



**NCUA**  
National Credit Union Administration

# League of Southeastern Credit Unions Small Asset Credit Union Conference

May 2019

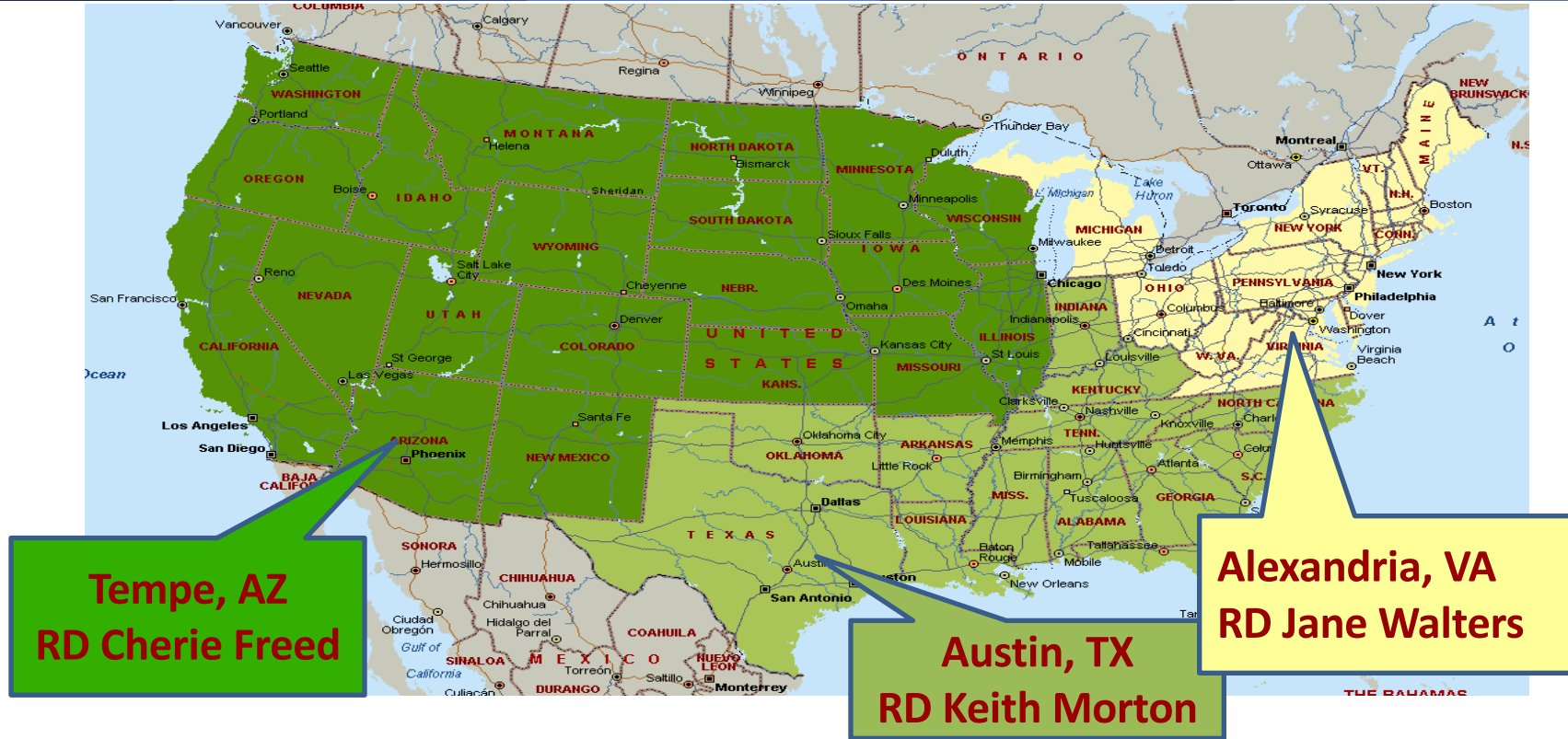
# Agenda

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- Organizational Changes
- Credit Union Statistics
- Examination Process
- 2019 Supervisory Priorities



# Regional Realignment for 2019

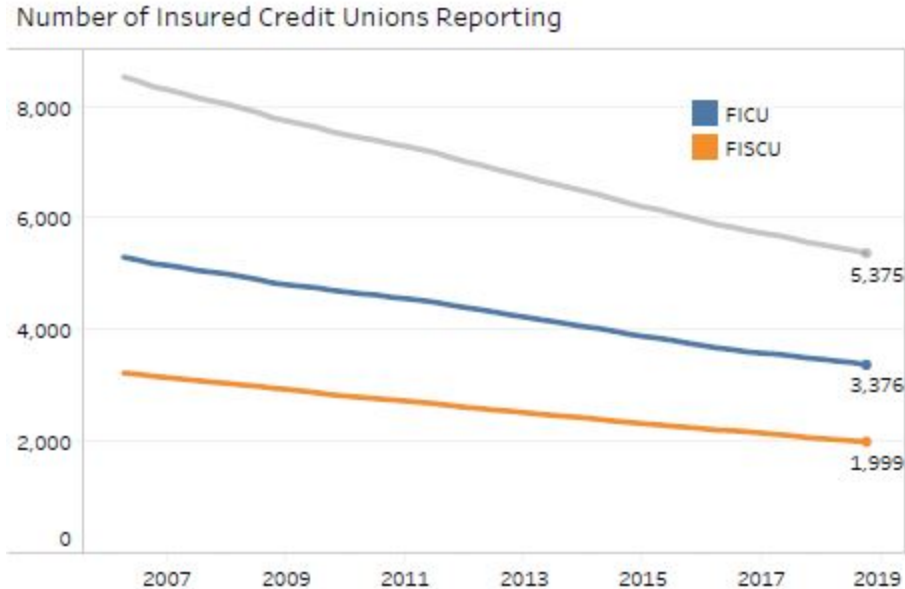




# CREDIT UNION STATISTICS



# Recent Credit Union Trends



# Key Statistics Nationwide

| FICUs                                | 2015           | 2016           | 2017           | 2018           |
|--------------------------------------|----------------|----------------|----------------|----------------|
| # of FICUs                           | 6,021          | 5,785          | 5,579          | 5,375          |
| Total Assets                         | \$1.2 Trillion | \$1.3 Trillion | \$1.4 Trillion | \$1.5 Trillion |
| Avg. Asset Size                      | \$200 Million  | \$223 Million  | \$247 Million  | \$270 Million  |
| Net Worth (%)                        | 10.92%         | 10.86%         | 10.95%         | 11.30%         |
| ROAA (%)                             | 0.75%          | 0.76%          | 0.78%          | 0.92%          |
| Delinquent Loans/<br>Total Loans (%) | 0.81%          | 0.83%          | 0.81%          | 0.71%          |
| Membership<br>Growth (%)             | 3.46%          | 4.04%          | 4.21%          | 4.38%          |



# Key Statistics Alabama

| AL FICUs                             | 2015           | 2016           | 2017           | 2018           |
|--------------------------------------|----------------|----------------|----------------|----------------|
| # of FICUs                           | 113            | 113            | 111            | 108            |
| Total Assets                         | \$19.9 Million | \$21.0 Million | \$21.8 Million | \$22.2 Million |
| Avg. Asset Size                      | \$176 Million  | \$186 Million  | \$197 Million  | \$206 Million  |
| Net Worth (%)                        | 11.53%         | 11.49%         | 11.72%         | 12.28%         |
| ROAA (%)                             | 0.61%          | 0.60%          | 0.72%          | 0.79%          |
| Delinquent Loans/<br>Total Loans (%) | 0.87%          | 0.87%          | 0.80%          | 0.76%          |
| Membership<br>Growth (%)             | 1.89%          | 1.43%          | 1.42%          | 3.75%          |



# Examination Process



# Changes in Examinations

- New Exam System
- Virtual exam concepts



# Changes in Examinations

- Extended Exam Cycle for most credit unions
- Wrapping up pilot of “Flex” exam procedures



# Changes in Examinations

- Piloting alternating exams with SSAs

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# 2019 Supervisory Priorities

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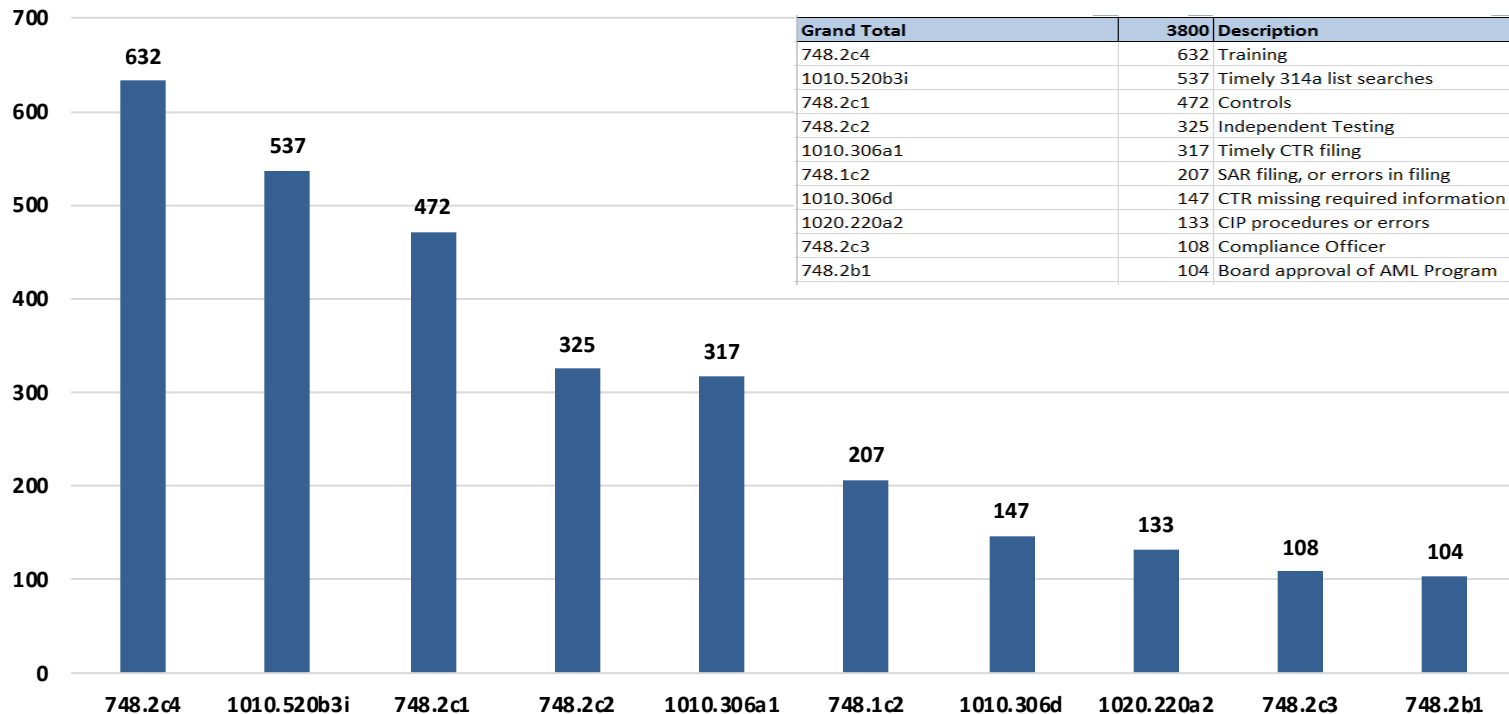
- **Bank Secrecy Act Compliance**
- **Concentrations of Credit**
- **Consumer Compliance**
- **CECL**
- **Information Systems and Assurance**
- **Liquidity and Interest Rate Risk**

# Bank Secrecy Act Compliance

- Examiners will perform more in-depth BSA reviews;
  - New Customer Due Diligence Regulations, effective May 11, 2018
  - Strengthen and codify CDD requirements
  - Customer Due Diligence and Beneficial Owner concepts have existed in guidance (FFIEC BSA/AML Examination Manual) for years
  - New CDD Questionnaire
- Must develop and implement appropriate risk-based procedures for conducting ongoing customer due diligence

# Most Common BSA Violations

## Top 10 BSA Violations



| Grand Total | 3800 | Description                      |
|-------------|------|----------------------------------|
| 748.2c4     | 632  | Training                         |
| 1010.520b3i | 537  | Timely 314a list searches        |
| 748.2c1     | 472  | Controls                         |
| 748.2c2     | 325  | Independent Testing              |
| 1010.306a1  | 317  | Timely CTR filing                |
| 748.1c2     | 207  | SAR filing, or errors in filing  |
| 1010.306d   | 147  | CTR missing required information |
| 1020.220a2  | 133  | CIP procedures or errors         |
| 748.2c3     | 108  | Compliance Officer               |
| 748.2b1     | 104  | Board approval of AML Program    |



# Concentrations of Credit

- Large concentration of loan products
- Common cause of financial losses
- Mitigate Risk
- NCUA Letter to Credit Unions, 10-CU-03

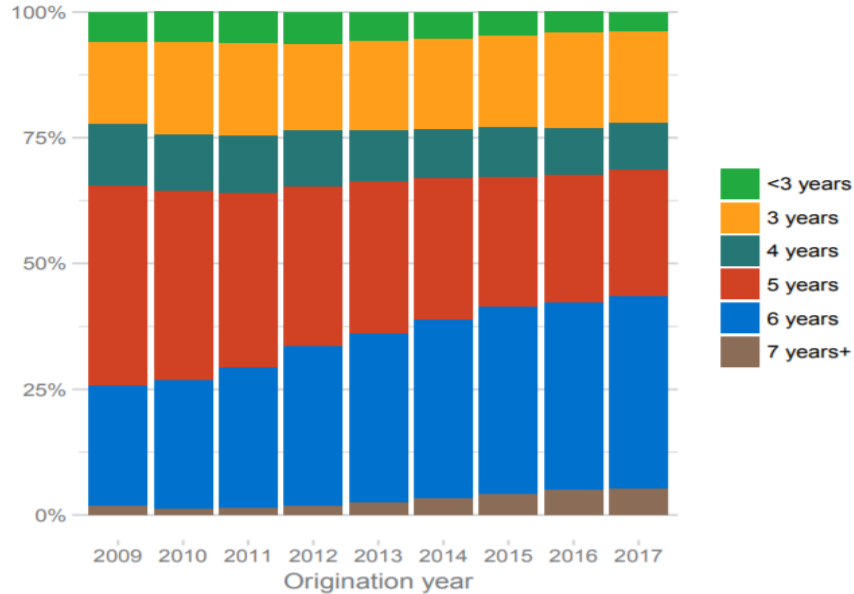




# Credit Risk – Auto Lending

CFPB Report Finds Sharp Increase in Riskier, Longer-Term Auto Loans

**FIGURE 1: DISTRIBUTION OF LOAN TERMS BY ORIGINATION YEAR**



# Consumer Compliance

- Continued focus on Military Lending Act (MLA) compliance



# Consumer Compliance

- Regulation B: Determine compliance with notification requirement following adverse action taken on consumer credit applications
- Regulation E: Review overdraft policies and procedures for compliance



# Consumer Compliance

- Current Expected Credit Losses (CECL)
  - Financial Accounting Standards Board New Standard June 2016
  - Effective January 1, 2022

# Information Systems and Assurance

- Two additional supervisory focuses:
  - Assessment of credit union IT risk management
  - Oversight of service provider arrangements

# Liquidity and Interest Rate Risk

- Examiners will assess the following:
  - Effects of rising interest rates on the market value of assets that affect changes to net worth and borrowing capacity
  - Member preference shifts to shares with more market sensitivity
  - Credit union management's ability to meet liquidity needs given the increased competitive pressure that affect share balances

# Questions and Answers

