report should discuss material matters related to its program, addressing issues such as: risk assessment; risk management and control decisions; service provider arrangements; results of testing; security breaches or violations and management's responses; and recommendations for changes in the information security program. (12 CFR Appendix A to Part 748)
- Consider testing staff for Phishing vulnerability
 - Dave due to your hard work... you have won a new big screen TV!!!

Top Examiner Review Questions

- Does the credit union have a Board approved Information Security Policy?
- Has the credit union performed an Information Security risk assessment?
- Obtain and review IT audits, internal or external vulnerability scans, penetration tests.
- Does the credit union require strong passwords for its network and core systems?
- Assess the frequency of data back up, location of back up, and encryption of data.
- Does the credit union have information security training for all employees with documentation?
- Does the credit union have an incident response plan?
- Did the Board get an annual summary which mentions the appropriate items?

Spear Phishing



Will This Affect Me???



The National Voice of the State Credit Union System

- **Phishing Attack Targets Bank & Credit Union BSA Compliance Officers – 02/08/2019**
- As you may now know, a phishing scam targeting BSA compliance officers at credit unions and other financial institutions was reported this week by KrebsOnSecurity. The article originally singled out the attacks on credit unions but was later updated to reflect that attacks targeted bank BSA compliance officers as well...

- <https://krebsonsecurity.com/2019/02/phishers-target-anti-money-laundering-officers-at-u-s-credit-unions/>

Will This Affect Me??? (cont)



The National Voice of the State Credit Union System

- What made these phishing attacks notable was that they were directed to the BSA officers of credit unions and banks by name. The phishing emails purported to be from named BSA officers at other financial institutions. The emails informed the recipient BSA officer that a suspicious transaction by one their customers had been put on hold by the “sending” institution and asked the recipient to open an attached PDF to review the frozen transaction. The body of the PDF contained a link to a malicious website.
- *Notice: “FinCEN is aware of a fraudulent email purporting to be from a financial institution regarding the 314(b) Information Sharing Program. The recipients of the email are typically other financial institutions.”*

Will This Affect Me??? (cont)



The National Voice of the State Credit Union System

- It would be prudent to remind staff of best practices in handling email to guard against phishing attacks (cyber hygiene). Best practices include:
 - Hovering over the sender in the email to verify the sending address;
 - Being alert for misspellings and grammatical errors;
 - Verify sender before opening attachments and clicking on links; and
 - Using the phone to verify the sender is legitimate.

Credit Union Times - 06/14/2017

Breaches Double at FIs

March 2016 vs March 2017

Cyber Security Control Basics

“A Journey of a thousand miles
begins with...

The first five steps.”

Top Five Things

- Hardware Inventory
- Software Inventory
- Configuration
- Continuing Assessment and Remediation
- Controlled Administrative Privilege

Cyber Security – First Five Controls (of 20)



Why Use The CIS Controls?

Many organizations facing the current cybersecurity environment are overwhelmed by what we call the “Fog of More”—a constant stream of new information and problems. They are challenged by competing expert opinions, a noisy and fast-changing marketplace of potential solutions, and unclear or overwhelming regulatory and compliance requirements

Getting Started

A number of studies show that implementation of the First 5 CIS Controls provides an effective defense against the most common cyber attacks (85% of attacks). In an effort to help organizations implement the First 5 CIS Controls, the objective of each is described next.

Cyber Security – First Five Controls

1 Inventory of Authorized & Unauthorized Devices

(IOT? Tablets, Phablets, Phones of all kinds?)

2 Inventory of Authorized & Unauthorized Software

Cyber Security – First Five Controls

3

Secure Configurations for Hardware & Software on Mobile Devices, Laptops, Workstations, & Servers



<https://www.cisecurity.org/cis-benchmarks/>

Cyber Security – First Five Controls

4 Continuous Vulnerability
Assessment & Remediation

5 Controlled Use of
Administrative Privileges

Member Information Security

- Social Engineering and Training



OFR Examination Process

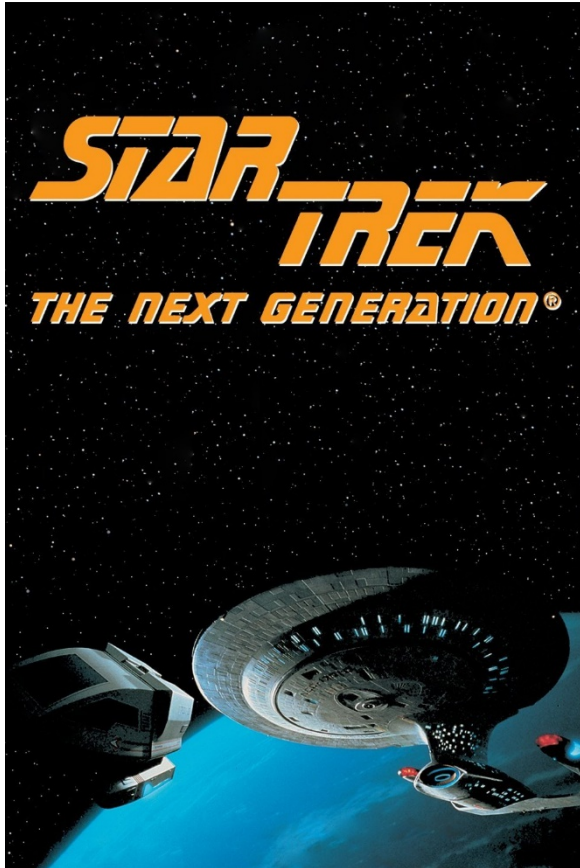
1. A well organized and completed Pre- Exam Package = An efficient/thorough review and less time on-site for the examiners.
2. Budgeted Hours.
3. NCUA Exam Participation.
4. Succession Planning and Management
5. Asset Liability Committee and an increasing rate environment.
6. More emphasis on off-site work, see 1. above. Also, conference calls.

OFR Examination Process

Succession

OFR Examination Process

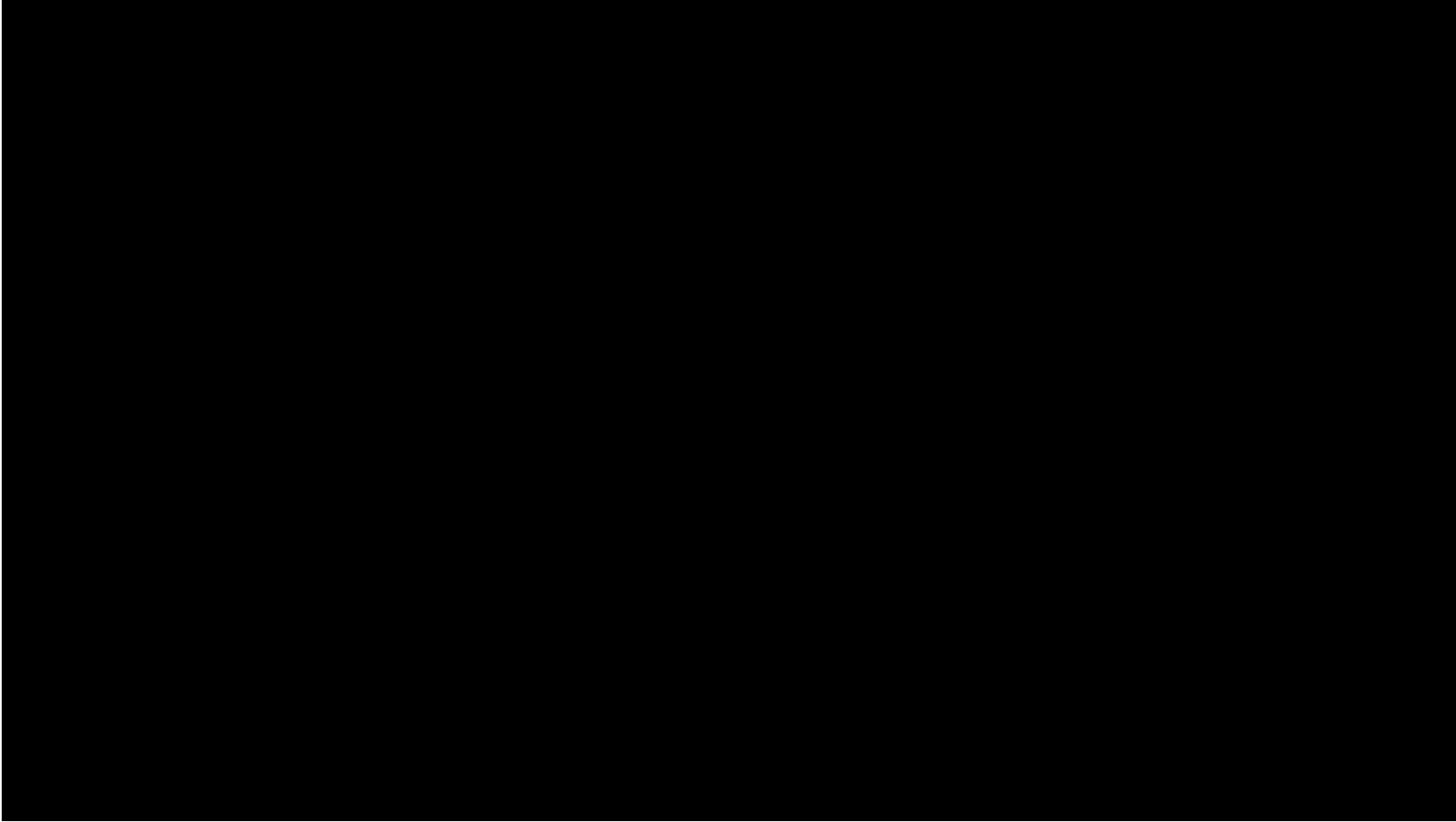
- CU The Next Generation - Succession Planning
 - Senior Staff / CEO
 - Board and Committees



OFR Examination Process

More Emphasis on Off Site

Conference calls



Questions???

- The information conveyed via the videos and slides is educational information and not an endorsement of any particular vendor. The information is the opinion of the source, or speaker and not necessarily OFR.



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