STRATEGIC INSIGHTS FOR POLICY MAKERS

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The Building Blocks of Crisis Management

Manage liquidity, participate in business lending, and use capital during uncertainty.

Daily lives and economic activity have been dramatically impacted during the coronavirus (COVID-19) public health crisis. And while there have been gradual and uneven easing of widely mandated social restrictions, credit union leaders' roles have become more challenging.

Here are three factors to consider as you navigate these uncharted waters.

Access to liquidity

The No. 1 killer of financial institutions during a crisis is insufficient liquidity. And the best time to gain access to liquidity sources is when they're not needed.

Congress established the Central Liquidity Fund (CLF) in 1978 when most credit unions lacked access to other liquidity providers. It was designed as a source for emergency funding only to be accessed when all other market sources of liquidity were exhausted.

CUNA, corporate credit unions, leagues, and individual credit unions across the country have successfully lobbied Congress to improve access to the CLF in the recent Coronavirus Aid, Relief, and Economic Security (CARES) Act.

The CARES Act increases the value and usefulness of the CLF to the credit union system in several ways, albeit temporarily. It increases the CLF's maximum legal borrowing authority and makes it easier, with NCUA Board approval, for corporate credit unions to act as agent members of subsets of their own member credit unions.

It also provides more clarity and flexibility about the purposes for which the NCUA Board can approve loans by (temporarily) removing the phrase, "the board shall not approve an application for credit the intent of which is to expand credit union portfolios."

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> MIKE SCHENK

All 11 corporate credit unions have joined the CLF as agent members and the NCUA Board has taken further steps to lessen prior application and approval barriers for natural person credit unions considering joining the CLF.

The agency is sending a message that it wants as many credit unions as possible, especially larger ones, to join the CLF not only to secure an additional safe and reliable emergency liquidity source but also to expand the leveraged CLF's borrowing capacity to ensure the system has ample liquidity available to survive the pandemic-caused economic crisis.

If large credit unions join the CLF in significant numbers, it would help to ensure both small and large credit unions have access to a larger pool of reliable emergency liquidity. That should translate into fewer failures during times of severe stress.

Put simply, a larger CLF is essentially a bigger and more effective shock absorber for the system, which benefits all credit unions.

Business lending

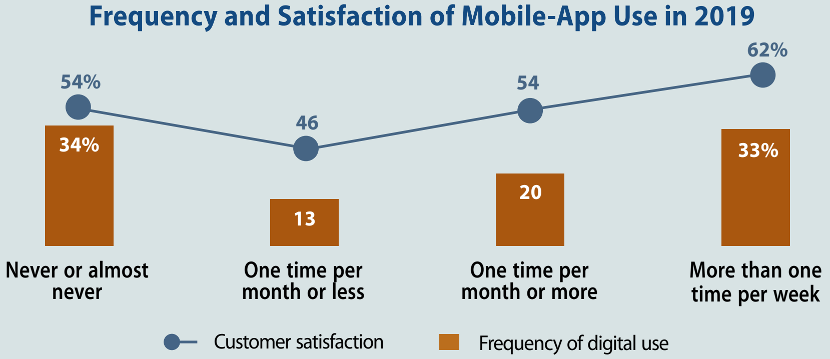
Businesses and their employees have struggled during the COVID-19 crisis. That's especially true for small businesses.

QUICK TAKE FOR YOUR NEXT BOARD MEETING

Digital Adoption Presents Opportunity

The coronavirus (COVID-19) pandemic has caused credit unions to revisit their approach to service and engage members digitally. Prior to COVID-19, nearly half of banking customers either never used their mobile app or did so infrequently. After learning to use digital tools, members have become more satisfied with their financial institutions' digital offerings, according to the McKinsey Banking Journey Pulse Benchmark study.

Frequency and Satisfaction of Mobile-App Use in 2019



Source: McKinsey Banking Journey Pulse Benchmark

CUNA capital planning calculator: *cuna.org/economics*

The Small Business Administration's (SBA's) Paycheck Protection Program (PPP) has helped.

A CUNA survey suggests nearly one-quarter of all credit unions either applied or intended to apply to be PPP lenders. While the rollout was challenging, CUNA's survey data from credit union PPP participants reveals that credit unions originated billions of dollars in PPP loans, and the typical credit union originator reported an average loan size of about $55,000.

As the economy struggles, all available small business credit needs to be deployable. Unfortunately, federal law restricts credit unions' ability to fully deploy credit to small businesses, capping the amount any individual credit union can lend to small businesses at 12.25% of assets.

CUNA conservatively estimates that temporarily removing the member business lending (MBL) cap will provide more than $5 billion in capital to small and informal business ventures, creating nearly 50,000 jobs over the course of the next year—at no expense to the federal government.

Therefore, we have urged Congress to enact legislation that exempts credit union business loans made during federally declared disasters and emergencies from the arbitrary MBL restriction.

Failure to do so would leave critical assistance on the sidelines when small businesses and the nation's economy need it most.

Four representatives introduced bipartisan legislation—H.R. 6550, the Access to Credit for Small Businesses Impacted by the COVID–19 Crisis Act of 2020—to temporarily lift the MBL cap for three years for loans related to COVID-19.

Capital is king

Uncertainty and volatility are defining characteristics of any crisis. A focus on capital—a sense of its durability, a plan for its use, examination of scenarios, and clear communication and documentation—are key considerations as we face economic challenges.

CUNA prepared a simple capital planning calculator to help you estimate and evaluate your credit union's likely financial stress and resilience during the COVID-19 crisis.

As a starting point, this simple model looks at your credit union's historical experiences through the lens of the Great Recession. Evaluating this experience can help you make reasonable assumptions about expectations during the COVID-19 crisis.

The model summarizes the relationships between asset growth, earnings, and capital.

Thinking about reasonable assumptions for the capital calculator can be challenging, especially now.

A variety of factors outside of your credit union's control will drive asset growth rates. For most of these factors we have little in the way of historical context.

It's critical to think about scenarios. Varying both asset growth and earnings to gauge comfort with the likely path of your capital ratio is a good idea.

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- CUNA COVID-19 Response Center: *cuna.org/COVID19/Resources*
- Gallup: *gallup.com*

Provide the Support Members Need

Gallup study identifies three ways to aid members' financial well-being.

Nationwide, people are dealing with uncertainty and financial struggles as a result of the coronavirus (COVID-19) pandemic. Supporting members' financial well-being has been a central priority for credit unions.

Seventy-six percent of credit union members indicate they've experienced a great or fair amount of disruption compared to the national average of 70% recorded in mid-March, according to a Gallup study of its Credit Union Consortium participants.

The study indicates members' financial well-being—or how they're able to manage their finances to reduce stress and increase security—is deteriorating. The percentage of people considered "thriving" is decreasing while those "struggling" and "suffering" is increasing.

Participants identified three ways credit unions can provide the support consumers need:

1. Increase peace of mind. Provide the relief members need to get through the crisis.

2. Build hope. Continue to provide guidance and solutions.

3. Reduce unnecessary stress. Make it easy for members to access staff and the financial tools when and how they need them.

Many of the actions credit unions have taken during the COVID-19 crisis are what members say they need. Continue those operations and gather feedback from members about what they need and from front-line employees about what they're seeing during their interactions with members.

"Most credit unions need only to continue their current approach, but organize it with greater distinction," according to the Gallup study.

Stay Ahead of Shifting Trends

Think like a member to identify trends that will impact the credit union.

Boards should recognize that "failure to grow" is the price of not keeping pace with members. When credit unions don't make ongoing investments in technology and digital services, they risk falling so far behind they can't afford the capital investment required to catch up, says Jeff Rendel, president of Rising Above Enterprises.

Monitoring the changing landscape and building it into strategic and business planning can help credit unions avoid that fate.

Acknowledge members' experiences with services like Amazon Prime, which offers one-click convenience and next-day delivery—and how those experiences are raising expectations for all organizations.

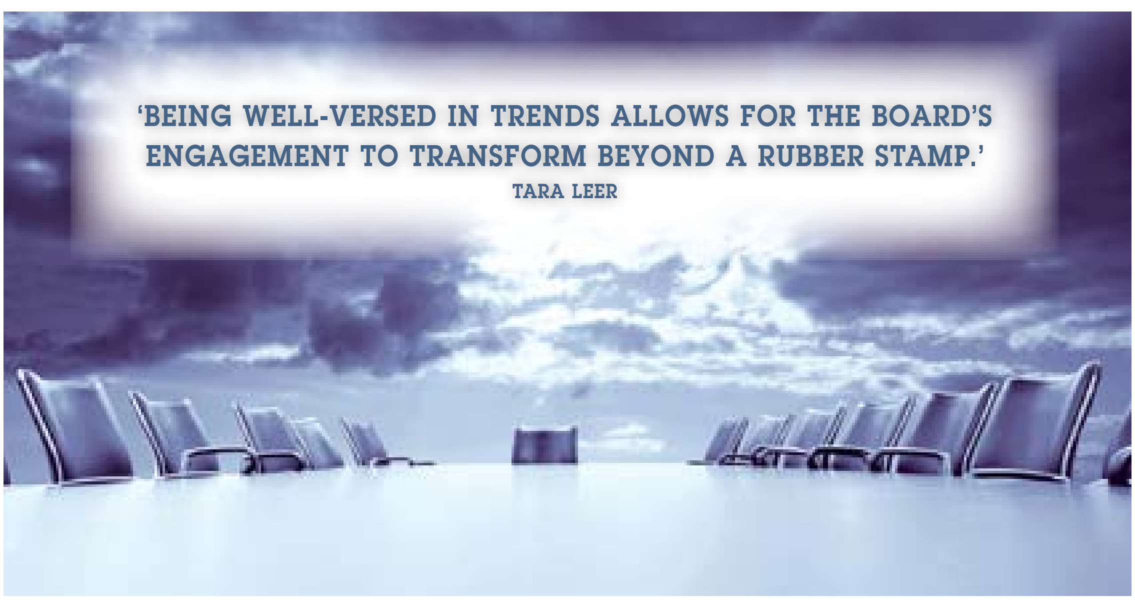
"Look at how the average consumer goes about his or her business," Rendel says. "If they have a great digital or in-person experience, they carry the same expectation into the next retail business they go to. You have to think like a member all the time."

To do this, the board must understand pressing trends and how they may affect the credit union. This will lead to better board decisions, says Tara Leer, board vice chair at $1.3 billion asset Potlatch No. 1 Financial Credit Union in Lewistown, Idaho.

"Being well-versed in trends allows for the board's engagement to transform beyond a rubber stamp," says Leer, who serves on CUNA's Volunteer Leadership Committee. "No matter how capable your executive team is, a range of external perspectives will help ensure the strategy is robust."

Identifying and staying informed on emerging trends can be difficult, but Leer and Rendel provide these tips to make it easier:

- **Commit to being a lifelong learner.** Board members should take advantage of the opportunities that allow them to expand their knowledge.
- **Read, read, read.** Credit union and financial industry e-newsletters, magazines, and websites offer critical information delivered to your inbox or mailbox. Valuable sources include CUNA, NCUA, state leagues, and local chapters.
- **Create a budget for training and advocacy.** Plan ahead and include funds to send board members to conferences and advocacy events at the chapter, state, and national levels.
- **Network with peers.** Join board of director organizations, committees, and listservs to exchange ideas and learn how other boards tackle similar issues.
- **Set minimum education requirements.** These may differ for new and experienced board members. The Credit Union of New Jersey, for example, requires every board member to attend a major conference at least once during each board term. Also consider using online learning tools, such as CUNA Professional Development Online (CPD Online).
- **Ask senior managers to share key trends.** Twice a year or more, put the CEO and senior executives on the agenda to discuss the trends they are watching. This can include presentations by outside experts.
- **Aim for diversity.** Different ages, genders, and ethnic backgrounds offer varying perspectives that can inform opinions. Setting term or age limits for existing board members can give new volunteer leaders opportunities to serve.



CUNA Environmental Scan resources: *cuna.org/escan*

Key Questions for BSA Oversight

- CUNA Compliance Blog: *compliance community.cuna.org*
- FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual: *ffiec.gov*

Send us your comments: *directors@cuna.coop*

Board is responsible for ensuring ongoing compliance with BSA/AML requirements.

The federal financial regulators issued a 2020 update to the Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) Examiner's Manual to offer "additional transparency to the examination process."

While the update does not include new requirements, it puts additional emphasis on credit unions' risk assessments, independent testing, internal controls, BSA officer qualifications, and training programs.

The update provides a reminder that the credit union's board of directors ultimately is responsible for ensuring the credit union maintains a system of internal BSA controls and that the board ensures ongoing compliance with all BSA/AML requirements, says Colleen Kelly, CUNA's senior federal compliance counsel.

She says credit unions may need to address these questions during their next exam:

Risk assessments

- **Did** the board receive the credit union's risk assessment to help it identify, understand, and appropriately mitigate risks within and across all departments?
- **Does** the board clearly communicate the need and support for BSA/AML risk management and internal controls throughout the credit union?

Internal controls

- **Has** the board been informed of the credit union's BSA/AML compliance initiatives, compliance deficiencies, corrective actions it has taken, and suspicious activity reports (SAR) it has filed?
- **Has** the board tracked deficiencies and documented progress implementing corrective processes?

Independent testing

- **Did** the independent auditor document and report weaknesses or areas in need of enhancements or stronger controls directly to the board?
- **Did** the independent auditor report directly to the board enough information necessary for the board to reach a conclusion about the overall adequacy of the BSA/AML compliance program? Do the board meeting minutes reflect this?

BSA officer

The update also reminds credit unions that just having the board appoint a BSA compliance officer is not, by itself, enough to meet the regulatory requirement.

- **Has** the board designated a qualified BSA compliance officer to be responsible for coordinating and monitoring day-to-day compliance with BSA regulatory requirements?
- **Does** the BSA officer know all the BSA/AML statutory and regulatory requirements?
- **Is** the BSA officer familiar with the money laundering/terrorist financing (ML/TF) risks of the credit union's products and services, membership types, and geographic locations of each office?
- **Has** the board ensured that the BSA compliance officer has appropriate authority, independence, and access to resources to administer an adequate BSA/AML compliance program based on the credit union's ML/TF risk profile?
- **Does** the BSA officer regularly report the status of ongoing BSA/AML compliance, including the required notification of SAR filings, to the board and senior management so they can make informed decisions about existing risk exposure and the overall BSA/AML compliance program?

Training

- **Has** the board received training that provides a sufficient understanding of the credit union's risk profile and regulatory requirements so it can provide adequate oversight of the credit union's BSA/AML compliance program?

  This includes approving the written compliance program, establishing appropriate independence for the BSA officer, and providing sufficient resources.
- **Does** the board's training include information about changes and new developments in the BSA, including its implementing regulations, NCUA regulations related to BSA, and supervisory guidance?

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