

Board's Involvement in Cybersecurity Is Critical

Establish policies that safeguard member information, create breach response plan.

The board may delegate operational functions to management and designated committees, but the responsibility for the credit union's direction remains with the board. This includes overseeing the development, implementation, and maintenance of the credit union's information security/cybersecurity program.

With the increasing array of malicious cyber events, the board's involvement in the credit union's cybersecurity program is more important than ever.

"Today's financial institutions are critically dependent on IT [information technology] to conduct business operations," according to the Federal Financial Institutions Examination Council (FFIEC). "This dependence, coupled with increasing sector interconnectedness and rapidly

evolving cyberthreats, reinforces the need for engagement by the board of directors and senior management."

Safeguarding member information

A comprehensive written information security program includes administrative, technical, and physical safeguards appropriate to the credit union's size and complexity, and the nature and scope of its activities. The credit union's board of directors should coordinate all elements of the information security program throughout the institution.

An information security program should be designed to:

- **Ensure** the security and confidentiality of member information.

- **Protect** against any anticipated threats or hazards to the security or integrity of such information.

- **Protect** against unauthorized access to or use of information that could harm or inconvenience any member.

- **Ensure** the proper disposal of member information and consumer information.

Key elements of developing and implementing a member information security program involve:

- **Identifying** the services provided and systems used.

- **Identifying** the risks and threats associated with each system and service.

- **Determining** the likelihood that identified risks or threats could occur.

- **Identifying** and evaluating various methodologies to mitigate risks or threats.

- **Developing** policies and procedures to address risks or threats.

- **Monitoring** and adjusting policies and procedures.

- **Overseeing** service provider arrangements.

- **Reviewing** policies and procedures at least annually.

- **Training** staff to implement the program.

Management or staff should report to the board or a designated board committee of the board at least annually.

Responding to breaches

Credit unions must also develop and implement risk-

'FINANCIAL INSTITUTIONS ARE CRITICALLY DEPENDENT ON [INFORMATION TECHNOLOGY] TO CONDUCT BUSINESS OPERATIONS. THIS REINFORCES THE NEED FOR ENGAGEMENT BY THE BOARD.'

FFIEC

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ASSETS, MEMBERSHIP CONTINUE TO GROW

Total assets in federally insured credit unions rose by \$75 billion, or 5.4%, during 2018 to \$1.45 trillion, according to NCUA. During the same period, federally insured credit unions added 4.9 million new members, a 4.4% increase, for a total of 116.2 million members.



Source: NCUA



- CUNA compliance resources: cuna.org/compliance
- CUNA Cybersecurity Conference with NASCUS, June 10-12, Austin, Texas: cuna.org/cyber

based response programs to address incidents of unauthorized access—data breaches—to member information as part of their information security program.

A data breach response program should contain procedures for:

- **Assessing** the nature and scope of an incident, and identifying what member information systems and member information have been accessed or misused.
- **Notifying** the appropriate NCUA regional director and/or state supervisory authority.
- **Notifying** law enforcement authorities and filing a Suspicious Activity Report in situations involving sus-

pected federal criminal violations.

■ **Taking** steps to contain and control the incident to prevent further unauthorized access to or use of member information while preserving records and other evidence.

■ **Notifying** members if the credit union determines that misuse of members' information has occurred or is possible.

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Policies to Prevent Breaches

Preventing data breaches and network intrusions requires implementing a range of measures. Kevin Ivy, security solutions engineer at TraceSecurity, a CUNA Strategic Services alliance provider, recommends implementing policies that address:

- **Strong passwords.** Implement strong password policies that require employees to use complex passwords and change them regularly.
- **Multifactor authentication.** This ensures a hacker does not compromise employee credentials.
- **Clean-desk policies.** Include a policy that

states if employees leave their desks unattended, they must put files in a locked cabinet.

■ **Mobile device management.** Create a mobile device management policy that explains and reinforces the risks of employees mixing business and personal use on their device.

■ **Encryption.** "We can't forget that data, in all forms and stages, should be encrypted," Ivy says. "In addition to the human social engineering, encryption will stop people from being able to manipulate or read data at any point."



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Ratios to Remember

Financial statements—specifically the income statement and balance sheet—hold a wealth of information about the credit union. While the information is essential, these statements aren't that useful when taken by themselves.

To get the most out of these statements, you must examine certain key ratios. *Credit Union Directors Newsletter* will explore key ratios directors should know, including what each ratio measures, how to calculate it, and why it's important.

This month, we'll examine the spread analysis. In May and June, we'll break it down into individual components.

Why it's important:

The spread analysis shows how credit unions make money. It has to do with earning interest income from loans and investments and paying interest expense on deposits. The foundation of profitability is the difference between those two numbers, the net interest margin. Then the other factors of fee income, operating expenses, and provision for loan losses are calculated in as well.

The spread analysis is a ratio of key balances that are found on the income statement compared to the credit union's average total assets. This allows a comparison between periods and between financial institutions based on their asset size.

How to calculate:

Each of the key balances is divided by average assets or total assets.

The ratio:
Spread analysis



What it measures:
Profitability and how it was attained.



Banks Renew Attacks on Tax Status

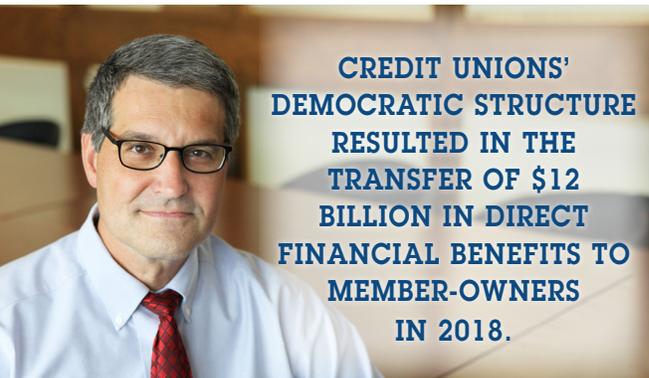
Efforts also continue to push CRA-like requirements.

Banks and bank attacks continue to be a concern for credit unions. Banks have renewed and reinvigorated their attacks on the credit union tax status.

While banks claim credit unions have an unfair advantage in the marketplace, Congress delivered nearly \$30 billion in annual tax breaks to banks in the 2017 Tax Cuts and Jobs Act. Bank profits and shareholder dividends are at record levels, and big banks continue to dominate the financial services marketplace.

The three largest U.S. banks each are larger than the entire credit union movement. And the largest 100 banks now control 75% of total depository institution assets—a 34 percentage point increase since 1992.

This doesn't stop banks from continually trying to link the credit union federal income tax status to credit union size, growth, and service offerings.



Lost in their rhetoric is the fact that credit unions' tax status arises from their structure as not-for-profit financial cooperatives and from their unique and unchanged mission to promote savings and provide access to credit for provident purposes.

Credit unions' democratic structure resulted in the transfer of \$12 billion in direct financial benefits to member-owners in 2018. Those benefits come in the form of lower interest rates on loans, higher yields on savings accounts, and fewer and lower fees compared with those at the nation's for-profit commercial banks.

Credit unions leveraged the \$1.7 billion value of the federal income tax expenditure by delivering seven times that total in direct financial benefits.

It's worth mentioning that while credit unions enjoy an exemption from federal income taxes, they do pay a wide variety of taxes.

According to IMPLAN, credit unions paid \$4.2

billion in direct federal taxes and \$2.4 billion in direct state and local taxes in the most recent tax year. Direct, indirect, and induced taxes arising from credit union activity totaled \$10.7 billion at the federal level and \$6.4 billion at the state and local levels during the year.

Bank redlining

The banking industry also continues to try to convince Congress to impose Community Reinvestment Act (CRA)-like requirements on credit unions. Commercial banks originally received CRA sanctions in the late 1970s because they were found to widely engage in discriminatory lending practices.

Sen. Elizabeth Warren (D-Mass.) introduced an updated version of the American Housing and Economic Mobility Act in March—during CUNA's Governmental Affairs Conference—that codifies the existing NCUA regulations that dictate how credit unions serve underserved communities.

The removal of the CRA requirements is the result of the 360-degree advocacy efforts of the credit union movement.

"This bill is a shining example of CUNA, league, and credit union 360-degree advocacy in action," says CUNA President/CEO Jim Nussle. "When Sen. Warren introduced a similar bill in 2018, it expanded CRA and placed onerous and duplicative regulations on credit unions. In the 116th Congress, CUNA collaborated with our league partners and the senator to show the many ways that credit unions have been fulfilling requirements to support underserved communities for well over two decades."

For decades, the banking industry practiced "redlining"—formally, systematically, and blatantly blocking credit extension in minority and lower-income communities throughout the U.S.

During the century or so that credit unions have operated in the U.S., these member-owned financial institutions have never engaged in such behaviors by anyone who has seriously examined the record.

Home Mortgage Disclosure Act data reveals credit unions collectively reflect exemplary lending performance despite field of membership restrictions and without CRA requirements.

Credit unions attract applicants with lower incomes, originate smaller loans, and—as a percentage of total mortgage originations—offer loans to ethnic minority and low/moderate income households at the same rate as banks.

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Investing in Members and Your Community

Targeted community investments boost business ecosystem.

A growing group of credit union leaders aims to boost their community and business ecosystems with targeted community investments that will allow everyone to soar.

They believe tying your social purpose to your community activities is crucial to increase the impact of those efforts. As a result, you'll be better able to build relationships, manage risk, and differentiate your credit union.

Fostering small businesses

The board and leadership at NorthCountry Federal Credit Union see a direct correlation between community investments and the well-being of members and the community where they live and work, says Bob Morgan, CEO of the \$620 million asset credit union in South Burlington, Vt.

"We are a compilation of our members, and we consider the community an explicit stakeholder of the credit union," Morgan says. "It's integrated in the way we think."

NorthCountry Federal gave \$125,000 over five years toward the development Do North Coworking, a 2,000-square-foot business incubator and co-working space in Lyndonville, Vt.

Creating a modern co-working space that small and micro-businesses can engage with through a membership model supports their growth and expansion, Morgan says, which strengthens the entire community. Northern Vermont University leads the project, which has been developed with support from community organizations and federal grants.

The co-working space gives participating businesses access to high-speed internet, photocopiers, audiovisual equipment, and sound-proof phone booths.

Morgan notes community investments must start with an identified need. For instance, community leaders told NorthCountry Federal and its partners that small businesses in rural Vermont faced a pervasive lack of high-speed broadband and access to technology.

"We immediately saw the opportunity this project had," Morgan says. "Promoting economic growth and vitality is in the credit union's best interests."

Emphasize relationships

Board leadership is crucial for a broad, deep community investment strategy, says Heather McKissick, senior vice president of community impact at University Federal Credit Union (UFCU) in Austin, Texas. At the board's direction, UFCU began refining its strategy for living its social mission three years ago, and then educated employees about its approach.

Social purpose is an emerging trend in business, where companies define their reason for existing in social terms and place it at the core of their operations.

Credit unions typically move through four phases as they shape their community investments to match their social mission:



- **Basic corporate social responsibility (CSR)**, where practices and expectations are informal.

- **Advanced CSR**, marked by a consistent approach that is understood throughout the organization.

- **Integrated CSR**, where CSR objectives become part of competency models, remuneration, leadership development, and succession planning.

- **Becoming a social purpose**, mission-driven credit union with a "theory of social value creation" that describes how the credit union generates social and business value. That framework guides all decision-making.

"Our first order of business is to make sure we are providing for the well-being of our members," McKissick says.

"We have just extended that mission to say we are providing for the well-being of our members directly and by also providing for the communities where they live."



Send us your comments: directors@cuna.coop

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