

The background of the slide features a close-up, slightly blurred image of several stacks of coins (both gold and silver) resting on a document that appears to be a financial statement or ledger with various colored sections (yellow, blue, white).

# League of Southeastern Credit Unions Small Asset Size Credit Union Conference May 13, 2019



James Arndt, ACUA Examiner  
Alabama Credit Union Administration





## Overview

- 2019 Regulatory Focus.
- Consumer Lending Focus.
- Continued Supervisory Committee Focus.
- Adequate Monitoring of Loan Extensions, Skip-A-Payments, and Related Policies/Procedures.





# ACUA's Regulatory Focus for 2019

- **Credit, Collateral, and Capacity**
  - Indirect Auto, RV, and Boat Lending.
  - Continued Lien Perfections (UCC-1).
  - Proper Write-Down of Repos/Foreclosures.
  - Loan Extensions & Skip-A-Payments (and Policies).
  - Loan Charge-Offs in Accordance with NCUA Letter to Credit Unions #03-CU-01.
  - Accurate Itemization of the Amount Financed.
  - Tracking TDR Loans and Total TDR's in portfolio.
  - Supervisory Committee Involvement.





# Overall Consumer Lending Focus

- Underwriting deficiencies – Lack of income verification, income is not adequate to service debt, high loan-to-values (LTV), etc.;
- Inadequate quality control reviews of new loan production, concentrations and growth trends;
- Board oversight of growth trends in new loan programs;
- Inadequate loan policies – no limits on new loan programs; monitor first payment default trends;
- Continued monitoring of Indirect Loans – Monitor by dealer, credit score, delinquency trends by dealer, etc.
- Review of file maintenance reports for excessive loan extensions and skip-a-payments and related policies.





# ACUA Examination Focus – Auto and Boat Lending

- Indirect Auto Lending Programs – “We do make more loans to high risk borrowers because we make more money”
  - Loan growth above/beyond peers may cause red flags;
  - High Risk lending practices will receive more scrutiny
    - Loan maturities of over 7 years and single pay type;
    - Excessive loan to value (LTV) loans;
    - Members with near prime or sub-prime credit;
    - Review of indirect automobile loans in which double digit losses are recognized.
    - Review of repossession reports for excessive repossessions taking place.
    - Stop accepting loans from a dealer in which the credit union never receives a title or questionable application





# ACUA Examination Focus – Auto Lending

- Ensure that your credit union is properly underwriting auto loans for add-ons such as warranties, insurance products, etc. and income of the borrower is verified;
- Ensure that you monitor auto loans by dealer or source, especially delinquency and charge-off ratios by dealers;
- Monitor trends in automobile title delays, first payment defaults and skips – take immediate action to locate collateral and mitigate credit and reputation risk(s);
- If a credit report reflects excessive credit inquiries on new indirect loan requests, double check the credit application to ensure there is not a reason(s) why the other financial institution did not approve or make the loan.
- There should be little or no exceptions to Board approved lending policies, especially with LTV, rate, and terms.





# ACUA Examination Focus – Collateral Evaluation & Lien Perfection

- Ensure that your credit union is accurately evaluating the value of collateral securing your loans. Is a visual inspection part of your loan procedure... if not, perhaps it should be;
- Ensure that you validate the identifying VINs, and Serial Numbers of automobiles, boats, ATVs, tractors, and equipment by dealer data or source documents, including a Bill of Sale;
- Monitor UCC – 1 filings of non-titled vehicles for prior registrations of the same collateral by loan applicant;
- Thoroughly document identifying VINs and Serial Numbers in Notes and Security Agreements and throughout your loan file (a photo of the VIN number would be recommended);
- Ensure there is a legitimate Bill of Sale on the loan.
- For automobile and boat loans being paid off by an out of state check , before releasing the title on the collateral, ensure the check clears first.





# ACUA Examination Focus – Collateral Evaluation & Lien Perfection

- UCC – 1 registration searches should be performed through the Alabama Secretary of State site at: <https://sos.alabama.gov>





# Loan Extensions/Skip-A-Payments

- Board approved Loan Extension Policy in place including hardship reason(s) for the extension. (Reference United States Code - Title 18);
- Loan officer training related to policy for consistent application;
- Management should monitor data processing loan extension and skip-a-payment reports monthly to ensure compliance with the Board approved Loan Extension and Skip-A-Payment Policies;
- Report monthly loan extensions and skip-a-payment summaries to the Board of Directors and Supervisory Committee;
- The reason(s) for the approval of a loan extension should be a legitimate one (examples include a temporary loss of job, a short term illness, divorce, member is waiting for insurance payoff check, etc.);
- Skip-A-Pays should be treated as a 30 day loan extension and the credit union should not extend a loan more than 60 days annually – unless the loan is a Bankruptcy order from the Trustee or converted to a TDR);





# Timely recognition of loan charge offs

- Timely and consistently applied Board approved Charge Off Policy for uncollectible or non-performing loans;
- Tailor the Loan Charge Off Policy that meets standards addressed in NCUA Letter to Credit Unions #03-CU-01 (January 2003);
- Charge offs should include loans in excess of 6 months delinquent with no payments in 6 or more months;
- Charge off any unsecured loans in which the member filed for Chapter 7 or Chapter 13 Bankruptcy and attorney related accounts;
- Charge off any loans in which the member is deceased with no estate and skip accounts in excess of 90 days with no contact;
- On non-performing delinquent secured loans, where the collateral has been repossessed or foreclosed, management should transfer the loan balance into the Collateral in Process of Liquidation (non-real estate types) or OREO (real estate) and charge-off any outstanding balance;
- Management is responsible for identifying, monitoring, measuring and controlling the risk in the loan portfolio.





# Adequate Allowance for Loan and Lease Loss

- GAAP requires written documentation to support the amount of the Allowance for Loan and Lease Losses (ALLL) account and the Provision for Loan and Lease Losses (PLL) reported in the financial statements
- The credit union's ALLL Methodology should provide an ALLL sufficient to cover necessary charge offs;
- Consider a third party validation of the ALLL periodically;
- The ACUA will perform a loan classification using NCUA Credit Union Letter #03-CU-01 on non-performing loans, in some cases, to ensure accurate financial reporting of net income and loan charge-offs;
- Ensure there is a pooling category for every loan type offered in the credit union, including TDR and work-out loans;
- Plan on the future implementation of Current Expected Credit Losses Methodology (CECL); reporting in CY 2021.





# Supervisory Committee Effectiveness

- **Members elect Supervisory Committee members to perform the following:**
  - A comprehensive annual audit of the books and affairs of the credit union.
  - Verify member accounts no less frequently than every two years.
  - Ensure adequate internal controls are in place.
- **Supervisory Committee may suspend any officer, director or member of any committee and call the members together to act on such suspension**

*Code of Alabama Section 5-17-13*





# Supervisory Committee Responsibilities

- Use of the NCUA Supervisory Committee Guide;
- Follow up on annual audits to ensure the deficiencies have been resolved and corrected;
- Review file maintenance reports and verify that the transactions were conducted in accordance with Board approved policies and were appropriate under the circumstances (ACUA will not only review in-house created loan extension and skip-a-payment reports, but we will also review file maintenance reports to ensure all are reported in the reports (especially any that exceeds 60 days or more);
- Review of any other audit reports that are performed by an outside party (such as a BSA, OFAC, ACH, or IT/DP vendor) audits and if applicable, any audits done by your bonding company;
- Review bank reconciliations for deposits in transit being carried forward or for old outstanding checks not cleared.





# Supervisory Committee Responsibilities

(cont'd)

- Review insider activity including credit union credit card statements to ensure charges are for credit union business;
- Review employee expense reports to ensure no abuse in this area;
- Verify activity in dormant accounts and report abandoned accounts (no activity for the loan or share account in 3 years and returned statements to the credit union as “undeliverable”;
- Verify change of addresses;
- Review a sample of new loans for compliance with Board approved lending policies and procedures (including insider loans);
- Periodic cash counts;
- Quarterly review of paid ahead loans in excess of 90 days, loans with excessive accrued interest, loans without activity in 6 or more months, and loans with the same address with different names.





# Supervisory Committee Responsibilities (cont'd)

- Follow up on examination Documents of Resolutions (DOR's), Examiner's Findings, regulatory enforcement orders to verify remediation and/or compliance with orders (such as LUA's or MOU's) and compliance with examination reports;
- Review monthly bank account reconcilements including the supporting documentation, i.e., statements;
- Maintain detailed Supervisory Committee Minutes.





## Closing

- **ACUA will work diligently with you to maintain a sound and healthy state-chartered credit union system that is adaptable to changing members needs**
- **ACUA welcomes your comments and feedback on examinations, laws and regulations**
- **Questions / Comments?**





**Alabama Credit Union Administration**  
**100 North Union Street, Suite 650**  
**Montgomery, Alabama 36104**  
**334-353-5770**

