Letter to Credit Unions 24-CU-01

NCUA's 2024 Supervisory Priorities

NASCUS Legislative and Regulatory Affairs Department
January 24, 2023

On January 22, 2024, the NCUA issued Letter to Credit Unions 24-CU-01 outlining the agency's Supervisory Priorities for 2024. According to the letter, NCUA is focusing on areas they perceive to be the "highest risk" to credit union members, the credit union industry, and the National Credit Union Share Insurance Fund (NCUSIF).

The NCUA highlights challenges that arose in 2023 resulting in a strain on credit union balance sheets. The rise in interest rate and liquidity risks resulted in an increase in credit unions with composite CAMELS ratings of 3, 4, and 5.

Similar to 2023, NCUA states it will utilize a combination of onsite and offsite examination and supervision activities, as appropriate. The agency will also continue its exam flexibility initiative, providing an extended examination cycle for certain credit unions. The following represent NCUA's primary areas of supervisory focus for 2024.

Summary

Credit Risk

Not unexpectedly, credit risk remains a supervisory priority for 2024. Due to economic pressures on borrowers with high inflation, high interest rates, and borrowing costs, among other factors, NCUA examiners will review the following:

- Existing lending programs' soundness and credit union risk management practices including:
    - Any adjustments a credit union made to loan underwriting standards;
    - Portfolio monitoring practices;
    - Modification and workout strategies for borrowers facing financial hardships; and
    - Collection programs
- All factors in evaluating a credit union's efforts to provide relief for borrowers, including whether the efforts were reasonable and conducted with proper controls and management oversight.
- Policies and procedures related to the Allowance for Credit Losses (ACL);
    - Documentation of ACL reserve methodology;
    - The adequacy of ACL reserves; and
    - Adherence to Generally Accepted Accounting Principles (GAAP)

Liquidity Risk

Due to increased uncertainty in interest rate levels and economic conditions, liquidity risk remains a supervisory priority of the NCUA. Because of these concerns, NCUA examiners will continue to assess liquidity management by evaluating:

- The effects of changing interest rates on the market value of assets and borrowing capacity.
- Scenario analysis for liquidity risk modeling, including possible member share migrations (e.g., shifts from core deposits into more rate-sensitive accounts).
- Scenario analysis for changes in cash flow projection for an appropriate range of relevant factors (e.g., changing repayment speeds).
- The cost of various funding alternatives and their impact on earnings and capital.
- The diversity of funding sources under normal and stressed conditions.
- The appropriateness of contingency funding plans to address any plausible unexpected liquidity shortfalls.

Consumer Financial Protection

Consumer financial protection also remains a key focus as NCUA will assess federal credit unions' compliance with applicable consumer financial protection laws and regulations. NCUA indicates that the agency considers trends in violations identified through examinations and member complaints, emerging issues, and any recent changes to regulatory requirements.

Key areas of focus for examiners in 2024 will be:

- Overdraft programs;
  - Including an expanded review of website advertising, balance calculation methods, and settlement processes.
  - Adjustments made to overdraft programs to address consumer compliance risk and potential consumer harm from unexpected overdraft fees.
- Fair lending;
  - Policies and practices for redlining, marketing, and pricing discrimination risk factors.
- Auto lending, including review of indirect auto loans.
  - Disclosures, policies, and practices to assess compliance with the Truth in Lending Act.
  - Policies regarding GAP insurance
- Flood Insurance
  - Policies and procedures

Information Security (Cybersecurity)

Because the cybersecurity threat landscape poses persistent risks to credit unions NCUA continues to prioritize this area and will assess:

- Whether credit unions have implemented robust information security programs to safeguard both members and the credit unions.

Examiners will continue to utilize the information security examination procedures as well.

The NCUA also reminds credit unions of the steps to consider when implementing the agency's Cyber Incident Notification Rule and requirements. The NCUA also advises credit unions to maintain a high level of vigilance and continually enhance their ability to respond to cybersecurity threats and encourages credit unions to conduct voluntary cybersecurity selfassessments using the NCUA's Automated Cybersecurity Evaluation Toolbox (ACET). The NCUA also provides a dedicated website to its cybersecurity resources for credit unions.

Interest Rate Risk

NCUA examiners will evaluate the "S" CAMELS component by reviewing a credit union's Interest Rate Risk program for the following risk management and control activities:

- Key assumptions and related data sets are reasonable and well documented:
- Back testing and sensitivity testing of the assumption set.
- The credit union's overall level of IRR exposure is properly measured and controlled.
- Results are communicated to decision-makers and the board of directors.
- Proactive action is taken to remain within safe and sound policy limits.

Other Updates

Bank Secrecy Act (BSA) Compliance

The NCUA has added Bank Secrecy Act compliance to the agency's supervisory priorities as an area of supervisory interest for 2024. This was absent from the 2023 priorities. The NCUA notes that a credit union's failure to comply with BSA requirements can pose a significant risk to the credit union, its members, and the SIF. The agency indicates it will provide updates to credit unions regarding any regulatory changes to the BSA throughout 2024, as well as updates to supervisory expectations and examination procedures.

Due to the Anti-Money Laundering (AML) Act of 2020 and associated rulemaking, it is anticipated the NCUA will issue guidance and additional resources to credit unions.

Support for Small Credit Unions and Minority Depository Institutions

The NCUA will also continue its focus on supporting and preserving small credit unions and minority depository institutions (MDIs) through the Small Credit Union and MDI Support Program. The NCUA states the benefits of these programs are expected to include:

- Expanded opportunities for qualifying credit unions to receive support through NCUA grants, training, and other initiatives;
- Furthered partnerships with organizations and industry mentors that can support small credit unions and MDIs; and
- Added support to credit union management in addressing operational challenges.

The NCUA also indicates the agency plans to enhance its MDI-specific examiner resources by outlining procedures designed specifically to guide examiners in the supervision of MDIs.

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